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RENISHAW PLC

REALISING THE POTENTIAL

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UK calls to 0871 numbers are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary.

Financial calendar

Annual general meeting

13th October 2011

Dividends

Final dividend

Ex-div date 14th September 2011
Record date 16th September 2011
Payment date 17th October 2011

Interim dividend (provisional)

Ex-div date 7th March 2012
Record date 9th March 2012
Payment date 9th April 2012

Announcement of results

Annual results July
Half year results January

The interim results and the preliminary announcement of the full year's results are published on our website, which is at www.renishaw.com, promptly after they have been released at the Financial Services Authority

Realising the potential

Front cover image shows a Renishaw RMP60 probe being fitted to a horizontal machining centre at Shenyang Machine Tool (Group) Co., Ltd (SMTCL)

Founded in 1995, SMTCL is one of China's largest manufacturers of both CNC and conventional machine tools. Over 300 different types of machines and a thousand specifications are distributed domestically and exported to more than 90 regions and countries worldwide. Acclaimed for work in a wide range of global industries, particular local achievements have included key technologies R&D, brand-leading work for the Shanghai Maglev train and outright brand leadership for its CNC lathe. Sales volume across SMTCL's production centres in China at Shenyang and Kunming, and in Europe at Aschersleben (Germany), topped 30,000 units in 2010. Overseas revenue exceeded US\$150 million while mainland sales earned in excess of RMB 14 billion. The overriding goal of SMTCL is to expand its three industrial centres significantly to become a world beating, international power brand in machine tool manufacture.

GLOBAL DEVELOPMENTS

Throughout its history Renishaw has invested in opening offices in markets that offer longer term growth potential, helping to quickly establish the Company's reputation and brand name. It has also bolstered sales to global customers, by giving confidence that wherever their machines are sold, any installed Renishaw equipment will be supported by local technical experts.

- **Renishaw offices**

North and South America

- Increasing adoption of REVO™ five axis measurement technology for coordinate measuring machines by customers in the automotive and off road sectors
- In Brazil the Company is benefitting from investment in agriculture and aerospace operations

Continental Europe

- Strong growth in the Company's major markets as a result of the general recovery in manufacturing
- The drive for manufacturing quality in Russia is especially boosting sales of calibration products
- Heavy investment in the photo voltaic (PV) market has significantly benefited the Company's position encoder business

UK

- With manufacturers in several key sectors looking to maximise efficiencies from existing machinery there was strong growth for CMM and machine tool retrofits

TOTAL GROUP REVENUE £288.7m
(2010 £181.6m)

Far East

- Good growth in the Company's position encoder business has resulted from strong markets for the manufacture of flat panel displays and LED lighting
- An increased use of machining in the manufacture of consumer electronics casings has seen an increased use of machine tool probe systems to aid part quality

RESULTS AT A GLANCE

	2011	2010	change
Revenue (£m)	288.7	181.6	+59%
Adjusted operating profit (£m)*	78.9	28.1	+181%
Adjusted profit before taxation (£m)*	80.4	28.7	+180%
Adjusted earnings per share (pence)*	88.0	31.6	+178%
Dividend per share (pence)	35.0	17.6	+99%
Statutory			
Profit before tax (£m)	82.1	27.0	+203%
Basic earnings per share (pence)	90.3	29.3	+208%

*Adjusted figures are stated after excluding the exceptional items, these being an impairment write down in 2010 and its reversal in 2011

I am delighted to announce record group results in terms of both revenue and profit for the year ended 30th June 2011

CHAIRMAN'S STATEMENT

Total group revenue for the year was £288.7m (including £8.9m revenue from acquisitions during the year (2010 £nil)), 59% ahead of the £181.6m for last year and, more importantly, 43% above the previous highest year's revenue of £201.2m reported in 2008. All geographic areas saw good progress, with growth of 64% in Europe, 57% in the Americas and 61% in the Far East, particularly in China, which has become the Group's largest market, with revenues of £54.2m this year (2010 £34.2m).

Group profit before tax for the year, excluding exceptional items, was £80.4m, compared with £28.7m last year, and compared with £41.7m in 2008, being the previous highest year's profit before tax (excluding exceptional items).

Adjusted earnings per share were 88.0p, an increase of 178% over last year's adjusted earnings per share of 31.6p. Reported earnings per share were 90.3p (2010 29.3p).

SEGMENTAL ANALYSIS

Metrology

There was an extremely strong performance by our metrology business during the year, with revenue of £267.0m, compared with £162.1m last year, an increase of 65%. There was growth across all product lines, with machine tool and encoder products showing particularly strong growth. Operating profit for this segment was £87.4m, compared with £31.5m last year, an increase of 177%.

During the year the Group acquired a 49% shareholding in Measurement Devices Limited ("MDL") at a cost of £3.9m, there is agreement that MDL will become a 100% subsidiary in 2014. Accounting standards require the Group to consolidate its results as if the company were a subsidiary, due to the structure of the shareholders' agreement. MDL is a metrology company

whose laser scanner products are primarily marketed in the areas of marine positioning, mining, quarrying and surveying.

On 8th April 2011, the Group acquired for £3.8m, a 100% shareholding in MTT Investments Limited ("MTT"). MTT designs, develops and manufactures additive manufacturing and rapid prototyping systems, including selective laser melting, metal casting, and vacuum casting machines and processes. Based in Stone, Staffordshire, in the UK, MTT has 40 employees, with subsidiaries in the USA and Italy, and a branch office in France. MTT's selective laser melting equipment currently has its main markets in aerospace and medical devices, but also has potential for use in other sectors. Its products are complementary to Renishaw's existing technologies and business. Its results have been consolidated since the date of acquisition. On 1st July 2011 most of the business and assets were transferred to Renishaw plc and is now operating as the Renishaw additive manufacturing products division.

On 16th June 2011, the Group acquired, for a total consideration of £6m, of which £3m is payable in June 2013, certain calibration technology and software, together with drawings, designs and intellectual property relating to optical technology, from Aberlink Innovative Metrology in order to expand the Group's technology portfolio.

A number of new products have been launched during the year, including Equator™, a radical new alternative to traditional dedicated gauging. This was launched in March 2011 and has been very well received.

The Group has made very considerable progress during the year. There continue to be many challenges to be met and overcome, not least the recruitment and absorption of new employees, the occupation of new premises, the integration of newly acquired companies and the ongoing development of Renishaw technologies. Nevertheless the directors confidently expect the current progress of the Group to continue due to the increased opportunities and the underlying strength of our markets.

Healthcare

Our healthcare operations continue to develop both in our longer established spectroscopy business and in our newer dental, neuro and diagnostic activities.

Revenue from our healthcare products rose 11% to £21.7m (2010 £19.5m). Certain areas are still in the development phase and, as a result of the continuing research and development costs, an operating loss of £8.5m was recorded (2010 loss £3.4m).

During the year the Group has made several sales of the enhanced surgical robot used for neurosurgical procedures.

Renishaw Diagnostics Limited ("RDL") has released the RenDx™ research use only ("RUO") multiplex assay system, providing a highly sensitive and flexible tool to screen for multiple targets in a single analysis. RDL is preparing to apply for approval of the RenDx™ multiplex assay system as an in vitro medical device.

We continue to develop our dental business, including our collaboration with Biomet 3i, which is now a non-exclusive distributor of Renishaw dental scanning and milling systems.

BALANCE SHEET

Expenditure for the year on property, plant and equipment was £16.5m, of which £5.4m was in respect of property and £11.1m was in respect of plant and equipment.

Expenditure on property included:

- The refurbishment of our Charfield premises, purchased in 2008, which has been occupied by our dental, neurological and imaging coil product lines together with a team of group software engineers,
- Larger premises in Barcelona for our Spanish sales and marketing operation,
- Completion of the expansion of our Indian production facility in Pune which opened in March 2011, and
- On 24th June 2011, the Group contracted to purchase 461,000 sq ft of premises on a site of 193 acres in Miskin, South Wales, approximately 55 miles from the New Mills head office. This additional space is being acquired to secure manufacturing capacity required to accommodate future growth. The cost of these new premises will be £7.7m, of which £0.7m has been paid as a deposit prior to the year end.

The Group's expenditure on plant, equipment and vehicles of £11.1m comprised mainly additional machine tools, other production machinery and IT investment to support the

expanding business. Along with £1.6m of tangible fixed assets acquired through business acquisitions, the net book value of property, plant and equipment increased during the year from £70.5m at 30th June 2010 to £82.3m at 30th June 2011.

The Group has invested heavily in working capital during the financial year. Inventories have increased by £18.9m over the year, including £3.2m relating to acquisitions, as the Group has sought to ensure adequate stock to meet customer demands in an environment of growing but unpredictable and substantial order intake. At the end of June 2011, inventories were £49.8m compared with £30.9m at 30th June 2010.

The Group continues to have a solid balance sheet, with net cash balances of £34.6m at 30th June 2011, compared with £31.1m at 30th June 2010.

AWARDS

The Group has received a number of awards during the year including our 14th Queen's Award for Enterprise Innovation 2011. This has been granted for the TRS2 laser-based tool breakage detection system used on CNC machine tools.

STAFF

The Group workforce has grown from 2,099 at 30th June 2010 to 2,675 at the end of June 2011 – an increase of 576. Additional staff have been taken on in all areas, both to support the current increase in production as well as to ensure the ongoing development programmes in our metrology and healthcare businesses. The Group acquired 95 staff through the acquisitions of MDL and MTT. There are currently 267 outstanding vacancies, of which 139 are in the UK and 128 overseas.

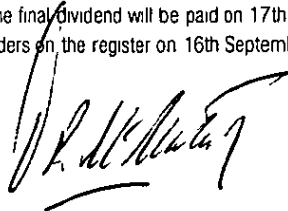
Your directors are grateful for the tremendous support and commitment of our staff during a challenging and exciting year.

PROSPECTS

The Group has made very considerable progress during the year. There continue to be many challenges to be met and overcome, not least the recruitment and absorption of new employees, the occupation of new premises, the integration of newly acquired companies and the ongoing development of Renishaw technologies. Nevertheless the directors confidently expect the current progress of the Group to continue due to the increased opportunities and the underlying strength of our markets.

DIVIDENDS

A final dividend of 24.7p per share will be paid in respect of this year, which, together with the interim dividend of 10.3p, gives a total for the year of 35.0p per share, compared with 17.6p for last year and 25.4p in 2008, our previous highest dividend. The final dividend will be paid on 17th October 2011 to shareholders on the register on 16th September 2011.



Sir David R. McMurtry, CBE, RDI, FREng, FRS, CEng, FIMechE
Chairman & Chief Executive
27th July 2011

Renishaw consistently realises its impressive potential to innovate. This year we've developed a new range of process control solutions to assist the drive for lean manufacturing. Now the next generation of products in metrology beckons and we are poised and perfectly placed to respond to the ever increasing demands on measurement speed and accuracy

Throughout the following pages we look at some companies putting our technology to the best possible use.

METROLOGY

Revenue

£267.0m

Operating profit

£87.4m

Percentage of group revenue

92%

Markets

- Sensors, software and control systems for three dimensional coordinate measuring machines (CMMs) that allow the highly accurate measurement of manufactured components and finished assemblies
- Sensors and software for computer numerically controlled (CNC) metal cutting machine tools that allow the automation of setting and on machine measurement operations, leading to more productivity from existing machines and reductions in scrap and rework
- Position feedback encoders that ensure accurate linear and rotary motion control in a wide range of applications from electronics manufacturing to food and drink production
- Precision stylus that attach to probe sensors for CMMs and machine tools to ensure that accurate measurement data is acquired at the point of contact
- Calibration and testing products to determine the positioning accuracy of a wide range of industrial and scientific machinery to international standards
- Innovative gauging technology that can greatly increase throughput and reduce scrap rates at a fraction of the cost of an equivalent custom gauging system, including associated fixturing
- High speed laser measurement and surveying systems for use in extreme environments
- Additive manufacturing and rapid prototyping systems that allow the rapid manufacture of components as part of a product development process or for full scale production
- Commercial and research solutions to materials technology challenges including diamond like carbon coatings and shape memory alloys

Growth strategy

- A key focus is on developing technologies that provide patented products and methods which support our product strategies with £28m expenditure on R&D and engineering during the year
- The current technology focus includes high speed, high accuracy, error corrected dimensional measurement systems, motion controllers with enhanced high speed performance, ultra high resolution position feedback encoders and the development of novel approaches to materials analysis
- The Group is also developing market opportunities in a range of other industries based upon its core technologies, to reduce reliance on its traditional metal cutting customer base
- To take advantage of growth markets, the Group continues to develop its geographic spread to boost local sales and service, most notably in China where it now has nine offices
- Historically the Group has been very much a component supplier with its products integrated by machine builders. In recent years a focus has been on offering more products and services that are supplied direct to the end user, increasingly positioning Renishaw as a solutions provider
- A good example of a product that represents several aspects of the growth strategy is the new Equator™ gauge (image opposite) which transfers existing technologies employed in the Group's dental systems to an entirely new application for shop floor measurement. The product offers a full measurement solution for end users and with many sales will be to existing metal cutting customers. Sizeable new opportunities are being seen for applications where historically no Renishaw products have been utilised

In the relentless drive to reduce costs, shorten lead times and improve the quality of finished products, manufacturers are increasingly adopting the latest Renishaw technologies to keep machines running reliably, to maximise output from those machines and to significantly reduce the time taken to inspect finished components.

The best of both worlds

Future Advanced Manufacture

Throughout industry there are increasing demands to measure more things more accurately, to maintain a competitive edge and increase productivity. In the aircraft industry, for example, lives depend on the absolute accuracy of the design and build of every component and every machine. No one knows this better than world-class Gloucestershire-based manufacturer, Future Advanced Manufacture (Future AM)

On the strength of its reputation for excellence, this company recently won a valuable contract to make titanium blades for a new propulsion system in the US. However, their existing metrology tools weren't up to the stringent validation process. They therefore turned to Renishaw and our REVO® five-axis measuring system for help.

Facing tight deadlines, Future AM used a REVO/MODUS system at Renishaw's facility while their own system was being installed. REVO maximises throughput of new and existing CMMs by providing greater accuracy, faster measurement, more automation and new capabilities.

Renishaw's new MODUS™ software was also employed. Using computer aided design (CAD) driven programming, information that includes CAD files can be shared quickly and safely. It's also possible to pick up and directly interrogate the CATIA V5 files.

"As a result of the REVO/MODUS duo Future AM were able to get every blade out on time, on budget and with no rejections – even the spare test blades were validated OK," reported Craig Peterson, Managing Director of the company. "Consequently, our US client is considering offering us further work."

The REVO retrofit not only did the job, it improved Future AM's metrology department's final validation service by a massive 80% and opened up many new areas of business for the company.

"For instance," says Craig, "validating work on a high-precision imaging drum for our customer, Highwater Products, took an hour on the old machine. The REVO only takes 10 minutes. Plus, the level of detail in the MODUS reports has greatly improved the accuracy of our post machining operation."

With Renishaw's help Future AM can now also offer reverse engineering services to satisfy customers who don't have CAD or want items that were made pre-CAD. What's more, notes

Craig, "the combination of REVO and MODUS provides good future proofing and makes more sense than copying a competitor's technology. Now we can produce both tabular and visual inspection data by direct comparison with the original CAD model to meet clients' demanding criteria. Surprisingly, and thanks only to word of mouth, clients are now sub-contracting Future AM for final inspection and validation, even though Future AM didn't make the original products."

Keepin' this Wildcat purring

Tods Aerospace

Renishaw is helping Tods Aerospace in South West England to maintain its quality standards as a preferred supplier to Agusta Westland, manufacturer of the AW159 Lynx Wildcat – the next-generation Lynx helicopter earmarked for the UK military

Tods have long been involved in the design and manufacture of major component parts for the aircraft. The parts include cockpit doors, cargo doors and main fuselage panels – all made from carbon composite. Seeking to become more agile and keep better control of lead times and quality, the company invested in a Renishaw RMP600 wireless touch probe and OMV Pro software to bring more manufacturing capability in-house.

The RMP600 offers all the benefits of Renishaw touch probes, as well as being able to measure complex 3D part geometries on all sizes of machining centres. "One of the key reasons for the purchase was to align the Wildcat's cabin roof and then machine it," says Tods' CNC Manager Bob Young. "This has proven very successful and we are now producing our own CMM reports. Without the probe we would not have been able to machine the roof as accurately nor have aligned the jigs with such precision."

Tods also use the Renishaw probe for first article inspection on every new civil aircraft flooring project.

The RMP600 allows the company to take on more complex work and produce high-quality parts faster than ever. "We're very happy with the accuracy and, in particular, the consequent reduction in large, expensive scrap parts," explains Young.

The accuracy gains resulting from the RMP600 are echoed by Tods' Quality Director Martyn Perks, who states, "Digital manufacture and design produces different sorts of tolerances and features. Using traditional measuring equipment, like micrometers and vernier calipers, doesn't really get us to the levels of quality, accuracy and checking that we require, Renishaw's RMP600 does."

To get the most from any new technology, those charged with operating it must know precisely its capabilities. "The Renishaw team has been fantastic," says Young, "especially with set-up and training. Their engineers spent time with us, ensuring we knew what we were doing. We looked at other suppliers, but we weren't convinced they could support us as well as Renishaw could."

This is a telling example of the pride we take, not just in innovation, but in providing the best possible service to our customers before and after any sale.

Radical new alternative to traditional dedicated gauging Eponsa

The patented ground-breaking Equator™ system marks the launch of Renishaw's first gauging product line. Lightweight, fast and highly repeatable, operators can use it with minimal training and push-button ease. The low-cost design is uniquely constructed and operated, switching between parts in seconds making it ideal for flexible manufacturing processes or for accepting parts from multiple machines. And there is no need for expensive precision fixtures either.

Equator has been tried, tested and fully proven on the shop floor at a host of leading companies across a spectrum of industries and applications. One of these companies is Eponsa, manufacturer of auto parts near Barcelona in Spain.

"Equator could reduce waiting time to zero", says one of the company's engineers. Eponsa has seen non-productive waiting times slashed dramatically, yet with quality and efficiencies maintained, thanks to Equator. Its speed and measurement capability ensures fast, comprehensive and fully automated gauging.

The Equator system includes user-friendly graphical software, our MODUS™ Organiser. Operators can choose programs and start checking parts in just a few seconds. When the check is complete the operator can clearly see if the part has passed or failed, greatly reducing the load on Eponsa's quality department.

The pressure on automotive subcontractors to reduce costs while improving efficiency and quality at the same time might

seem contradictory. However, Eponsa firmly believe that Equator technology is the breakthrough they need to help them do it.

Engineering's 'loaves and fishes' Sewtec Automation

How just five machines have fed an 750% upswing in production is a real success story both for Scotland's Sewtec Automation and Renishaw

Sewtec is a world-leading supplier of production and packaging systems for the fast moving consumer goods market. By instigating a new system of shift work and adding five new HAAS machine tools fitted with Renishaw touch probes, they've produced something of an industry miracle. "At the end of 2009 we had six CNC machine tools and did 140 hours of machining per week," explains Bernard Meehan, Managing Director. "Now, with the five new machines and the Renishaw touch probes, capacity has increased to a massive 1,180 hours every week – an increase of 750%."

Quality is critical to Sewtec and, in these challenging times, so is reducing costs – hence the move to carry out most machining in-house. With the help of Renishaw probes, engineers are able to maintain the basic function of a part and yet cut costs, simply by approaching manufacture differently – a concept widely known as 'value engineering'.

For instance, spindle mounted Renishaw touch probes deliver feedback that enables the HAAS machines to use their datum shift functions. After indexing, machining can be related to previously machined features. Thus many parts can be machined in an efficient 'one hit' process, because after each

machining operation the probe adjusts offsets in seconds and with total accuracy. Jerry Elsy, Production Manager at Sewtec, adds, "Previously it could take 1.5 hours to set a job that took 4.5 hours to machine. This was not acceptable. Now we can do the same set up in 10 minutes and free 1 hour and 20 minutes of productive, revenue earning time."

Summing up the benefits of the HAAS/Renishaw combination, Bernard Meehan said, "Our CNC machines are now a very low-risk element of what can be a high risk business. With very low scrap and efficient flexible processes our business is thriving and we are well positioned to deliver full solutions to existing and new customers."

So Renishaw can not only help future-proof a precision engineering business, but help recession-proof it too.

Worldwide acclaim for our QC20-W telescoping ballbar

In view of today's tight production schedules, time is more critical than ever. The less downtime required for machine calibration, the less disruption to production and the more time and money that's saved. And the more accurate the calibration, the higher the quality standard that can be maintained. The QC20-W wireless ballbar scores on all these dimensions, making it a preferred choice on a global scale for the performance testing of CNC machine tools.

The QC20-W's Bluetooth® wireless technology allows a user to diagnose and quantify machine positioning errors quickly and give an overall 'circularity' error value as per international standards. For customers with existing capabilities, stress free and competitively priced upgrades and upgrade kits ensure that the Renishaw ballbar is accessible to every customer at the right, and very competitive, price.

The facility to control machining processes so as to produce less scrap, rework, non conformance and labour, plus fewer errors and lower fixture costs, is a massive benefit in any language. Understandably, there are a host of testimonials from satisfied QC20-W customers around the globe. Here is a short selection.

Looking first to Scandinavia, Swedish machine tool service and maintenance company NC Service are QC20-W enthusiasts. Managing Director Peter Jonsson says that "since switching over to QC20-W the setup time has been greatly reduced. Also, the ballbar's wireless technology ensures safer operation because we can run the test from behind closed safety doors."

Service and maintenance provider Dave Wigmore of Wigmore CNC is equally impressed, believing that QC20-W's accurate data analysis discloses machine errors that would typically go undetected. "With the QC20-W you have the option of a repair instead of a costly ballscrew replacement," he notes, "plus the ballbar helps foresee potentially expensive repairs that can then be addressed with corrective maintenance."

"The new QC20-W wireless ballbar allows me to rapidly assess the volumetric performance of a machine, without compromising safe working practices. As the only AS 9100 certified company in the USA for on-site laser alignment, laser

interferometry and calibration of machine tools services, we are committed to using only the best equipment available. I cannot imagine trying to do my job without QC20-W" – Michael Schraufnagel, Owner and Chief Technician, Quality Tech Services, Georgia, USA (service and maintenance provider)

"When I asked my maintenance team and production engineers what they thought of their new QC20-W ballbar, they replied 'QC20-W wireless ballbar is simple to use and always gives straight forward no nonsense results. Just brilliant!'" – John Curtis, Assistant Maintenance Manager, Spirax Sarco, UK (manufacturer of industrial plant)

In motion control, Renishaw's laser encoders, optical encoders and magnetic encoders are used for position feedback applications in industries as diverse as electronics, motorsports, bomb disposal, semi-conductors, food manufacturing and print production. Here we look at applications below ground and out of this world

Star potential

Astrosysteme Austria

The digital age has led to a quantum leap in astrophotography, making even the furthest galaxies accessible to professional astronomers and observatories. Now, thanks to Astrosysteme Austria (ASA), helped by Renishaw technologies, even keen amateurs can observe and photograph these remote solar systems at an accessible price

ASA prides itself on making reference-class telescopes for the amateur that incorporate the latest astrophotographic technologies available. The company consistently renders all components, optical devices, automatic mountings and tracking systems to precise professional requirements. Of particular pride are their ground-breaking Astrographs, fixed with direct drive mounts that use similar tracking technology as professional observatories.

This has been made possible by employing high-resolution Renishaw encoders mounted directly on the axes of the mount. Previously, even the finest astronomical mounts relying solely on mechanics couldn't solve the problems occurring during a common astronomical imaging session. And well-engineered, electronic solutions – available to professional observatories – came with a prohibitive price tag. By choosing Renishaw's encoders ASA reduced the expense of such state-of-the-art solutions without any compromise in performance at all.

Renishaw TONIC™ encoders are verified electronically and enable rotary positioning to incredible accuracies.

So this means that the torque motors ASA use (direct drives with no backlash) can therefore operate to such accuracies. Neither guiding nor ancillary support systems, such as adaptive optics, are needed. Now, tracking operations can instantly adjust and compensate for disruptions, including something as fleeting as a brief gust of wind.

Helped by the excellent tracking accuracy of Renishaw encoders, ASA mounts begin to pay for themselves immediately and can be used in the field and in any remote-controlled operations.

"With the help of Renishaw encoder systems, ASA has also successfully applied this technology to the semi-professional market, bringing extremely precise and affordable equipment to the world of amateur astronomy and astrophotography. The professional market has benefited from our innovation in sustaining this precision at a much better cost. The pointing precision of our systems reach ± 3 arc seconds over the whole night sky. The tracking precision at 0.24 arc seconds root mean-square is sufficient to make extra guiding equipment and corrections obsolete. Renishaw encoders have been used in all our mount systems from the beginning", says owner and Managing Director of ASA, Egon Doberl.

Where information really counts

Factair Ltd

With many countries moving to high-speed, fibre-optic broadband, there is a significant challenge to replace the mass of existing underground cables quickly and easily. The replacement of cables is made particularly challenging by the fragility of individual glass fibre strands and of the sheathed fibre-bundles, which cannot be simply pushed or pulled into ducts

One telecommunications company has found that when threading a fibre-bundle into a sealed duct, air blown at high pressure provides a lubricating effect and also helps to propel the cable along. The result is that far less force is required to thread the bundle, considerably reducing the risk of damage to the fibres and potentially making the broadband upgrading process quicker and easier.

UK based Factair, an expert in air compressor systems, won the contract to manufacture the patented, portable, field-based 'fibre blowing' machine, which, to meet weight restrictions for installation engineers, meant designing their own portable compressor.

The Factair machine uses caterpillar tracks to thread the fibre-optic bundle quickly into the duct, whilst introducing compressed air in order to 'drag' the bundle.

Two Renishaw non-contact magnetic encoders (supplied by RLS, Renishaw's Slovenian associate company) are incorporated to detect slippage that would damage the surface

of the sheath, with one monitoring the rate at which the bundle is threaded into the machine, and the other monitoring the rate at which the caterpillar belts are moving. The fibre blowing machine's control unit counts the pulses from both encoders and if the difference in count rate (speed) is outside the tolerance setting, it interprets the difference as slip and reduces the speed of the motors.

Nitzan Gonen, Factair's Design and Development Director, explains, "It was important to use non-contact encoders because the fibre bundles are un-spooled on-site from large drums, which can be wet and dirty, if the weather and local conditions are poor. A non-contact unit means it's more reliable and each encoder is expected to last indefinitely. A full-contact encoder would probably need to be replaced often."

He concludes, "With the fibre-blowing machine the distance engineers can feed the cable, without damaging the sheath or fibres, has increased, from perhaps a few tens of metres, to thousands of metres."

We continue to invest in the future growth of the Group, by developing healthcare products that will help to reduce our reliance on the metal-cutting sector. Like our metrology business, we aim to develop innovative healthcare products that will significantly advance our customers' operational performance by maximising research capabilities, reducing process times and improving the efficacy of medical procedures.

HEALTHCARE

Revenue

£21.7m

Operating loss

£8.5m

Percentage of group revenue

8%

Markets

- Optical spectroscopy products that exploit the Raman effect in a non-contact, non-destructive manner to identify and characterise the chemistry and structure of materials for analytical applications as diverse as pharmaceutical, forensic science, nanotechnology and semiconductors
- Dental CAD/CAM systems consisting of 3D contact scanners, milling machines and software, used in the manufacture of high quality crowns and bridges using zirconia or cobalt chrome
- Medical devices: surgical robots and planning software for use in stereotactic neurosurgery for procedures including deep brain stimulation, stereoelectroencephalography, neuroendoscopy and biopsy
- Close-fitting radio frequency coils that provide high quality images from MRI (magnetic resonance imaging) systems
- The development of molecular diagnostics systems for automated multi-targeted diagnostic and clinical research systems including fast, reliable and simplified disease identification

Growth strategy

- As with its metrology business, a key focus for the Group is developing technologies that provide patented products and methods with £9.0m of expenditure on R&D and engineering during the year
- The regulatory requirements for healthcare products also demand significant investment, but in turn make barriers to entry high for competitive products
- The Group is constantly looking at opportunities based on core metrology technologies and expertise, so minimising technology risks. This can be seen in the use of measurement sensors, encoders and software for dental CAD/CAM products, and with core engineering skills that allow the accurate identification of target positions and the delivery of medical devices deep within the brain for stereotactic neurosurgery
- A focus is also on finding new markets for existing healthcare technologies. A good example is the use of Raman spectroscopy as a key component for the Group's emerging molecular diagnostics business and its use in research applications including cancer detection and IVF treatments
- The Group also actively considers acquiring businesses and/or technologies that it feels are complementary to its existing healthcare products

Precisely what is needed

University Hospital Henri Mondor

The Renishaw neuromate® surgical robot faced its toughest challenge when specified by Professor Philippe Decq, one of Europe's most highly respected neurosurgeons, renowned internationally for his pioneering neuro-endoscopy techniques. In addition to membership of neurosurgery societies worldwide and a past president of the 2007 World Congress of Neuro-Endoscopy, Professor Decq is Professor of Neurosurgery at the University of Paris XII and a neurosurgeon at the University Hospital Henri Mondor in Creteil. His global pre-eminence in his field is widely acknowledged and his insistence on the best possible surgical equipment is well known.

In his clinic, the professor and his team undertake neuro-endoscopy, biopsies and research. The endoscope he uses was specially designed and manufactured to Professor Decq's own exacting specification. With the precise accuracy of the Renishaw neuromate, he has the extra flexibility to carry out his investigations and endoscopic procedures rapidly – typically in just 15 minutes, allowing him to perform up to 12 procedures a day with excellent results. "In our hands," he says, "endoscopic management of colloid cysts is a minimally

invasive procedure to treat hydrocephalus and totally remove the cyst. It is repeatable, with an acceptable success rate and a very low morbidity rate. No doubt, with increased endoscopic experience over the world, more and more colloid cysts will be treated this way."

Deep brain stimulation (DBS) treatment is effectively used in disorders of the brain, such as chronic pain, dystonia or Parkinson's disease. It relies on precisely positioning electrodes to target structures deep inside the brain, a mistake can be fatal. The inestimable value of neuromate's stable, rigid platform is that it helps reduce the risk of human error in DBS procedures.

Fondation Rothschild

With interactive surgical planning and precise mechanical execution, the neuromate surgical robot also reduces the time required for stereoelectroencephalography (SEEG), widely used in patients with refractive epilepsy. Dr. Olivier Delalande, paediatric neurosurgeon at Fondation Rothschild, Paris, has perfected the use of the Renishaw neuromate robot for SEEG and neuro-endoscopic indications. He states that "the neuromate robot gives me control, confidence and consistency

Operations are performed with the neuromate in a fraction of the time it used to take with a mechanical frame. This results in a considerable reduction in patient discomfort and anxiety (particularly important with children) plus increased safety with no occurrences of infection to date."

The neuromate has a CE mark as a medical device in Europe and Renishaw is applying for clearance for the system in the US (excluding neuro endoscopy)

Service with a smile

H2W

Today, fitting all-ceramic crowns, bridges and implants is an important and rapidly growing part of clinical dentistry. At both IDS Cologne, the world's largest trade show for the dental industry, and at the Dental Showcase held in Birmingham, laboratories showed great interest in the Renishaw dental CAD/CAM system. Combining accuracy, speed and low cost, it is becoming a serious choice for dental professionals.

The system comprises a high-speed 3D scanner, powerful design and manufacturing software, and a new milling machine to produce frameworks for high quality zirconia restorations. This allows dental labs access to both in lab and outsourced manufacturing options.

Either single-tooth or complex bridge frameworks can be manufactured direct from data provided by the scanner. The 3D model can then be fine-tuned if needed before it's sent to the milling system. There it's machined from zirconia – a bio friendly, exceptionally strong and aesthetically pleasing material that can be stained to match a patient's teeth if desired.

In addition to zirconia Renishaw is also offering centrally manufactured Laser PFM™ crown and bridge frameworks. Laser PFM is a high-tech alternative to traditional cast metal frameworks. The additive process, sometimes called 3D printing, builds up each framework, layer by layer. The material is strong, with a consistent quality and offers a stable price not available with precious metals.

H2W is one UK laboratory benefiting from the Renishaw system. Owner Matthew Walton says, "The best attributes of the system for me are the ease of use of both the CAD design features and the CAM setup, allowing me to get consistent results easily without having unnecessary complicated procedures to follow. This has allowed the digital side of our business to grow dramatically and now at least 80% of our work is made in this way."

A recipe for scientific success

Renishaw Diagnostics

Renishaw Diagnostics Limited has launched its first RenDx™ research-use-only (RUO) multiplex assay system and is working towards the obtaining of CE marking for the system as an in vitro medical device in Europe and clearance in the US.

The ground breaking system brings a new dimension to the work of many scientists across a range of disciplines, offering them a highly sensitive, specific and flexible tool to screen for

multiple targets in a single analysis. Nucleic acids can be extracted from any biological sample and researchers don't need to produce a culture, they can go directly from sample to analysis in a matter of hours. With a custom-built sample processor and an analyser that can read 96 sample wells in around 15 minutes, the system makes the step up to high-sensitivity multiplex detection simple and seamless. And DNA/RNA can be extracted from any biological sample.

This transformative technology can also be applied to several adjacent fields of research for many applications. It could be used to identify multiple infectious disease targets, for example, in clinical disease research, pharmaceutical researchers could identify biomarkers for antibiotic resistance, the food and drink industry could identify pathogens and genetically modified ingredients, and environmental agencies could use it to monitor water supplies. The product is being offered to a select number of sites which conduct a significant amount of research so that they can see for themselves just how this multiplex technology compares with existing methodologies.

THE BOARD OF DIRECTORS

David Snowden
FCA

Non-executive director, age 74 was formerly Senior Partner of KPMG in South Wales and appointed a director of the Company in July 2003. He is the chairman of the Remuneration committee.

Terry Garthwaite
FCA

Non-executive director, age 64, formerly Group Finance Director at Senior plc, was appointed to the Board of Renishaw plc in July 2003. Terry is the chairman of the Audit committee. He is a non-executive director of Brammer plc and Wilmington Group plc.

Sir David McMurtry
CBE, RDI, FREng, FRS, CEng, FIMechE

Chairman and Chief Executive, age 71, invented the original measuring probe in the early 1970s and founded Renishaw in 1973 with John Deer. In addition to his role as Chairman and Chief Executive, Sir David also has responsibility for group technology and is chairman of the Nomination committee.

John Deer

Deputy Chairman, age 73, founded Renishaw in 1973 with Sir David McMurtry. He is responsible for group manufacturing and is also chairman of the overseas marketing subsidiaries.

Norma Tang
Solicitor

Company Secretary

Audit committee

Terry Garthwaite (Chair)
David Snowden
Bill Whiteley

Remuneration committee (with effect from 26th July 2010)

David Snowden (Chair)
Terry Garthwaite
Bill Whiteley

Nomination committee (with effect from 26th July 2010)

Sir David McMurtry (Chair)
Terry Garthwaite
David Snowden
Bill Whiteley

Full biographical details are available at www.renishaw.com

Ben Taylor

CEng FIMechE

Assistant Chief Executive, age 62 was appointed to the Board of Renishaw plc in 1987 and is responsible for group marketing, international operations, human resources and group quality. Ben also reports to the Board on corporate social responsibility matters.

Allen Roberts

FCA

Group Finance Director, age 62, was with Peat, Marwick, Mitchell & Co before joining Renishaw in 1979. Allen heads group finance business systems and Wotton Travel Ltd.

Bill Whiteley

FCMA

The senior independent non-executive director, age 62 was Chief Executive at Rotork plc before he was appointed a director of the Company in June 2008. Bill is also chairman of Spirax-Sarco Engineering plc and Hill and Smith Holdings plc, and a non-executive director of Brammer plc.

Geoff McFarland

Group Engineering Director, age 43, joined Renishaw in 1994 and was appointed to the Board in July 2002. He heads the group engineering function and is also responsible for group IP and patents. Geoff is a non-executive director of Delcam plc.

THE EXECUTIVE BOARD

In addition to all executive directors with Sir David McMurtry as Chair

Leo Somerville

President, Renishaw Inc

Tim Prestidge

Divisional Director &
General Manager

Dave Wallace

Divisional Director &
General Manager

Norma Tang

Head of Legal &
Company Secretary

THE INTERNATIONAL SALES AND MARKETING BOARD

In addition to the executive directors Ben Taylor and Allen Roberts
with John Deer as Chair

Rhydian Pountney

General Manager, ROW Sales

Masumu Oishi

President Renishaw KK

Jean-Marc Meffre

Managing Director Renishaw
(Hong Kong) Limited

Rainer Lotz

Managing Director,
Renishaw GmbH

Marc Saunders

Director of Group Marketing
Services and UK Sales

Leo Somerville

President, Renishaw Inc

The Business review has been prepared for the purpose of assisting members of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and no one, including members of the Company may rely on it for any other purpose. The directors owe their duties only to members of the Company as a whole and they undertake no duty of care to individual members, other stakeholders or potential investors.

This review has been prepared on the basis of the knowledge and information available to the directors at the time. Given the nature of some forward looking information, which has been given in good faith, members should treat this information with due caution.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In accordance with EU law, the consolidated financial statements of the Company are prepared in accordance with IFRS adopted by the EU. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP (Generally Accepted Accounting Practice).

BUSINESS OUTLINE

Renishaw is a global company with core skills in measurement, motion control spectroscopy and precision machining. We develop innovative products that significantly advance our customers' operational performance - from improving manufacturing efficiencies and raising product quality, to maximising research capabilities and improving the efficacy of medical procedures.

Our products are used for applications as diverse as machine tool automation, co-ordinate measurement, Raman spectroscopy, machine calibration, position feedback, CAD/CAM dentistry, stereotactic neurosurgery and molecular diagnostics. In all these areas we aim to be a long term partner, offering superior products that meet our customers' needs both today and into the future, backed up by responsive and expert technical and commercial support.

Our products in metrology

Our systems for users of machine tools allow automated tool setting, workpiece set up, in cycle gauging and part inspection on CNC milling machines, machining centres, CNC lathes and mill-turn machines. Products available include laser tool setters, contact tool setters, tool breakage detectors, touch probes and high accuracy inspection probes. To check the performance of a CNC machine tool the Renishaw QC20 W ballbar provides a simple, rapid check of a machine's positioning performance to recognised international standards.

Our innovative sensors for co-ordinate measuring machines ("CMMs") are an industry standard, from basic touch trigger probes and manual probe heads, through to automated stylus changers, automated probe changers, motorised indexing probe heads and revolutionary five axis measurement systems. A full range of probe stylus/probe tips is available for CMM and machine tool systems.

Renishaw has developed Equator™ an innovative gauging system based on the traditional comparison of production parts to a reference master part. The thousands of points collected during 3D scanning with the industry standard SP25 probe results in better metrology and enables effective form measurement. Replacing manual measurement with an automated Equator gauging system can greatly increase throughput and reduce scrap rates at a fraction of the cost of an equivalent custom gauging system, including associated fixturing.

In motion control Renishaw's laser encoders, optical linear encoders, optical angle encoders, optical rotary encoders, magnetic rotary encoders, magnetic chip encoders and magnetic linear encoders are used for position feedback applications in industries as diverse as electronics, motorsports, bomb disposal, semiconductors, food manufacturing and print production. Latest developments include a true absolute, fine pitch optical encoder system.

To assess, monitor and improve the static and dynamic performance of position critical motion systems, including CMMs, CNC machine tools, PCB drilling and pick and place machinery, our laser interferometer and environmental compensation system offers excellent linear measurement accuracy (of ± 0.5 ppm readings of up to 50 kHz) and linear measurement speed (of up to 4 m/s, with a linear resolution of 1nm). MDL's laser scanner products offer accurate positioning systems for marine applications as well as surveying and mine/quarry scanning.

During the year, the Group purchased MTT Investments Limited, a company that designs, develops and manufactures additive manufacturing and rapid prototyping systems, including selective laser melting, metal casting and vacuum casting machines and processes. Most of this business has now been transferred to Renishaw plc and operates as the Renishaw additive manufacturing products division.

Renishaw also invested in Renishaw Advanced Materials Limited, which specialises in diamond like carbon coatings and shape memory alloys.

Our products in healthcare

We are a recognised leader in Raman spectroscopy, where our optical spectroscopy products exploit the Raman effect in a non contact non-destructive manner, to identify and characterise the chemistry and structure of materials. A diverse range of analytical applications include pharmaceutical, material science, gemology and mineralogy, forensic science, nanotechnology, biomedical and semiconductors. Products include Raman microscopes, compact Raman spectrometers for process monitoring, Raman analysers for scanning electron microscopes, cooled CCD detectors and lasers for spectroscopy.

In the world of dentistry, we are one of the world's leading suppliers of in-lab dental CAD/CAM systems. Our products include a high accuracy 3D contact dental scanner, powerful CAD design software and a unique dental milling system. Dental laboratories can manufacture high quality zirconia frameworks either in lab or by using our central manufacturing facility, where we also offer cobalt chrome frameworks.

With an increasing focus on the healthcare sector, we now offer medical devices, surgical robots and planning software for use in stereotactic neurosurgery for procedures including deep brain stimulation, stereoelectroencephalography, neuro endoscopy and biopsy. Renishaw also offers radio frequency coils for use in MRI scanning research.

We have also entered the field of molecular diagnostics through Renishaw Diagnostics Limited, which aims to become the premier provider of automated multiplex diagnostic and clinical research systems for fast, reliable and simplified disease identification.

Group locations

The Group principally manufactures its products in the UK, Ireland, India, Germany and France and markets and distributes its products to customers around the world, with sales outside the UK representing over 94% of total group sales.

The Group has established overseas marketing and distribution subsidiaries in:

Europe: Germany, France, Italy, Spain, Switzerland, The Netherlands, Czech Republic, Poland, Russia, Sweden and Austria,

Americas: USA, Brazil and Canada,

Far East: Japan, Hong Kong, Australia, South Korea, The People's Republic of China, Singapore and Taiwan, and

Other regions: India and Israel.

These subsidiaries provide support to customers in our major markets.

There are also representative offices in Hungary, Turkey, Malaysia, Indonesia and Thailand, and an associate company, 50% owned, in Slovenia.

BUSINESS STRATEGY

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

Based upon our core technologies, the Group is developing market opportunities in a range of other industries in addition to its traditional metal cutting customer base.

In our metrology business, for example, the new Renishaw Equator™ is a versatile alternative to custom gauging, offering inspection of an unprecedented variety of manufactured parts. It has been developed and proven on the shop floor in collaboration with industry leading companies in multiple industries and applications.

A ground breaking true absolute encoder system is now available in linear and rotary formats. It is a non contact system, with fine pitch performance 1 nm resolution with 100 m/s maximum speed. It has a built in position checking algorithm and uses a unique single track scale with wide set up tolerances and excellent dirt immunity.

In the healthcare sector we are applying advanced engineering technologies to improve stereotactic neurosurgery. The improvement to a person's quality of life can be remarkable.

Our Raman spectroscopy systems are being applied to an exciting range of diverse applications. New research is aiming to improve IVF treatments.

24 BUSINESS REVIEW CONTINUED

BUSINESS STRATEGY CONTINUED

Renishaw Diagnostics is working towards providing automated multiplex diagnostic and clinical research systems to enable our customers to carry out fast, reliable and simplified disease identification that will improve patient care

The Group continues to develop further geographic markets with ongoing investment mainly in South East Asia, especially China, India and South America

To improve the Group's ability to design, manufacture and support its products continuing investment has been made in manufacturing facilities in the UK, Ireland and India. In addition to the expenditure on tangible fixed assets noted later in this Business Review, the Group is also seeking additional or modifications to planning consents relating to development of up to 310 000 square feet at its New Mills, Stonehouse and Charfield sites in the UK

It is the Board's belief that success comes from patented and innovative products and processes, low cost, high quality manufacturing and the ability to provide local customer support in all the Group's markets

TREASURY POLICIES

The Group's treasury policies are designed to manage financial risks to the Group that arise from operating in a number of foreign currencies and to maximise interest income on cash deposits. As an international group, the main exposure is in respect of foreign currency risk on the trading transactions undertaken by group companies and on the translation of the net assets of overseas subsidiaries

The information below includes disclosures which are required by IFRS and are an integral part of the financial statements

Weekly groupwide cash management reporting and forecasting is in place to facilitate management of this currency risk. The operations of group treasury, which is situated at head office, are governed by Board approved policies

All Sterling and foreign currency balances not immediately required for group operations are placed on short term deposit with leading international highly rated financial institutions

The Group uses a number of financial instruments to manage foreign currency risk, such as foreign currency borrowings to hedge the exposure on the net assets of the overseas subsidiaries and forward exchange contracts to hedge a significant proportion of anticipated foreign currency cash inflows

Also, currency contracts are used to minimise the interest cost of maintaining the currency borrowings. The foreign currency borrowings are short term with floating interest rates. The Group does not speculate with derivative financial instruments

See note 22 for an analysis of cash balances and currency borrowings at the year end

During the year, there were forward contracts in place to hedge against the Group's Euro cash inflows and a portion of the Group's US Dollar and Japanese Yen cash inflows for the year. As a result of changes in the exchange rates of Sterling against these currencies, there was a loss for the year of £1.7m on maturity of these contracts, relative to the exchange rates pertaining at the maturity dates and compared with a loss of £9.1m in the previous year

Forward contracts are in place as a hedge against a substantial part of the Group's estimated Euro cash inflows and a proportion of the Group's estimated Japanese Yen cash inflows on a rolling three and a half years basis and a proportion of the Group's estimated US Dollar cash inflows on a rolling fourteen months basis

RISKS AND UNCERTAINTIES

Current trading levels and order book

The Group has seen a rapid upturn in its global business over the last two years particularly in its core metrology business and especially in the Far East. The continuation of this healthy growth in the Group's revenue, which accelerated from 6% in the 2010 financial year to 59% in 2011 is difficult to predict, especially as 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. This limited forward order visibility leaves the annual revenue forecasts uncertain and requires careful management of production and inventory levels

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 the core metrology and emerging healthcare businesses

The development of new products and processes involves risk, such as development timescales, which may take longer than originally forecast and hence involve more cost. Also, being at the leading edge of new technology in metrology and healthcare, 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. Research and development also involves beta testing at customers to ensure that new products will meet the needs of the market at the right price

Defined benefit pension schemes

The Group closed its UK and Ireland defined benefit pension schemes to new members and for future accruals for existing members, eliminating the major risk of growth in liabilities for future accrual of salary increases above inflation and additional years of service. The funds are still subject to fluctuations arising from investment performance and actuarial assumptions. The UK defined benefit scheme is secured by a registered charge on certain of the Group's UK properties and a floating charge on an escrow bank account, but the limit of the exposure under the guarantee is fully reflected in the financial statements

Treasury

With the concentration of manufacturing in the UK, Ireland and India, and with over 94% of revenue to countries elsewhere around the world, there is an exposure to fluctuating currencies on this export revenue, mainly in respect of the US Dollar, Euro and Japanese Yen

The Group mitigated the risks associated with fluctuating exchange rates by the use of forward contracts to hedge varying proportions of forecast US Dollar, Euro and Japanese Yen revenue

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 assesses the appropriateness of tax provisions

OPERATING REVIEW

Group revenue for the year was £288.7m, an increase of £107.1m, or 59%, over the previous year of £181.6m. This year includes £8.9m from acquisitions during the year. Revenue in our metrology segment, which includes these acquisitions, increased by 65%, from £162.1m in 2010 to £267.0m and, in our healthcare segment, increased by 11%, from £19.5m to £21.7m. Geographically, the tables below show the analysis of revenue by geographical market for each of our business segments and the effect of exchange rate changes.

Headcount has increased during the year, from 2,099 at 30th June 2010 to 2,675 at 30th June 2011. Staff numbers have grown as a result of increased demand and also to support the growing marketing and distribution operations and continuing development programmes in both our metrology and healthcare businesses. Labour costs increased by £28.0m, from £78.5m last year to £106.5m, an increase of 36%.

Geographical analysis - total	2011 sales	Change	2011 sales	Change	2010 sales
	at actual exchange rates £'000		at 2010 exchange rates £'000		from 2010 exchange rates %
Far East, including Japan and Australia	114,553	+61%	116,976	+65%	71,051
Continental Europe	85,751	+64%	85,286	+64%	52,147
North and South America	85,113	+57%	65,674	+58%	41,455
UK	14,761	+39%	14,761	+39%	10,650
Other regions	8,572	+36%	8,569	+36%	6,304
Total group revenue	288,750	+59%	291,266	+60%	181,607

Geographical analysis - segmental	Metrology		Healthcare	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Far East, including Japan and Australia	106,708	64,259	7,845	6,792
Continental Europe	79,443	46,893	6,308	5,254
North and South America	60,553	37,954	4,560	3,501
UK	12,722	8,035	2,039	2,615
Other regions	7,596	4,977	976	1,327
Total segmental revenue	267,022	162,118	21,728	19,489

Research and development

The Group continues to invest in research and development, in both its metrology business and its healthcare business.

Gross expenditure in engineering costs, comprising research and development costs related to new products and processes along with continuing development costs on existing products and processes, was £40.0m (2010 £30.9m). The capitalisation of development costs (net of amortisation charges) amounted to £2.9m (2010 £2.3m), giving a net charge in the Consolidated income statement of £37.1m (2010 £28.6m). The gross charge amounts to 14% of group revenue (2010 17%).

Between the reportable segments, net of the capitalisation costs, £28.0m (2010 £22.0m) was spent in the metrology segment and £9.1m (2010 £6.6m) spent in our healthcare segment.

Included in engineering costs was £29.4m related to new product research and development, which compares with £22.8m spent last year.

Profit

The reported operating profit for the year was £78.9m, compared with £28.1m (excluding the exceptional items) in the previous year.

Our metrology segment reported an operating profit of £87.4m (2010 £31.5m) with our healthcare segment showing a loss of £8.5m (2010 £3.4m).

The profit before tax, excluding the exceptional items, increased from £28.7m in 2010 to £80.4m in 2011.

The overall effective rate of tax, which is a combination of the varying tax rates applicable throughout the countries in which the Group operates, was 20%. The comparable rate for the previous year was 21%.

Adjusted earnings per share, excluding the exceptional items, increased from 31.6p to 88.0p.

26 BUSINESS REVIEW CONTINUED

KEY PERFORMANCE INDICATORS

The Group's long term aim is to achieve sustainable growth in revenue and profits in order to provide an increasing dividend to shareholders. This is to be achieved through the substantial investment in research and development of new products and processes, the acquisition of niche businesses complementary to and supporting the Group's strategic development aims, the application of technologies into different market areas and the development of its global marketing facilities.

The main financial performance measures monitored by the Board are:

	2009	2010	2011
Revenue growth			
At actual exchange rates	15%	+6%	+59%
At constant exchange rates	23%	+1%	+60%

We are focused on growth in revenue, through increasing our market and geographic penetration and continually introducing new products. This year reflects an acceleration in the upturn in the global economy, following the severe downturn experienced in our 2009 financial year. We have continued to expand our global marketing presence and a number of new products have been successfully launched during the year.

	2009	2010	2011
Total engineering costs including research and development			
Gross expenditure	£35.9m	£30.9m	£40.0m
Included in Consolidated income statement	£33.7m	£28.6m	£37.1m

The growth of the business is fundamentally dependent on the continuing investment in engineering costs for the development of new products and processes. The Group continues to make significant investment in future products and has also been accelerating new product development in certain areas.

	2009	2010	2011
Adjusted earnings per share (pence)	9.3p	31.6p	88.0p

In order to provide an increasing return to shareholders along with retaining adequate funds for reinvestment in the business, we aim to achieve year-on-year growth in earnings per share.

	2009	2010	2011
Dividend per share (pence)	7.8p	17.6p	35.0p

We aim to achieve significant long term returns to shareholders by maintaining a progressive dividend policy. Following the omission of a final dividend in 2009 due to the impact on the results of the severe global recession that year, dividend payments have now resumed at an appropriate level relative to earnings growth. This year sees a 99% increase in the dividend over the previous year and 38% above the previous highest dividend of 25.4p in 2008.

CONSOLIDATED BALANCE SHEET

The Group spent £5.4m on property during the year

In the UK, the Group refurbished a 28,000 square feet property at Charfield, close to the New Mills head office site, which was purchased in 2008. The cost of the refurbishment was £1.6m and the dental, neuro and imaging coil product lines, together with a team of our group software engineers, are now occupying these facilities.

In June 2011, the Group contracted to purchase a manufacturing facility at Miskin, South Wales, for a cost of £7.7m. This property provides 461,000 square feet of existing factory space on a 193 acre site. The Group has paid a 10% deposit in June 2011, with the balance due on completion on 30th September 2011.

Also in the UK, the acquisition of MTT Investments Limited ("MTT") included property with a net book value of £0.9m.

In India, the extension of the manufacturing facility, by the addition of another 60,000 square feet adjacent to the existing property, was completed with an expenditure this year of £1.8m. In Spain, our subsidiary purchased a property, at a cost of £0.9m, where previously it has been in rented premises.

Plant and equipment expenditure for the year was £11.1m, mainly to improve and expand the Group's manufacturing facilities. Plant and equipment also increased through acquisitions relating to business combinations totalling £0.7m. The net book value of the Group's total tangible fixed assets increased by £11.8m during the year, from £70.5m to £82.3m.

Intangible fixed assets, comprising capitalised development costs, goodwill and intangible assets relating to acquisitions and software licences, grew by £18.5m during the year from £28.6m to £47.1m. The principal additions were:

the capitalisation of development costs, which, net of amortisation charges, amounted to £2.9m, and

goodwill and intangible assets of £16.7m acquired through business combinations. For more details, see later in this Business review and note 12 in the notes to the financial statements.

Investments in associates increased by £2.2m, from £5.2m at 30th June 2010 to £7.4m at 30th June 2011. At the year end, the Group reinstated the impairment write-down of 2010 relating to its 20% shareholding in Delcam plc, following a recovery in the latter's share price since the previous year end and a review of its trading performance and prospects.

Group inventories have increased during the year from £30.9m to £49.8m as the Group has determined to ensure it has sufficient inventory to meet the delivery requirements of the expanding business, where demand has been unpredictable and events such as the earthquake in Japan have heightened the risk of supply shortages and delays. Also inventories have increased by £3.2m through acquisitions relating to business combinations.

Cash balances at 30th June 2011 of £34.6m increased by £3.5m from the £31.1m held at 30th June 2010. Cash flows from operating activities were £58.8m, compared with £24.5m last year.

At the end of the year, the Group's defined benefit pension funds, now closed for future accrual, showed a deficit of £37.7m, compared with a deficit of £37.3m at 30th June 2010. Defined benefit pension fund assets at 30th June 2011 increased to £101.0m from £83.2m at 30th June 2010 as the value of equities improved. Liabilities increased by £18.2m, from £120.5m to £138.7m.

There was a reduction in the schemes' liabilities of £11.2m as a result of the change to use CPI instead of RPI as the inflation measure in the calculation of liabilities for deferred pensions and an increase in the schemes' liabilities of £23.7m due to the application of IFRIC 14. The Company has given a guarantee regarding the UK pension scheme deficit, which is supported by registered charges over certain UK properties and an escrow account with a cash balance of £10.8m at 30th June 2011, in favour of the UK pension scheme.

For the UK defined benefit scheme, a guide to the sensitivity of the value of the liabilities is:

Valuation sensitivity	Variation	Approximate effect on liabilities
Discount rate	0.1%	£2.4m
Inflation	0.1%	£2.0m

ACQUISITIONS**(i) Measurement Devices Limited**

On 23rd July 2010, the Group acquired a shareholding of 29% in Measurement Devices Limited ("MDL"), a company incorporated in Scotland and operating in the metrology business. The initial consideration was £2.3m. In December 2010, following a court approved scheme of arrangement, the Group acquired a further 10% shareholding in MDL for the sum of £0.8m. In January 2011, the shareholding was increased by another 10%, at a cost of £0.8m, to a total of 49%. In respect of part of the shareholding acquired there will be an additional potential payment based on the earnings of MDL in the financial year ending 31st December 2011. An agreement provides for the further purchase of the balance of shares in MDL not held by Renishaw over a period of three years, the price payable being based on a floor price of £2 per share with additional potential payments based on the earnings of MDL in each of 2011, 2012 and 2013, subject to a maximum price per share of £8.94.

MDL is a metrology company based in York, with offices in Aberdeen and USA (Houston). Its laser scanner products are primarily marketed in the areas of marine positioning, surveying and mine/quarry scanning. MDL's products will add to Renishaw's current range of laser based products and the Group's investment in MDL will enable MDL to expand further on a global basis and benefit from Renishaw's technology, engineering and manufacturing expertise and worldwide distribution network.

(ii) Diameter Limited, since renamed Renishaw Advanced Materials Limited

On 3rd September 2010, the Group acquired, for an amount of £0.3m, a 55% shareholding in Diameter Limited, which has since been renamed Renishaw Advanced Materials Limited ("RAM"). RAM based at Brunel University, West London, specialises in diamond like carbon coatings, shape memory alloys and materials demonstrating the piezo effect. Renishaw has been a long term customer for its coating products.

(iii) MTT Investments Limited

On 8th April 2011, the Group acquired a 100% shareholding in MTT Investments Limited ("MTT"), a business that designs, develops and manufactures additive manufacturing and rapid prototyping systems, including selective laser melting, metal casting, and vacuum casting machines and processes. The cost of the acquisition was £3.8m.

Based in Stone, Staffordshire, in the UK, MTT has 40 employees, with subsidiaries in the USA and Italy, and a branch office in France. MTT's selective laser melting equipment currently has its main markets in aerospace and medical devices, but also has potential for use in other sectors. Its products are complementary to Renishaw's existing technologies and business. Most of the business has transferred to Renishaw plc and operates as the Renishaw additive manufacturing products division.

(iv) PulseTeq Limited

During the year, the Group acquired the remaining minority shareholding in PulseTeq Limited, increasing its shareholding from 75% at 30th June 2010 to 100%, at a cost of £0.2m. This business has transferred to Renishaw plc and operates as the PulseTeq products division.

(v) Aberlink Limited, since renamed Renishaw Software Limited

On 16th June 2011, the Group acquired a 100% shareholding in Aberlink Limited, whose sole assets comprised certain calibration technology and software together with drawings, designs and intellectual property relating to optical technology. These assets formerly belonged to Aberlink Innovative Metrology, which continues in the business of CMM design and manufacture. The company has been renamed Renishaw Software Limited.


See note 12 for details of the fair values of assets acquired and goodwill for all the above acquisitions, except for PulseTeq Limited, which was previously consolidated prior to the latest transaction.

INVESTMENT FOR THE FUTURE

The Group has continued to invest heavily in innovative products and processes, with 14% of revenue being spent on engineering costs, and has acquired a number of niche businesses in its market sectors. The Group is committed to continuing this policy in order to grow its existing markets and to expand into new market areas.

We will also continue to invest in manufacturing, improve efficiencies in production and ensure capacity for the future, and extend our presence around the world.

A C G Roberts FCA
Group Finance Director
27th July 2011



To effectively manage the social and environmental factors affecting the business and, in turn, their impact on its reputation and profitability, the Company has a formal CSR management structure to provide a better focus for the Group's activities.

The Assistant Chief Executive, Ben Taylor, has the responsibility to manage all aspects of the Company's CSR activities

CORPORATE SOCIAL RESPONSIBILITY

Highlights

- Group Business Code introduced which sets out principles of business conduct and standards which all group companies are expected to follow
- Renishaw products are making a continuing contribution to energy reduction and green energy systems with Raman now used to analyse the quality of solar panels
- Worldwide staff turnover has reduced to just 6% compared to UK national average for manufacturing of 12.4%
- A record number of young people entered the Group this Summer with 85 undergraduates undertaking paid placements and 25 apprentices confirmed for September 2011
- Further investments made to improve energy monitoring systems – electricity, water and gas – and significant investments ascribed to upgrade internal lighting to reduce running costs and carbon footprint
- Expansion of sponsorship programmes for community based events
- Donation of £130,000 to Red Cross Japanese Earthquake Relief Fund

Engineering for Britain

Renishaw has throughout its history encouraged young talent, and we were especially proud that this year Roxanne Polard (shown opposite) one of our first year technical apprentices, was selected as one of just six students to represent the UK at the International Science and Engineering Fair (ISEF) held in Los Angeles in May 2011.

Roxanne's award was presented to her by the Worshipful Company of Scientific Instrument Makers during the UK's national Big Bang Fair and was made for her innovative bicycle safety helmet which allows cyclists to indicate presence and driving directions whilst keeping full control of the bike. She originally developed the helmet as part of a 1 A Level Design & Technology course project whilst attending Chipping Sodbury School near Bristol.

At ISEF Roxanne joined 1,600 students from across the world and although she didn't win any of the awards on offer she learnt a great deal and met many high profile scientists and engineers including US TV personality Bill Nye, and was also interviewed for ten minutes by CNN.

During the year a Group Business Code (the "Code") was approved by the Board, which sets out the principles of business conduct and standards that all companies in the Renishaw Group are expected to follow. It has been introduced to all staff and is available to external organisations on request, or via the Renishaw website.

On 1st July 2011 the UK Bribery Act 2010 came into force. The Board has informed all staff worldwide that it has adopted a 'zero-tolerance' attitude to bribery and corruption, which applies to all employees of the Renishaw Group and to all third parties who act on behalf of the Group. A committee with responsibility for analysing the risks of bribery within the Renishaw Group and for implementing adequate anti-bribery procedures in response to those risks has already been established by authority of the Renishaw Board.

Customers

With a direct presence in 31 countries, we pride ourselves on offering expert local support to our customers, no matter where their Renishaw product was originally purchased. With businesses increasingly focused on their environmental impact and the need to reduce costs, our products are helping customers to reduce energy consumption and minimise waste.

Sewtec Automation, which makes production and packaging systems for consumer goods, uses Renishaw touch probes on its CNC machine tools to significantly reduce unproductive setting times and eliminate scrap components. One component that used to take 90 minutes to set, now takes just 10 minutes, reducing the total energy consumption required to produce the same level of machined components. Further examples can be found in the news section of our website, www.renishaw.com.

Our products also continue to make a significant contribution to the manufacture and operation of alternative energy products, especially solar power, where due to concerns over nuclear energy and the rising costs of fossil fuels, there is growing pressure on the manufacture of efficient solar energy systems.

PRAMAC Swiss SA runs the largest solar panel production facility in Switzerland and uses Renishaw's inVia™ Raman microscope in both its production plant and its quality control (QC) laboratory to check the quality of its solar panels. The company produces panels that use multi-layer thin film technology to increase solar absorption and significantly increase efficiency.

Every 15 days, just after first deposition of the silicon thin layer, some 20 panels are withdrawn from production and cut into 13 square samples for Raman analysis in the QC laboratory. The crystalline fraction of each sample is measured at three different points and the process has been semi-automated using Renishaw's WiRE™ software custom analysis package.

Staff

Renishaw is an equal opportunities employer operating a strict policy of non-discriminatory behaviour, offering an environment that promotes innovation and progress within

which individual talents can flourish. We have a diverse mix of age ranges, gender and ethnicity. At the end of June 2011 some 20.4% of UK staff are aged over 50 (2010 19.2%), with 13.3% below 25 (2010 12.9%), and some 23.7% of employees are female (2010 22.5%). Worldwide staff turnover (excluding redundancies) has reduced compared to last year at around 6% (2010 7%), which compares very favourably with the 2010 average in the UK manufacturing sector of 12.4% (source: Chartered Institute of Personnel and Development).

Long service is rewarded at every five years of service and can include small gifts, extra holiday allowance and a cash sum, with 258 staff achieving a milestone this financial year, including 25 people who achieved awards of 25 years or more. A group performance bonus programme rewards staff with an annual bonus based upon group results and individual performance.

Variable working-time has been adopted as standard practice for most UK staff, allowing staff members to create a better work-life balance, whilst at the same time maintaining full support to Renishaw's worldwide customer base. Other benefits that staff receive include the use of gymnasiums at the New Mills, Stonehouse, Ireland and Woodchester sites and subsidised restaurants at the most populous UK locations. There is a high quality crèche at the Pune facility in India. In the UK there are discounts for sports and social activities, administered by a volunteer employee-run organisation.

In the Gloucestershire locations, close to their respective birthdays, staff members are invited to attend a communications meeting at which Board members are present. These meetings provide staff with information about developments within the Company and give them the opportunity to ask any question of the Board in an open discussion forum. A copy of the presentation and responses to questions raised at these meetings are made available to all worldwide staff via the Group's intranet. Following the announcement of interim and annual financial results, all staff in Gloucestershire (and Edinburgh via videoconference) are also invited to attend a series of presentations, with all issues raised again made available to all worldwide staff.

After a gap due to the recession and resource issues, the worldwide staff newsletter 'Probity' is now being published again every two months, with contributions encouraged from across the Group. Throughout the year other company updates and items felt to be of interest to employees are also regularly communicated via email. The Company encourages direct employee feedback either to immediate supervisors or Board members, and, additionally, a suggestion scheme exists with awards for the best ideas received.

A strength of the Company throughout its history has been the encouragement of young talent, with an apprenticeship scheme started in 1979 and sponsored student scheme in 1984. During this summer some 85 undergraduates entered Renishaw for paid placements – 70 summer and 15 one-year industrial placements, amongst which the most promising students will be given financial incentives to maintain a relationship with the Company into the future. There are 33 craft and technical apprentices currently in training and 20 new

starters confirmed for September 2011, plus 5 software apprentices. A further 30 recent graduates also started with Renishaw this summer.

Over the last 12 months Renishaw's 'Applications Academy' has continued to develop a varied training curriculum and the Company is seeing significant benefits from a structured training programme that is now being rolled out globally. Six application engineers have completed the first twelve months of a two year programme, including secondments at the Advanced Manufacturing Research Centre in Sheffield (AMRC), at Renishaw GmbH, and various UK business divisions. During the year there have been three full training courses ranging from 8 weeks to 12 weeks duration, with attendance levels of between 5 and 20 engineers. In September 2011 the 'Academy' will be running its first post-graduate course aimed at introducing new graduates to the Company, and is developing several individually tailored courses for the Group, courses for a new 'Sales Academy' are also being planned.

During the year the Company undertook a comprehensive review of its management process relating to health and safety. A new management policy has been established that improves the organisation, control and monitoring of matters relating to health and safety, as well as establishing a new framework for the completion, management and review of risk assessments. Directors of each UK business division have also recently participated in training to ensure that they fully understand their responsibilities and to equip them in ensuring a successful implementation of the new policies.

The environment

Renishaw takes its responsibilities for the environment seriously and has made further investments to improve its performance in relation to energy consumption, water usage, emissions and disposal of waste materials. The Company continues to optimise and control its energy consumption, as previously reported, with an additional emphasis upon cost control during the last 12 month period.

Energy

In the UK, installation of half-hourly metering for electricity consumption is nearing completion. This will allow improved monitoring and the ability to clearly identify opportunities for reduced consumption. Further investments have been made in Renishaw's detailed monitoring equipment to identify specific peaks in electricity usage, quantify reductions and make continuous improvements across various sites. In addition, investments have been made in systems that will monitor gas and water usage at the main UK sites allowing these energy streams to be similarly reduced.

During the last twelve months the Company has also approved significant investments to upgrade interior lighting systems at its large Gloucestershire sites to the latest technology with a view to reducing both running costs and carbon footprint. This follows investment in recent years in passive infra red detectors to switch off lighting when areas are not occupied and technology upgrades to lower wattage lighting systems.

32 CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Figure 1
Greenhouse Gas (GHG) emissions 2011 in tonnes of CO₂
(estimate)

Scope 1	
Gas consumption	652
Owned transport	1,617
Generator diesel	40
Heating oil	77
Total scope 1	2,386
Scope 2	
Purchased electricity	14,347
Total scope 2	14,347
Significant scope 3	
Business travel	2,144
Product distribution	3,908
Metal purchase	7,465*
Post/Communications	353*
Total significant scope 3	13,870

* Only UK data included

As Renishaw consumed more than 6 megawatts of electricity in 2008 it is bound by UK legislation to comply with the CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment) and has registered accordingly. To continue progress made in recent years by monitoring usage and continue to reduce CO₂ emissions, the Board has made a commitment to achieving the Carbon Trust Standard which will also benefit the Company in terms of its ranking within the CRC Energy Efficiency Scheme and any rebates due under the terms of the scheme.

However progress in this area has been slow during the last twelve months whilst the legislation has been under review.

Emissions (Figure 1)

Unless otherwise stated, the analysis in Figure 1 includes the Group's global operations for the 12-month period 1st June 2010 to 31st May 2011, with the exception of recent acquisitions (MDL, MTT and Renishaw Advanced Materials).

The measurement of the overall impact of carbon emissions within the Group is very complex given the geography and scope of operations. Despite a sharp increase in sales (54% excluding recent acquisitions) and a decision to also grow inventories to ensure adequate stock in an environment of growing but unpredictable and substantial order intake, emissions in the financial year 2011 increased by 52% over the previous year. A best estimate is that 30,607 tonnes of CO₂ were emitted through our activities (2010 20,151 tonnes). These increases are therefore proportionally lower than increased activity levels within the Group and reflect improved efficiencies in energy management.

Figure 2
Landfill totals 2011

2008 total to landfill	383.4 tonnes
2009 total to landfill	225.8 tonnes
2010 total to landfill	154.8 tonnes
2011 total to landfill	151.9 tonnes

Due to the delays in legislation relating to the Carbon Trust Standard, targets for the reduction of carbon emissions were not set by Renishaw in 2011, but the figures above will now form the baseline for Renishaw when it sets targets during the 2012 financial year.

Although not included within these standard Government measures, Renishaw recognises that there is a significant impact caused by staff driving to its Gloucestershire sites. There is very limited public transportation serving these sites and therefore the Company actively encourages car sharing by hosting a specific area on the company intranet, through joint lift-share notices in communal areas and through the circulation of regular emails that remind staff of the benefits of car sharing.

Waste Management (Figure 2)

Renishaw has continued to analyse waste streams and as a result strives to increase recycling and reduce amounts sent to landfill, notably paper, cardboard, plastic cups, toner cartridges and batteries. Analysis of the waste streams at the main UK sites shows a marked reduction in landfill has been made in recent years, although the sharp increase in manufacturing activity has seen an increase during the 2011 financial year at our Stonehouse machine shop.

Reduction of waste at source is also seen as a key contributor to overall waste reduction. Continuing efforts are being made to distribute both technical and sales documentation in electronic format and the encoder business division no longer distributes user guides to its customers, with up-to-date guides available through a special support website.

Commercial documentation, such as invoices and acknowledgements, is also available through a 'paperless' facility, with customers encouraged to accept this form of transaction

Although only one of the Group's products currently falls within the scope of the requirements of the European Directive 2002/95/EC on the Restriction of the use of Hazardous Substances (RoHS), all new position encoder products are now introduced as RoHS compliant, and the Company continues to develop and implement processes for other metrology products to ensure that they will meet the extended scope of the directive which will be implemented in 2017

The Company is also working hard to meet the requirements of the European Directive on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and to date no 'substances of very high concern' (SVHC) have been identified in its products at a level requiring any action. A dedicated project manager co-ordinates the Company's activities with regard to compliance with both RoHS and REACH directives, including risk assessments and information gathering from suppliers

The community

The Company is one of Gloucestershire's largest companies and recognises the positive role that it can play through its ongoing relationships with the local community, businesses, schools and sports organisations. With the recognised national shortage in the UK of skilled engineers and scientists, it

continues to communicate a positive story about the role of science, engineering and manufacturing in enhancing the lives of the general populace and the attractions of a career within these sectors

Throughout the year Renishaw therefore hosts at its headquarters tour groups of all ages, which in the past 12 months has included local primary and secondary schools, university undergraduates, charitable organisations and investment clubs

The Company also actively supports the region's business community, imparting its knowledge through roundtable discussions and business seminars, which in the past year has included export trade, business with China, cost efficiencies and ethical business. It also loans its facilities to business organisations and networking groups, and acted as a host and ambassador for the 'Born Global' competition which aimed to identify young businesses with export potential

During the year numerous local community festivals and carnivals were also supported through sponsorship, including the Stroud International Textile Festival, which Renishaw was formally invited to open. The Company also forged closer links with Gloucester Rugby Club, which plays in the English Premiership league, presenting the club's Young Player of the Year award in June

Charity

Over 20 years ago the Company created the Renishaw Charities Committee (RCC) to distribute funds to support

charitable and voluntary organisations, and to support the individual charitable efforts of staff through a match funding scheme. The RCC is made up of staff representatives from the Company's main Gloucestershire sites and has a particular focus to assist organisations that help enrich the lives of children and adults, from toddler groups and sports clubs, through to organisations that support the disabled and the bereaved. A separate fund is also administered by the RCC, which donates monies to aid the victims of global disasters, which during the past year included the Pakistan Disaster Appeal and Rapid UK, the Gloucestershire-based specialist international urban search and rescue team.

During the year the RCC donated funds towards a multi-sensory unit at the National Star College, based near Cheltenham, Gloucestershire. This excellent specialist college works with children who have physical, sensory or learning difficulties to enable them to prepare for the best that adult life can offer. The multi-sensory unit will help students to manage their pain, anxiety, stress and behaviour.

The Cots for Tots Appeal aims to provide four life-saving cots and a new intensive care suite for the Neonatal Intensive Care Unit at St Michael's Hospital, Bristol, and a family accommodation suite close-by. Before choosing to support the appeal, members of the RCC visited the Unit which cares for more than 600 babies every year from across the South West of England, some born as early as 23 weeks. Huge recent advances in the care of premature and newborn babies mean that the Unit is able to care for many more babies, creating the need for the new equipment.

On 11th March this year one of the five most powerful earthquakes ever recorded hit Japan, which, combined with a huge tsunami that it triggered, led to widespread devastation, suffering and significant loss of life. Renishaw's offices in Tokyo and Nagoya were both undamaged and employees were safe, although Tokyo staff endured multiple aftershocks for many days. However, an event of this cataclysm touched many, and on 6th April the Board approved a payment to the Red Cross Japanese Earthquake Relief Fund of 13 million Japanese Yen, which added to a 4 million Japanese Yen donation from Renishaw KK's company trip fund, made a total contribution of 17 million Japanese Yen (approximately £130,000).

The Japanese Red Cross has been providing people in need with first aid and emergency healthcare, as well as distributing relief items. As the operation moves out of the relief and into the recovery phase, the Japanese Red Cross is helping to fit out 70,000 temporary homes with an appliance package consisting of key domestic items such as rice cookers, microwaves and kettles. The completion and equipping of these prefabricated homes will be a major step towards easing the pressure on evacuation centres and allowing people to return to some semblance of normal life.

Renishaw is proud to be able to support the Red Cross's excellent efforts and some Renishaw KK staff have also made valuable contributions to the relief effort in the worst hit areas, by volunteering their time to help.

Education

The Company has a fundamental aim to nurture the next generation of engineers and scientists and during the past 12 months has taken steps to accelerate engagement with the educational sector.

A new education liaison role has been created within the Company, which will co-ordinate its activities with selected secondary schools, universities and STEM (Science Technology Engineering and Mathematics) enrichment organisations. The aim is to help facilitate STEM teaching, to raise the profile of Renishaw and to aid the recruitment of the most talented individuals.

As part of this process the Company has already identified 25 secondary schools in the Gloucestershire, Bristol and South Wales region, to which it has donated £1,000 each towards STEM related projects and prizes. In the university sector the Company is also participating in more recruitment fairs and events designed to enable interaction between students and potential employers. These have included a Renishaw seminar at the Engineering Faculty of Oxford University and participation in a Postgraduate Research Symposium at Imperial College, London, where Renishaw staff helped judge and award prizes for the best projects.

The Company also continued its policy of opening its doors to visits from primary schools, secondary schools and universities. This year one week work experience placements were also given to over 50 students under the age of 18.

During National Science and Engineering Week, the Company's staff visited several local primary schools, where they gave talks and judged competitions. These included Simonne Watts, from Renishaw's Personnel Department, who became a 'STEM Ambassador' during the year. This excellent programme aims to identify and train volunteers who will act as inspiring role models for young people, helping them to see STEM subjects and careers with a fresh perspective.

Renishaw also supported numerous other organisations and events that aim to inspire young engineers. These included hosting the South-West Region launch of Go4SET, a scheme that gives young students a 10-week STEM project to help them make informed decisions about their subject options. The Company also released young engineers to act as mentors and ambassadors at national STEM events such as the UK's 'Big Bang Fair' and the Cheltenham Science Festival, as well as local apprentice recruitment fairs and 'Women in Engineering' events.

FTSE Group confirms that Renishaw plc has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent social, ethical and environmental criteria, and are positioned to capitalise on the benefits of responsible business practice.

The directors have pleasure in presenting their 38th Annual report, together with the audited financial statements for the year ended 30th June 2011 as set out on pages 44 to 73

PRINCIPAL ACTIVITIES AND 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 together with products for the healthcare sector including Raman spectroscopy systems, dental systems, molecular diagnostic equipment and neurosurgical products

A review of the business and likely future developments is given in the Chairman's statement and the Business review. Segmental information by geographical market is given in note 2 to the financial statements

The Companies Act 2006 requires the Directors' report to include a business review. Certain information that fulfils these requirements and those of the UK Listing Authority's Disclosure Rules and Transparency Rules which require the Annual report to include a management report, can be found in the Business review and in the description of corporate social responsibility activities on pages 28 to 34, as well as in this Directors' report

For the purposes of the Disclosure Rules and Transparency Rules which require a corporate governance statement to be included in the Directors' report, the Company's corporate governance practices are set out in the Directors' corporate governance report, which forms part of this Directors' report

For the purposes of the Disclosure Rules and Transparency Rules and the UK Corporate Governance Code, a description of the work of the Nomination committee is contained in the Directors' corporate governance report

For the purposes of the UK Listing Authority's Listing Rules, certain information required to be provided to the shareholders is also contained in the Directors' remuneration report

There are no persons with whom the Company has contractual or other arrangements which are essential to the business of the Company

Further information is also available on the Company's website www.renishaw.com

DIVIDENDS

The directors propose a final dividend of £17,978,770 or 24.7p per share (2010 £9,899,242 or 13.6p per share) which, together with the interim dividend of £7,497,220 or 10.3p per share (2010 2,911,542 or 4.00p per share) makes a total amount of dividends for the year of £25,475,990 or 35.0p per share, compared to £12,810,784 or 17.6p per share for the previous year

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their interests in the share capital of the Company (with the equivalent number of voting rights), at the beginning and the end of the year, were

	Ordinary shares of 20p each	
	2011	2010
Sir David McMurtry	26,377,291	26,377,291
D J Deer	12,233,040	12,233,040
B R Taylor	10,147	10,147
A C G Roberts	5,165	5,165
G McFarland	2,000	2,000
J P McGeehan*	n/a	900
T D Snowden	5,000	5,000
T B Garthwaite	3,000	3,000
W H Whiteley	3,765	3,765

*J P McGeehan retired from the Board on 14th October 2011

All the above holdings were beneficially held with the exception of 2,434,411 shares (2010 2,434,411 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 2011 to 27th July 2011

In accordance with the provisions of the UK Corporate Governance Code all directors will retire and, being eligible, offer themselves for re-election at the annual general meeting ("AGM") to be held on 13th October 2011. Details of the directors are shown on pages 20 and 21 and full biographical details are available on www.renishaw.com

Sir David McMurtry, as one party, and D J Deer and Mrs M E Deer, as the other party, have entered into an agreement relating to the way each party would vote in respect of his or her shares if requested by the other party to do so. This agreement continues until 25th May 2013

The rules on appointment, reappointment and retirement by rotation of the directors and their powers are set out in the Company's Articles of Association. There are no powers given to the directors that are regarded as unusual

DIRECTORS' AND OFFICERS' INDEMNITY INSURANCE

Subject to the provisions of the Companies Act 2006, the Company's Articles of Association provide for the directors and officers of the Company to be appropriately indemnified. The Company maintains insurance for the directors and officers of the Company in respect of their acts and omissions during the performance of their duties

SHARE CAPITAL

Details of the Company's share capital, including rights and obligations, is given in note 21 to the financial statements. The Company is not a party to any significant agreements that might terminate upon a change of control of the Company. A shareholder's authority for the purchase by the Company of its own shares was in existence during the 2011 financial year. However, the Company did not purchase any of its own shares during that time

AUDITORS

A resolution to reappoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming AGM

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

ANNUAL GENERAL MEETING

The notice convening the AGM and an explanation of the resolutions sought are set out on pages 40 and 41. At the meeting, the Company will be seeking shareholder approval for, amongst other things, the ability to make market purchases of its own ordinary shares, up to a total of 10% of the issued share capital

The directors consider that all the resolutions proposed are in the best interests of the Company and its shareholders as a whole and unanimously recommend that shareholders vote in favour of the resolutions, as they intend to do in respect of their own holdings

36 DIRECTORS' REPORT CONTINUED

SUBSTANTIAL SHAREHOLDINGS

Apart from the shareholdings (and corresponding voting rights) of Sir David McMurtry and John Deer (36.2% and 16.8% respectively), the following voting rights have been notified to the directors under the requirements of the UK Listing Authority's Disclosure Rules and Transparency Rules DTR 5, which represent 3% or more of the voting rights attached to issued shares in the Company, as at 30th June 2011

	% of issued share capital	Number of shares
BlackRock Inc	4.99%	3,635,612
Capital Research and Management Company	4.76%	3,465,730
Standard Life Investments Limited	5.21%	3,660,425

No notifications have been received under the provisions of DTR 5 in the period 1st July 2011 to 27th July 2011

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, encompassing computer aided design and manufacturing systems, and relating to healthcare products, encompassing Raman spectroscopy systems, dental systems and certain areas in the medical devices field.

CREDITOR PAYMENT POLICY

The Company does not follow a specific standard or code on payment practice but has a variety of payment terms based on the following:

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. 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.

Two payment runs are made each month. Wherever possible, payments are made using the Bankers' Automated Clearing Service.

Typically, the Company settles all due invoices in the calendar month following their receipt. The number of days' purchasing outstanding at the end of June 2011 was approximately 30 days (2010: 30 days).

EMPLOYEES

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

Employment policies are designed to provide equal opportunities irrespective of race, colour, religion, sex, age, disability or sexual orientation. Proper consideration is given to applications for employment from disabled people who are employed where suitable for appropriate vacancies. 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 based in Gloucestershire through monthly communications meetings and departmental channels. In addition, in February and August, the Assistant Chief Executive presents the interim results and final results respectively, to all such employees following their publication.

Employees are encouraged to be involved in the Company's performance through various methods, including a staff suggestion scheme under which awards are given for innovative suggestions for improving the way in which the Company undertakes its business, an inventors award scheme for individuals who are named as inventors on patent applications that are subsequently granted and an annual performance bonus programme which is dependent upon individual performance and the performance of the Company.

Employee work forums exist and employee work forum representatives liaise with management on employee matters. Further information on employee matters is contained in the description of corporate social responsibility activities set out on pages 28 to 34.

There are no agreements with employees providing for compensation for any loss of employment that occurs because of a takeover bid.

DONATIONS

During the year the Group made charitable donations of £215,000 (2010: £47,000). The Group organises its charitable donations by two methods: firstly, by allocating a fund of money to its Charities Committee, and secondly, through direct grants as decided by the Board. The Charities Committee meets at least four times a year to consider all applications for donations from local groups in the area. Its donations policy is to provide funds to local causes or local branches of national groups, with focus on youth projects. Further information is set out on pages 28 to 34.

No political donations were made during the year (2010: £nil).

Signed on behalf of the Board

N Tang
Company Secretary
27th July 2011



Renshaw plc
Registered number 1106260, England and Wales

The Board is committed to maintaining high standards of corporate governance. This report, together with the Directors' remuneration report sets out how the Company has applied the principles of the UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council and contains the information required by Section 7 of the UK Listing Authority's Disclosure Rules and Transparency Rules

A. LEADERSHIP

The role of the Board

The Board comprises five executive and three non executive directors. The directors holding office at the date of this report and short biographical details are given on pages 20 and 21. Full biographical details are available on www.renishaw.com. The Company maintains liability insurance for its directors and officers as disclosed in the Directors' report.

The Board focuses on formulation of strategy, management of effective business controls and review of business performance. There is a formal schedule of matters specifically reserved to it for decision. These include the approval of annual and interim results and interim management statements, company and business acquisitions and disposals, major capital expenditure, borrowings, material agreements, director and company secretary appointments and removals, any patent related dispute and other material litigation, forecasts and major product development projects.

The Board meets as often as is necessary to discharge its duties effectively. In the financial year ended 30th June 2011, the Board met ten times and the directors' attendance record at Board and committee meetings is set out at the end of this report. In addition, the non executive directors met a number of times without executive directors present.

The Board has three formally constituted committees, the Audit committee, the Remuneration committee and the Nomination committee.

There is an executive committee known as the Executive Board that is responsible for the executive management of the Group's businesses. It is chaired by the Chairman and includes the executive directors of Renishaw plc and other senior management representatives.

A framework of delegated authorities is in place that maps out the structure of delegation below Board level and includes the matters reserved to the Executive Board.

The Board has adopted a conflict of interests policy, putting in place procedures for the disclosure and review of any conflicts and potential conflicts and authorisation by the Board (if felt appropriate). Authorisations granted and the terms of such are reviewed on an annual basis. New disclosures are made where applicable.

Division of responsibilities/The Chairman

The role of Chairman and Chief Executive is a combined role and thus contrary to the recommendations of the Code. However, the Board considers that there is still a clear division of responsibilities at Board level to ensure an appropriate balance of power and authority. The Chairman has no other significant commitments as regards employment or directorships of other companies.

Non-executive directors

The senior independent director is Bill Whiteley and he is available to discuss concerns with shareholders should the normal channels of the Chairman and Chief Executive or the Group Finance Director fail to resolve such concerns, or for which such contact is inappropriate. The non executive directors meet without the executive directors present to discuss performance and other matters.

B EFFECTIVENESS

Composition of the Board

All the non executive directors are considered by the Board to be independent in character and judgement and there are no relationships or circumstances that are likely to affect a non executive director's judgement.

The Code recommends that at least half the board, excluding the Chairman, should comprise independent non executive directors. The Board does not comply with this requirement as it considers the balance of the Board to be appropriate for the size of its business.

Appointments to the Board

With effect from 26th July 2010, the Nomination committee has been instituted as a new committee responsible for reviewing the structure and composition of the Board and nominating candidates for appointment to the Board. Previously, there was a combined Remuneration and nomination committee. The majority of the members of this committee are independent non executive directors and a list of the members and the chair of the committee is set out on page 21. The terms of reference of this committee are published on the Company's website. This section of the annual report describes the work of the Nomination committee.

No new appointments have been made to the Board during the year but the committee

has decided to seek to appoint a further non executive director. A recruitment consultant has been engaged and has been provided a job specification against which to seek appropriate candidates. The consultant has been requested to ensure that the shortlist for interview includes candidates that have the required skills and experience and, where possible, at least two female candidates. The recruitment consultant has no connection with the Company.

The Board has considered the recommendations of the "Women on Boards" report issued by Lord Davies of Abersoch as regards setting out aspirations for the appointment of women to the board by 2013 and 2015 and has decided that it is inappropriate to set out any levels that may require positive discrimination in this respect, as the overriding need is to appoint directors with the necessary skills and experience for the role.

Commitment

The terms of appointment of the non executive directors which includes the expected time commitment from non executive directors and requiring any changes to other significant commitments to be discussed with the Chairman and Chief Executive in advance are available for inspection at the AGM and at the registered office upon written request.

None of the executive directors holds a directorship in a FTSE 100 company.

Development

Directors are offered the opportunity to attend formal training courses to update their knowledge of their duties as directors. Guidance notes on changes to law and regulations are provided as appropriate. Non executive directors are invited to attend internal conferences, which provide information to the Group on new product development and marketing initiatives. Business presentations are given at Board meetings to provide updates on and opportunities to discuss products and business strategies.

An induction pack is provided to new appointees to the board and induction procedures include site visits, briefings by senior managers and meetings with major shareholders at appropriate opportunities.

Information and support

The Board receives appropriate documentation, management accounts, forecasts and commentaries thereon in advance of each Board meeting to enable its members to review the financial performance of the Group, current trading and key business initiatives. The company secretary advises the Board on all governance matters. All directors have access to the company secretary and to independent professional advice at the Company's expense where necessary to discharge their responsibilities as directors. The appointment and removal of the company secretary is a matter reserved for the Board.

Evaluation

The Board has established a formal process led by the senior independent director for the annual evaluation of the performance of the Board. This includes the completion of a questionnaire designed and approved by the Board to provide a framework for the evaluation process. It is the role of the senior independent director to summarise the responses and discuss them with individual directors and with the Board as a whole. The committees undertake a similar evaluation process led by the chair of the relevant committee. The requirement under the UK Corporate Governance Code that evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years has been noted and the implementation of this requirement will be considered by the Board. The Chairman and Chief Executive discusses performance with individual directors.

Re-election

In accordance with the UK Corporate Governance Code all the directors will retire from the Board at the next AGM and, other than in the case of any director who has decided to stand down from the Board, will offer themselves up for re-election at the AGM.

C ACCOUNTABILITY

Financial and business reporting

The respective responsibilities of the directors and auditors in connection with the financial statements are explained in the Statement of directors' responsibilities and the Independent auditors' report.

Going concern

The Group's business activities and business model, together with the factors likely to affect its future development, performance and position are set out in the Business review where also given are details of the financial and liquidity positions. In addition, note 22 in the financial statements includes the Group's objectives and policies for managing its capital, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

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.

38 DIRECTORS' CORPORATE GOVERNANCE REPORT CONTINUED

Going concern continued

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 foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and accounts

Risk management and internal control

The Board is responsible for the Company's systems of risk management and internal control and for reviewing their effectiveness. Any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss

There are defined lines of responsibility and delegation of authorities. There are also established and centrally documented control procedures, including, for example, capital and other expenditure, information and technology security, and legal and regulatory compliance. These are applied throughout the Group

The Group internal audit function provides independent and objective assurance that the procedures are appropriate and effectively applied. The Group Audit Manager attends Audit committee meetings to present annual internal audit plans and the results of such internal audits. Actions are monitored by the Audit committee on an ongoing basis

There is a process for the review of business risks throughout the Group. These are reported on a monthly basis by senior management and overseas subsidiaries. These reports are reviewed by the Board

The Board ensures that there are effective internal controls over the financial reporting and consolidation processes. Monthly accounts and forecasts are presented to the Board for review. The Group internal audit function undertakes a programme of review of subsidiaries' accounting processes and performance to provide assurance to the Board on the integrity of the information supplied by each company which forms part of the consolidated results of the Group

The Board undertakes an annual formal review of the effectiveness of the Group's system of internal controls and an updated risk and controls analysis for the Group. The review covers all material controls, including financial, operational and compliance controls and risk management systems

The Board considers that there is an ongoing process for identifying, evaluating and managing the significant risks facing the Group that has been in place during the year, is regularly reviewed and accords with the Turnbull guidance. The Board confirms that necessary action has been or is being taken to remedy any significant failings or weaknesses identified from its review

Audit committee and auditors

The Audit committee comprises the three non executive directors. A list of the members and the chairman is set out on page 21. The Board is satisfied that at least two members of the committee have recent and relevant financial experience, being Terry Garthwaite and David Snowden. The terms of reference of this committee were reviewed during the year and are available on the Company's website

The committee reviews the accounting policies and procedures of the Group, its annual and interim financial statements before submission to the Board and its compliance with statutory requirements. The committee monitors the integrity of the Group's financial statements and announcements relating to financial performance and reviews the significant reporting judgements contained therein. It also reviews the scope, remit and effectiveness of the internal control systems and internal audit function

The committee has primary responsibility for making the recommendation on the appointment, reappointment and removal of external auditors, which the Board puts to shareholders for approval at the AGM

It keeps under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors. The auditors provide a confirmation of independence on an annual basis. The committee reviews the nature and extent of the non-audit services supplied by the auditors, receiving regular reports on the balance of audit to non-audit fees. The committee regards it most cost efficient to use the auditors for tax advice and compliance since this requires an in-depth knowledge and understanding of the Company's business, products, customer base and markets

The committee reviews the policy by which employees of the Company may, in confidence, raise matters of concern, including possible improprieties in financial reporting or other matters

The committee meets at least three times a year with the Group Finance Director, the Group Financial Controller, the Group Audit Manager and the external auditors in attendance. At least one meeting, or part, is held with the external auditors without executive directors present

D REMUNERATION

The Directors' remuneration report explains how the Company applies the Code principles relating to remuneration

E. RELATIONS WITH SHAREHOLDERS

Dialogue with institutional shareholders

Presentations are given to institutional investors following publication of the half year and full year results, following which interim reports are published and annual reports are delivered to all shareholders. The interim and annual results and presentations are posted on the Company's website promptly after announcement of the results to the UK Listing Authority via an RIS. Institutional investors are actively encouraged to visit the Company's headquarters and manufacturing sites where they will meet at least one of the executive directors and have the opportunity of discussing any issues with them. Meetings with investors, analysts and media are reported at each Board meeting and analysts' and brokers' reports circulated so that the Board develops an understanding of the views of investors and others

Non executive directors are available to attend planned meetings with major shareholders. All directors attend the AGM and are available to meet shareholders after the meeting

Constructive use of the AGM

The AGM takes place at the Company's headquarters and formal notification is sent to the shareholders at least 20 working days before the meeting. A business presentation is given at the meeting and all directors are available for questions during and after the meeting, including the chairmen of the Audit, Remuneration and Nomination committees. Tours of the Company's facilities are offered

The Company reports on the number of proxy votes lodged on each resolution, the balance for and against each resolution and the number of votes withheld after the resolution has been dealt with on a show of hands. This information is provided to the shareholders attending the AGM and published on the Company's website following the meeting

DISCLOSURE RULE DTR 7 2 6 R

The information regarding share capital required to be disclosed by this rule is contained in the Directors' report

BOARD AND COMMITTEE MEMBERSHIP ATTENDANCE RECORD

Shown against each director's name is the number of meetings of the Board and its committees at which the director was present and, in brackets, the number of meetings that the director was eligible to attend during the year

Director	Board	Audit committee	Remuneration committee	Nomination committee
Sir David McMurtry	10 (10)			1 (1)
D J Deer	9 (10)		-	
B R Taylor	10 (10)		-	-
A C G Roberts	10 (10)		-	
G McFarland	10 (10)			-
T D Snowden	9 (10)	2 (3)	2 (3)	1 (1)
T B Garthwaite	9 (10)	3 (3)	3 (3)	1 (1)
W H Whiteley	10 (10)	3 (3)	3 (3)	1 (1)
J P McGeehan*	4 (4)	1 (2)	1 (1)	1 (1)

* J P McGeehan retired on 14th October 2010

COMPLIANCE STATEMENT

The Board considers that it has complied with the requirements of the Code throughout the year except in relation to the following matters (the reasons for non-compliance are stated in the report above)

the combined role of chairman and chief executive, and

at least half the board, excluding the chairman, does not comprise independent non executive directors

N Tang
Company Secretary
27th July 2011

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REMUNERATION POLICY

The Remuneration committee is responsible for deciding the Company's framework of executive remuneration and setting remuneration packages for each of the executive directors

The committee's policy is to motivate and retain executive directors by rewarding them with competitive salary and benefit packages and incentives. These are linked to the overall performance of the Group and, in turn, to the interests of the shareholders

The committee reviews annually all aspects of the executive directors' remuneration, performance and employment

REMUNERATION COMMITTEE

All the members of this committee are non executive directors and a list of membership and the chair of the committee is set out on page 21. The terms of reference of this committee are published on the Company's website

The remuneration of the non executive directors, which does not contain any performance related element, is determined by the executive directors. There are no share options available to non executive directors

No new appointments of directors were made during the year

REMUNERATION**Salary**

The Remuneration committee reviews basic salaries to take effect from 1st July each year. In deciding appropriate levels, the committee takes account of financial data taken from a cross section of UK companies within the electronics and engineering sectors

Bonus

This year the committee reviewed the annual bonus scheme for executive directors which is based on Group performance as measured against a preset earnings per share ("eps") target established for the next four years

The performance conditions firstly require the achievement each year of a base line eps (excluding directors' bonus) which for 2011 was set at 43.67p with the target designed to deliver 75% of salary at 62.86p, 99% above 2010. The percentage bonus award increases on a straight line basis between the base line and the eps target

In addition there is a further 25% bonus award available for exceeding the eps target based on 5% of salary for every 1p per share in excess of target (up to a cap of 100% of salary)

For 2011 the Group is reporting eps of 90.1p (before directors' bonus) which therefore gives rise to a bonus entitlement of 100% of salary for each of the executive directors

The scheme is reviewed annually

There are no share options or long term incentive schemes in operation for the directors but the position is kept under review

The non executive directors do not participate in a bonus scheme

Other benefits

Company cars and other benefits provided to directors are subject to income tax. The benefits are included in the directors' remuneration table in note 7

Geoff McFarland is a non executive director of Delcam plc, in respect of which no remuneration is payable by Delcam plc

Pensions

The Company makes annual contributions of 15% of underlying basic salary to individual pension policies for Ben Taylor and Allen Roberts. Neither bonus scheme payments nor other benefits are eligible for pension scheme contributions

Geoff McFarland is a deferred member of the Company's defined benefit scheme which closed for future accruals on 5th April 2007 and he now participates in the Company's defined contribution scheme. More details are given in note 7

The non executive directors do not participate in the Company's pension schemes

Summary

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

SERVICE CONTRACTS AND COMPENSATION

The executive directors have each entered into a service contract with the Company. The contracts do not contain any specific provisions governing the payment of compensation for loss of office or employment, whether as a result of a takeover bid or otherwise. The notice period for termination of the contract is twelve months to be given by either the Company or the director

The non-executive directors have been appointed under contracts for services which are intended to continue for an initial period of three years. However, these contracts may be terminated by either the Company or the director on one month's notice

PERFORMANCE GRAPH

The graph below shows the Company's total shareholder return ("TSR") performance, compared with the FTSE mid 250 index, which the directors believe is the most appropriate broad index for comparison



The report was approved by the Board of directors on 27th July 2011 and has been signed on its behalf by

T D Snowden FCA

Chairman, Remuneration committee

40 NOTICE OF MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION If you are in any doubt as to the action you should take, you are recommended immediately to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000

If you have sold or otherwise transferred all of your shares in Renishaw plc, you should pass this document and the accompanying form of proxy without delay to the stockbroker, bank or other person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares

Notice is hereby given that the 38th annual general meeting ("AGM") of the Company will be held at New Mills, Wotton under-Edge, Gloucestershire GL12 8JR on Thursday 13th October 2011 at noon. You will be asked to consider and, if thought fit, pass the resolutions below. Resolution 14 will be proposed as a special resolution. This means that for this resolution to be passed, at least three quarters of the votes cast must be in favour of the resolution. All other resolutions will be proposed as ordinary resolutions. This means that for each of these resolutions to be passed more than half of the votes cast must be in favour of the resolution.

Ordinary resolutions

- 1 To receive and adopt the reports of the directors and auditors and the financial statements for the year ended 30th June 2011,
- 2 To declare a final dividend for the year ended 30th June 2011,
- 3 To re-elect as a director Sir David McMurtry, a director retiring voluntarily and who, being eligible, offers himself for re-election,
- 4 To re-elect as director John Deer, a director retiring voluntarily and who, being eligible, offers himself for re-election,
- 5 To re-elect as director Ben Taylor, a director retiring voluntarily and who, being eligible, offers himself for re-election,
- 6 To re-elect as director Allen Roberts, a director retiring voluntarily and who, being eligible, offers himself for re-election,
- 7 To re-elect as a director Geoff McFarland, a director retiring voluntarily and who, being eligible, offers himself for re-election,
- 8 To re-elect as a director Terry Garthwaite, a director retiring voluntarily and who, being eligible, offers himself for re-election,
- 9 To re-elect as a director David Snowden, a director retiring voluntarily and who, being eligible, offers himself for re-election,
- 10 To re-elect as a director Bill Whiteley, a director retiring voluntarily and who, being eligible, offers himself for re-election,
- 11 To approve the Directors' remuneration report for the year ended 30th June 2011 contained in the Annual Report 2011,
- 12 To re-appoint KPMG Audit Plc as auditors of the Company, to hold office from the conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the meeting,
- 13 To authorise the directors to determine the remuneration of the auditors,

Special resolution

- 14 To consider and, if thought fit, to pass the following resolution

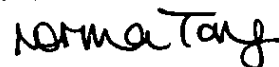
That the Company be and is hereby unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the "2006 Act") to make one or more market purchases (within the meaning of section 693(4) of the 2006 Act) of ordinary shares of 20p each in the capital of the Company ("ordinary shares") 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 the higher of (i) 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 5 business days immediately preceding the day on which the ordinary share is purchased and (ii) the amount stipulated by Article 5(1) of the Buy Back and Stabilisation Regulation 2003,
- (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 AGM to be held in 2012 and 31st December 2012 unless such authority is renewed prior to such time and

(v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to such contract

By order of the Board Registered office
New Mills
Wotton under Edge
Gloucestershire
GL12 8JR
N Tang
Company Secretary
19th August 2011
Renishaw plc
Registered in England and Wales under number 1106260



NOTES

- 1 A form of proxy is provided with this Notice for members. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend and to speak and vote at the meeting. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. If a member wishes to appoint more than one proxy and therefore requires additional proxy forms, the member should contact Equiniti Limited on 0871 384 2169. Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary. Lines are open from 8.30am to 5.30pm, Monday to Friday. Overseas shareholders should call +44 121 415 7047.
- 2 A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
- 3 To be valid, any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZL or the proxy appointment must be lodged using the CREST Proxy Voting Service in accordance with Note 7 below, no later than 48 hours before the time appointed for holding the meeting. Amended instructions must also be received by the Company's registrars by the deadline for receipt of proxy forms.
- 4 The return of a completed proxy form or other such instrument will not prevent a member from attending the meeting and voting in person if he/she wishes to do so.
- 5 Pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of section 360B Companies Act 2006, the Company has specified that to be entitled to attend and vote at the meeting or any adjournment (and for the purpose of the determination by the Company of the votes they may cast), members must be registered in the Register of Members of the Company as at 6pm on 11th October 2011 or for any adjourned meeting 6pm on the day which is 2 days before the adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 6 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.
- 7 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

- 8 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The CREST Manual can be reviewed at www.euroclear.com/CREST
- 9 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001
- 10 You may not use any electronic address provided either in this Notice of meeting or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated
- 11 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that, if it is appointing more than one corporate representative it does not do so in relation to the same shares
- 12 Any person receiving a copy of this notice as a person nominated by a member under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") should note the provisions in this notice concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only shareholders have the right to appoint a proxy. However, a Nominated Person may under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may under any such agreement have a right to give instructions to the member as to the exercise of voting rights
- 13 Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006 it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website
- 14 Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered
- 15 A copy of this notice and other information required by section 311A of the Companies Act 2006, can be found in the copy of the Annual report and accounts 2011 at www.renishaw.com
- 16 Under section 338 and section 338A of the Companies Act 2006 members meeting the threshold requirements in those sections have the right to require the Company (i) to give to members of the Company entitled to receive notice of the meeting notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise) (b) it is defamatory of any person or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than Wednesday 31st August 2011, being the date 6 clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request
- 17 As at 18th August 2011 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 72,788,543 ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at 18th August 2011 are 72,788,543. There are no other classes of shares or any shares held in treasury
- 18 Copies of the following documents are available for inspection at the registered office of the Company during normal business hours (8:00am - 4:15pm excluding weekends and public holidays)
- (a) service contracts of the executive directors, and
- (b) letters of appointment of the non executive directors
- All documents will be available for inspection at the above locations from the date of this notice until the conclusion of the AGM and will also be available for inspection at the place of the AGM from 15 minutes before it is held until its conclusion

APPENDIX

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

Resolution 1 – Reports of Directors and Financial statements

The directors must present the report of the directors and the auditors and the accounts of the Company for the year ended 30th June 2011 to the shareholders at the AGM

Resolution 2 – Final dividend

The directors recommend that a final dividend of 24.7p per share be paid to each shareholder on the register of members as at the close of business on the day 48 hours prior to the payment of such dividend

Resolutions 3 to 10 inclusive – Re-election of directors

In accordance with the provisions of the UK Corporate Governance Code, all Directors will retire and, being eligible, offer themselves for re-election at the AGM. Short biographical details of the directors are shown on pages 20 and 21 and full details are available on www.renishaw.com. It is considered that each of the non executive directors continue to contribute to the performance of the Board and demonstrate their commitment to their roles and therefore should be re-elected

Resolution 11 – Remuneration report

Listed companies are required to prepare a Directors' remuneration report and put a resolution to approve the report to the shareholders at the AGM. The Directors' remuneration report is set out on page 39

Resolution 12 – Re-appointment of auditors

The Company is required to appoint auditors at each general meeting at which accounts are laid before shareholders, to hold office until the end of the next such meeting. KPMG Audit Plc has expressed its willingness to continue as auditors and resolution 12 proposes its re-appointment as the Company's auditors

Resolution 13 – Remuneration of auditors

This resolution seeks authority for the directors to decide the auditors' remuneration

Resolution 14 – Market purchase of own shares by the Company

This resolution renews the previous authority granted on 14th October 2010 which expires on the date of the forthcoming AGM. The resolution authorises the Company to make market purchases of its own ordinary shares. The authority limits the number of shares that could be purchased to a maximum of 7,278,854 (representing 10% of the issued share capital of the Company) and sets minimum and maximum prices. This authority will expire at the conclusion of the Company's next AGM

The directors have no present intention of exercising the authority to purchase the Company's ordinary shares but will keep the matter under review, taking into account market conditions, the cash reserves of the Company, the Company's share price, appropriate gearing levels, other investment opportunities and the overall financial position of the Company. The authority will be exercised only if to do so would be likely to promote the success of the Company for the benefit of its shareholders as a whole

Any purchases of ordinary shares would most likely be by means of market purchases through the London Stock Exchange. The authority will only be valid until the conclusion of the Company's next AGM or, if earlier, 18 months from the date of this resolution

42 STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual report and the group and parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and directors' corporate governance statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

We confirm that to the best of our knowledge

- (a) the financial statements, prepared in accordance with the accounting standards referred to in the Statement of directors' responsibilities, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and
- (b) the Business review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face

On behalf of the Board

A C G Roberts FCA
Group Finance Director
27th July 2011



We have audited the financial statements of Renishaw plc for the year ended 30th June 2011 set out on pages 44 to 73. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of directors' responsibilities in respect of the Annual report and the financial statements set out on page 42, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UJKP.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30th June 2011 and of the Group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance Statement set out on pages 37 to 38 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out in the Directors' corporate governance report, in relation to going concern,
- the part of the corporate governance statement as contained in the Directors' corporate governance report relating to the company's compliance with the nine provisions of the UK corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration.



A C Campbell Orde
(Senior Statutory Auditor)

For and on behalf of

KPMG Audit Plc
Statutory Auditor
Chartered Accountants
27th July 2011

100 Temple Street
Bristol
BS1 6AG

44 CONSOLIDATED INCOME STATEMENT

for the year ended 30th June 2011

from continuing operations	Notes	2011 £'000	2010 £'000
Revenue	2	288,750	181,607
Cost of sales		(128,443)	(93,832)
Gross profit		160,307	87,775
Distribution costs		(52,088)	(39,742)
Administrative expenses including exceptional items		(27,605)	(21,606)
Operating profit excluding exceptional item		78,946	28,095
Exceptional item. Reversal of impairment write down made in 2010	11	1,668	(1,668)
Operating profit		80,614	26,427
Financial income	4	7,108	5,926
Financial expenses	4	(6,447)	(5,775)
Share of profits of associates	11	803	479
Profit before tax	5	82,078	27,057
Income tax expense	6	(16,345)	(5,745)
Profit for the year from continuing operations		65,733	21,312
Profit attributable to			
Equity shareholders of the parent company		66,115	21,814
Non controlling interest	21	(382)	(502)
Profit for the year from continuing operations		65,733	21,312
		pence	pence
Dividend per share arising in respect of the year	21	35 0	17 6
Dividend per share paid in the year		23 9	4 0
Earnings per share (basic and diluted)	8	90 3	29 3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

for the year ended 30th June 2011

	Notes	2011 £'000	2010 £'000
Profit for the year		65,733	21,312
Foreign exchange translation differences		339	2,201
Actuarial loss in the pension schemes	15	(1,577)	(14,867)
Effective portion of changes in fair value of cash flow hedges, net of recycling (note 21)		(5,954)	7,760
Comprehensive income and expense of associates		164	(324)
Deferred tax on income and expense recognised in equity		1,652	1,820
Expense recognised directly in equity		(5,376)	(3,410)
Total comprehensive income and expense for the year		60,357	17,902
Attributable to			
Equity shareholders of the parent company		60,739	18,404
Non controlling interest	21	(382)	(502)
Total comprehensive income and expense for the year		60,357	17,902

CONSOLIDATED BALANCE SHEET

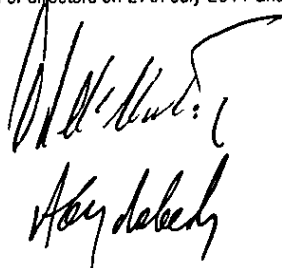
45

at 30th June 2011

	Notes	2011 £'000	2010 £'000
Assets			
Property, plant and equipment	9	82,344	70,532
Intangible assets	10	47,095	28,613
Investments in associates	11	7,437	5,152
Deferred tax assets	13	23,750	20,056
Derivatives	14	684	4,002
Total non-current assets		161,310	128,355
Current assets			
Inventories	16	49,809	30,884
Trade receivables	22	61,533	45,873
Current tax		2,134	1,848
Other receivables		8,457	4,725
Derivatives	14	886	1,158
Cash and cash equivalents	17,22	34,551	31,143
Total current assets		157,370	115,631
Current liabilities			
Trade payables		13,821	10,440
Current tax		5,591	532
Provisions	18	770	539
Derivatives	14	4,789	3,346
Other payables	19	22,126	15,027
Total current liabilities		47,097	29,884
Net current assets		110,273	85,747
Non-current liabilities			
Employee benefits	15	37,664	37,251
Deferred tax liabilities	13	17,211	15,433
Derivatives	14	2,496	1,575
Other payables	20	12,494	1,222
Total non-current liabilities		69,865	55,481
Total assets less total liabilities		201,718	158,621
Equity			
Share capital	21	14,558	14,558
Share premium		42	42
Currency translation reserve	21	4,362	4,023
Cash flow hedging reserve	21	(4,115)	172
Retained earnings		187,750	140,459
Other reserve	21	(389)	(201)
Equity attributable to the owners of the Company		202,208	159,053
Non controlling interest	21	(490)	(432)
Total equity		201,718	158,621

These financial statements were approved by the Board of directors on 27th July 2011 and were signed on its behalf by

Sir David McMurtry
A C G Roberts
Directors



46 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30th June 2011

Year ended 30th June 2010	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 2009	14,558	42	1,822	(5,415)	132,755	-	18	143,780
Profit/(loss) for the year					21,814	-	(502)	21,312
Other comprehensive income and expense								
Actuarial loss in the pension schemes					(10,874)			(10,874)
Foreign exchange translation differences			2,201					2,201
Changes in fair value of cash flow hedges				5,587				5,587
Relating to associates					(324)			(324)
Total other comprehensive income			2,201	5,587	(11,198)			(3,410)
Total comprehensive income			2,201	5,587	10,616	-	(502)	17,902
Acquisition of non controlling interest						(201)	52	(149)
Dividends paid					(2,912)			(2,912)
Transactions with owners recorded directly in equity					(2,912)	(201)	52	(3,061)
Balance at 30th June 2010	14,558	42	4,023	172	140,459	(201)	(432)	158,621
Year ended 30th June 2011								
Profit/(loss) for the year					66,115	-	(382)	65,733
Other comprehensive income and expense								
Actuarial loss in the pension schemes (net of tax)					(1,592)			(1,592)
Foreign exchange translation differences			339		-			339
Changes in fair value of cash flow hedges (net of tax)				(4,287)		-		(4,287)
Relating to associates					164	-		164
Total other comprehensive income			339	(4,287)	(1,428)	-		(5,376)
Total comprehensive income			339	(4,287)	64,687		(382)	60,357
Acquisition of non controlling interest						(188)	324	136
Dividends paid					(17,396)			(17,396)
Transactions with owners recorded directly in equity					(17,396)	(188)	324	(17,260)
Balance at 30th June 2011	14,558	42	4,362	(4,115)	187,750	(389)	(490)	201,718

More details of share capital and reserves are given in note 21

CONSOLIDATED STATEMENT OF CASH FLOW

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for the year ended 30th June 2011

	Notes	2011 £'000	2010 £'000
Cash flows from operating activities			
Profit for the year		65,733	21,312
Adjustments for			
Amortisation of development costs	10	7,200	4,692
Amortisation of other intangibles	10 11	3,855	1,871
Depreciation	9	7,575	7,907
Profit on sale of property, plant and equipment		(8)	(31)
Share of profits from associates	11	(803)	(479)
Reversal of exceptional impairment write down		(1,668)	1,668
Financial income	4	(7,108)	(5,926)
Financial expenses	4	6,447	5,775
Tax expense	6	16,345	5,745
		31,835	21,222
Increase in inventories			
		(15,698)	(1,728)
Increase in trade and other receivables			
		(16,634)	(21,252)
Increase in trade and other payables			
		5,705	10,711
Increase/(decrease) in provisions	18	231	(117)
Defined benefit pension contributions	15	(667)	-
		(27,063)	(12,386)
Income taxes paid			
		(11,698)	(5,615)
Cash flows from operating activities			
		58,807	24,533
Investing activities			
Purchase of property, plant and equipment		(16,491)	(2,868)
Development costs capitalised	10	(10,123)	(6,968)
Purchase of other intangibles		(1,203)	(184)
Investment in subsidiaries and associates		(8,418)	(149)
Sale of property, plant and equipment		71	190
Interest received	4	372	255
Dividend received from associate	11	84	80
Contributions to pension fund escrow account (net)	17	(10,818)	-
Cash flows from investing activities			
		(46,526)	(9,644)
Financing activities			
Interest paid	4	(208)	(178)
Dividends paid	21	(17,396)	(2,912)
Cash flows from financing activities			
		(17,604)	(3,090)
Net (decrease)/increase in cash and cash equivalents			
		(5,323)	11,799
Cash and cash equivalents at the beginning of the year			
		31,143	20,488
Effect of exchange rate fluctuations on cash held			
		(2,087)	(1,144)
Cash and cash equivalents at the end of the year			
	17	23,733	31,143

1 ACCOUNTING POLICIES

Basis of preparation

Renishaw plc (the "Company") is a company incorporated in the UK

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 66 to 73

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 2010 and 2011 financial statements

Critical accounting judgements

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 estimates and assumptions 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

(i) 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 (see note 10)

(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. Details of the estimates and judgements in respect of the current year are given in note 15

(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

(iv) 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 obsolete, the accumulated capitalised development costs would need to be immediately written off in the Consolidated income statement

New, revised or changes to existing accounting standards

The following accounting standards and interpretations, issued by the IASB and endorsed by the EU or International Financial Reporting Interpretations Committee (IFRIC), are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position

IFRS 3 'Business Combinations' Transitional requirements for contingent consideration on a business combination that occurred before the effective date of the revised IFRS. IFRS 3 is amended to state that contingent consideration arising from a business combination that had been accounted for in accordance with IFRS 3 (2004) that has not

been settled or otherwise resolved at the effective date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004)

IFRS 3 'Business combinations' measurement of non controlling interests' IFRS 3 is amended to limit the accounting policy choice to measure non controlling interests ("NCI") upon initial recognition either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation

IAS 38 'Intangible assets' Measuring the fair value of an intangible asset acquired in a business combination' Amendments clarify the description of valuation techniques commonly used to measure fair value of intangible assets acquired in a business combination for which no active market exists

Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases

Revenue

Revenue from the sale of goods is recognised in the Consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer, which is 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

Foreign currencies

Foreign subsidiaries' results are translated into Sterling at weighted average exchange rates for the year, which is effected by translating each foreign subsidiary's monthly results at exchange rates applicable to each of the respective months. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Sterling at the foreign exchange rate ruling at that date. Differences on exchange resulting from the translation of overseas assets and liabilities are recognised directly in equity

Gains and losses arising on currency borrowings used to hedge the foreign currency risk arising from operational and financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, forward contracts that do not qualify for hedge accounting would be accounted for as trading instruments

See the note on derivative financial instruments below, for the accounting policies for forward exchange contracts and currency borrowings

Derivative financial instruments

The Group uses forward exchange contracts to hedge its exposure to foreign exchange risk arising from operational and financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, forward contracts that do not qualify for hedge accounting would be accounted for as trading instruments

Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. Any ineffective portion is recognised immediately in the Consolidated income statement. The effectiveness of the hedging is tested monthly

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

1 ACCOUNTING POLICIES CONTINUED

Cash flow hedges

Forward exchange contracts are recognised initially at cost and then subsequently remeasured at fair value. Where a forward contract is designated as a hedge of the variability in future cash inflows, the effective part of any gain or loss on the forward contract is recognised directly in equity. Any effective cumulative gain or loss is removed from equity and recognised in the Consolidated income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the Consolidated income statement immediately.

If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss held in equity is recognised in the Consolidated income statement immediately. The effectiveness of cash flow hedges is tested on a monthly basis by comparing the cash inflows with the hedging amounts.

Goodwill and other intangible assets

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.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

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.

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, trade marks, 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 5 to 10 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 Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and the Company 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 stated at cost less accumulated amortisation and less accumulated impairment losses.

Intangible assets – software licences

Intangible assets comprising software licences, that are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful life of the assets. The useful life of each of these assets is assessed on an individual basis and they range from 2 to 10 years.

Property, plant and equipment

Freehold land is not depreciated. Other assets are stated at cost less accumulated depreciation. Depreciation is provided to write off the cost of assets less their estimated residual value on a straight-line basis over their estimated useful economic lives as follows:

Freehold buildings	50 years
Plant and equipment	3 to 10 years
Vehicles	3 to 4 years

Warranty provisions

The Group provides a warranty from the date of purchase on all its products. This is typically for a twelve-month period, although up to three years is given for a small number of products. A warranty provision is included in the financial statements, which is calculated on the basis of historical returns and internal quality reports.

Employee benefits

The Group operates contributory pension schemes, which, for UK and Irish employees, were of the defined benefit type up to 5th April 2007 and 31st December 2007 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. 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. The expected return on the schemes' assets and the interest on the schemes' liabilities arising from the passage of time are included in financial income and financial expenses respectively. The Group recognises actuarial gains and losses in full in the Consolidated statement of comprehensive income and expense. The pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the Consolidated balance sheet 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, because of the smaller number of foreign employees.

For defined contribution schemes, the amount charged to the Consolidated income statement represents the contributions payable to the schemes in respect of the accounting period.

Accruals are made for holiday pay, based on a calculation of the number of days holiday earned during the year but not yet taken.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term (with an original maturity of less than three months) deposits. Bank overdrafts that are repayable on demand form part of cash and cash equivalents for the purpose of the Consolidated statement of cash flow.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately declared and authorised and no longer at the discretion of the Company. Unpaid dividends that do not meet this criteria are disclosed in the Directors' report.

Taxation

Tax on the profit for the year comprises current and deferred tax. Tax is recognised in the Consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the Consolidated statement of comprehensive income and expense.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Exceptional items

Exceptional items are items which due to their size, incidence and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the accounts and, in management's judgement, to show more accurately the underlying results of the Group. Such items are included within the Consolidated income statement caption to which they relate and are disclosed separately on the face of the Consolidated income statement.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review, where also given are details of the financial and liquidity positions. In addition, note 22 in the financial statements includes the Group's objectives and policies for managing its capital, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

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 foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and accounts.

50 NOTES CONTINUED

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 revenue and profits. The revenue, depreciation and amortisation, and operating profit for each reportable segment was:

Year ended 30th June 2011	Metrology £'000	Healthcare £'000	Total £'000
Revenue	267,022	21,728	288,750
Depreciation and amortisation	14,453	3,293	17,746
Operating profit/(loss) before exceptional item	87,398	(8,452)	78,946
Exceptional item - Reversal of 2010 impairment write down	1,668	-	1,668
Share of profits from associates	803	-	803
Net financial income			661
Profit before tax			82,078
Year ended 30th June 2010	Metrology £'000	Healthcare £'000	Total £'000
Revenue	162,118	19,489	181,607
Depreciation and amortisation	12,725	1,745	14,470
Operating profit/(loss) before exceptional item	31,537	(3,442)	28,095
Exceptional item - Impairment write down	(1,668)		(1,668)
Share of profits from associates	479		479
Net financial income			151
Profit before tax			27,057

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:

	2011 £'000	2010 £'000
Far East	114,553	71,051
Continental Europe	85,751	52,147
North & South America	65,113	41,455
United Kingdom	14,761	10,650
Other regions	8,572	6,304
Total group revenue	288,750	181,607

Revenue in the above table has been allocated to regions based on the geographical location of the customer. Individual countries which comprised more than 10% of group revenue were:

	2011 £'000	2010 £'000
China	54,204	34,211
USA	52,796	35,381
Germany	38,612	23,042
Japan	36,139	19,552

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

2 SEGMENTAL ANALYSIS CONTINUED

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

	2011 £'000	2010 £'000
United Kingdom	93,755	71,660
Overseas	43,805	36,639
Total non current assets	137,560	108,299

No overseas country had non current assets amounting to 10% or more of the Group's total non current assets

3 PERSONNEL EXPENSES

	2011 £'000	2010 £'000
The aggregate payroll costs for the year were		
Wages and salaries	88,442	65,159
Compulsory social security contributions	10,369	8,402
Contributions to defined contribution plans	7,703	4,983
Total payroll costs	106,514	78,544

The average number of persons employed by the Group during the year was

	2011 Number	2010 Number
Continental Europe ¹	229	203
Far East	162	138
Americas	144	109
UK (including Ireland)	1,650	1,311
Other regions	200	140
Average number of employees	2,385	1,901

4 FINANCIAL INCOME AND EXPENSES

	2011 £'000	2010 £'000
Financial income		
Expected return on assets in the pension schemes (note 15)	6,736	5,671
Bank interest receivable	372	255
Total financial income	7,108	5,926

	2011 £'000	2010 £'000
Financial expenses		
Interest on pension schemes' liabilities (note 15)	6,239	5,597
Bank interest payable	208	178
Total financial expenses	6,447	5,775

52 NOTES CONTINUED

5 PROFIT BEFORE TAX

Included in the profit before tax are the following costs/(income)	Notes	2011 £'000	2010 £'000
Depreciation of property, plant and equipment	(a)	7,575	7,907
Amortisation of intangibles	(a)	11,055	6,563
Research and development expenditure	(b)	29,392	22,787
Profit on sale of property, plant and equipment	(c)	(8)	(31)
Auditors			
Fees payable to the Company's auditor for audit of the Company's annual accounts	(c)	77	75
Audit of subsidiary undertakings pursuant to legislation	(c)	180	159
Tax services	(c)	334	240
Fees in respect of pension schemes: audit	(c)	16	9
advisory	(c)	71	31
Other services	(c)	18	51

These costs/(income) can be found under the following headings in the Consolidated income statement: (a) within cost of sales, distribution costs and administrative expenses, (b) within cost of sales, and (c) within administrative expenses.

6 INCOME TAX EXPENSE

	2011 £'000	2010 £'000
Current tax		
UK corporation tax on profits for the year	9,223	14
Overseas tax on profits for the year	7,460	3,187
Adjustments for prior years	(74)	1,800
Total current tax	16,609	5,001
Deferred tax		
Origination and reversal of other temporary differences	447	744
Effect on deferred tax for change in UK tax rate from 28% to 26%	(711)	
	(264)	744
Tax charge on profit	16,345	5,745
Effective tax rate (based on profit before tax)	20%	21%

The tax for the year is lower (2010 lower) than the weighted average of the UK standard rate of corporation tax of 27.5% (2010 28%). The differences are explained as follows:

	2011 £'000	2010 £'000
Profit before tax	82,078	27,057
Tax at 27.5% (2010 28%)	22,571	7,576
Effects of		
Different tax rates applicable in overseas subsidiaries	(4,126)	(3,437)
Research and development tax credit	(1,461)	(1,376)
Adjustments for prior years	(74)	1,800
Expenses not deductible for tax purposes	142	231
Companies with unrelieved tax losses	406	495
Exceptional item with no tax effect	(459)	467
Effect on deferred tax for change in UK tax rate from 28% to 26%	(711)	
Other differences	57	(11)
Tax charge on profit	16,345	5,745

The UK corporation tax rate is proposed to reduce to 23% with a phased reduction until April 2014. As a result of the reduction in the corporation tax rate by 1% to 25%, which is expected to take effect from 1st April 2013, the group tax charge is estimated to reduce next year by approximately £500,000. Similar reductions in the group tax rate are expected to be made in the following two years if the corporation tax rate reductions are enacted as proposed.

7 DIRECTORS' REMUNERATION

	2011 £'000	2010 £'000
The total remuneration of the directors was		
Salary and fees	1,937	1,793
Bonus	1,823	
Benefits	83	99
Pension contributions	154	125
Total remuneration of the directors	3,997	2,017

	2011					2010				
	Salary & fees £'000	Bonus £'000	Benefits £'000	Pension contributions* £'000	Total £'000	Salary and fees £'000	Benefits £'000	Pension contributions* £'000	Total £'000	
Chairman										
Sir David McMurtry	532	532	2	-	1,066	470	2		472	
Other executive directors										
D J Deer	322	322	32	-	676	307	32		339	
B R Taylor	369	369	17	55	810	352	25	53	430	
A C G Roberts	300	300	17	47	664	272	25	38	335	
G McFarland	300	300	15	52	667	272	15	34	321	
Non executive										
J P McGeehan	9	-	-	-	9	30			30	
T D Snowden	35	-	-	-	35	30			30	
T B Garthwaite	35	-	-	-	35	30			30	
W H Whiteley	35	-	-	-	35	30			30	
	1,937	1,823	83	154	3,997	1,793	99	125	2,017	

* As noted in the Directors' remuneration report certain directors are entitled to a contribution of 15% of salary for retirement provision. This can either be taken as a contribution to a pension scheme or as cash.

Benefits include company cars (or cash alternative), private telephone and private health insurance. There were no directors' share options outstanding at any time during the year or the previous year.

For the pension contributions above not taken as cash, the contributions have been paid by the Company to the personal pension plans of the directors for the relevant periods, except for G McFarland, where the amounts paid are those to the Company's defined contribution scheme, in which he participates. The values required to be reported in respect of the defined benefit scheme for G McFarland were:

Year ended 30th June 2011

AB* at 30th June 2011	Increase in AB excluding inflation (A)	Increase in AB including inflation	Transfer value of (A) less director's contribution	Transfer value of AB at 30th June 2010	Transfer value of AB at 30th June 2011	Change in transfer value less director's contribution
£ p a	£	£ p a	£	£	£	£
25,617	-	768	-	380,489	331,450	(£49,039)

Year ended 30th June 2010

AB* at 30th June 2010	Increase in AB excluding inflation (A)	Increase in AB including inflation	Transfer value of (A) less director's contribution	Transfer value of AB at 30th June 2009	Transfer value of AB at 30th June 2010	Increase in transfer value less director's contribution
£ p a	£	£	£	£	£	£
24,849				300,113	380,489	80,376

* AB = Accrued benefits

54 NOTES CONTINUED

8 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated on earnings of £65,733 000 (2010 £21,312 000) 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. Adjusted earnings per share figures exclude the exceptional items.

9 PROPERTY, PLANT AND EQUIPMENT

Year ended 30th June 2011	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 2010	67,989	77,407	5,059	449	150,904
Additions	2,963	5,092	1,540	6,896	16,491
Acquired through business combinations	967	582	92	-	1,641
Transfers	1,529	978	-	(2,507)	-
Disposals	-	(1,128)	(401)	-	(1,529)
Currency adjustment	1,492	1,134	226	-	2,852
At 30th June 2011	74,940	84,065	6,516	4,838	170,359
Depreciation					
At 1st July 2010	15,291	61,460	3,621	-	80,372
Charge for the year	1,683	5,134	758	-	7,575
Released on disposals	-	(1,070)	(396)	-	(1,466)
Currency adjustment	762	619	153	-	1,534
At 30th June 2011	17,736	66,143	4,136	-	88,015
Net book value					
At 30th June 2011	57,204	17,922	2,380	4,838	82,344
At 30th June 2010	52,698	15,947	1,438	449	70,532

At 30th June 2011, properties with a net book value of £22 718 000 (2010 £23,393 000) were subject to a registered charge to secure the UK defined benefit pension scheme liabilities.

Additions to assets in the course of construction of £6,896,000 (2010 £429 000) comprise £2,420 000 (2010 £95,000) for freehold land and buildings and £4 476,000 (2010 £334,000) for plant and equipment.

Year ended 30th June 2010	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 2009	65,066	76 133	5 129	480	146,808
Additions	512	1,431	496	429	2,868
Transfers	-	460	-	(460)	-
Disposals	-	(882)	(729)	-	(1,611)
Currency adjustment	2 411	265	163	-	2 839
At 30th June 2010	67,989	77,407	5 059	449	150 904
Depreciation					
At 1st July 2009	13 541	56 226	3,458	-	73 225
Charge for the year	1 417	5,766	724	-	7,907
Released on disposals	-	(805)	(647)	-	(1,452)
Currency adjustment	333	273	86	-	692
At 30th June 2010	15,291	61 460	3 621	-	80,372
Net book value					
At 30th June 2010	52,698	15,947	1 438	449	70,532
At 30th June 2009	51,525	19,907	1,671	480	73 583

10 INTANGIBLE ASSETS

Year ended 30th June 2011	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences		Total £'000
				In use £'000	In the course of acquisition £'000	
Cost						
At 1st July 2010	5,569	5,466	35,941	11,271	117	58,364
Additions	-	-	10,123	1,046	157	11,326
Additions through acquisitions	5,918	4,753	-	5,995	-	16,666
Transfers	-	-	-	187	(187)	-
Currency adjustment	1,207	-	-	17	-	1,224
At 30th June 2011	12,694	10,219	46,064	18,516	87	87,580
Amortisation						
At 1st July 2010	-	1,803	20,521	7,427	-	29,751
Charge for the year	-	2,346	7,200	1,169	-	10,715
Currency adjustment	-	-	-	19	-	19
At 30th June 2011	-	4,149	27,721	8,615	-	40,485
Net book value						
At 30th June 2011	12,694	6,070	18,343	9,901	87	47,095
At 30th June 2010	5,569	3,663	15,420	3,844	117	28,613

Goodwill acquired has arisen on the acquisition of a number of businesses and has an indeterminate useful life. Therefore it is not amortised but is tested for impairment annually and at any point during the year when an indicator of impairment exists. Goodwill is allocated to the Group's cash generating units (CGUs), which are currently 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.

The analysis of acquired goodwill on consolidation is	2011 £'000	2010 £'000
Acquisition of itp GmbH	3,120	2,372
Acquisition of Renishaw Diagnostics Limited (84.8%)	1,784	1,784
Acquisition of Renishaw Mayfield S.A. (75%)	1,674	1,215
Acquisition of PulseTeq Limited (2010 75%)	198	198
Acquisition of Measurement Devices Limited	5,713	
Acquisition of MTT Investments Limited	205	
Total acquired goodwill	12,694	5,569

The recoverable amounts of acquired goodwill are based on value in use calculations. These calculations use cash flow projections with assumptions as follows: itp GmbH (part of the metrology reportable segment) - actual operating results and an average growth rate of 5% for 5 years with a nil growth rate to perpetuity (2010 same basis); Renishaw Diagnostics Limited, PulseTeq Limited, Renishaw Mayfield S.A. (all in the healthcare reportable segment), Measurement Devices Limited and MTT Investments Limited (both in the metrology reportable segment) - 5 year business plans with a nil growth rate to perpetuity (2010 same basis for those applicable). A pre-tax discount rate of 12% has been used in discounting the projected cash flows of itp GmbH (2010 12%), Measurement Devices Limited and MTT Investments Limited. A pre-tax discount rate of 15% has been used for Renishaw Diagnostics Limited (2010 15%), PulseTeq Limited (2010 15%) and Renishaw Mayfield S.A. (2010 15%). These have been set on the basis of these being appropriate rates for a market participant. On this basis, no impairment write-downs are required. There is significant headroom in all the above and for an impairment to arise, there would need to be a significant material deterioration in business, this is considered to be remote. An increase in 5% in the discount rate would not result in an impairment.

Year ended 30th June 2010	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences		Total £'000
				In use £'000	In the course of acquisition £'000	
Cost						
At 1st July 2009	5,569	5,416	28,973	11,252	-	51,210
Additions	-	50	6,968	19	117	7,154
At 30th June 2010	5,569	5,466	35,941	11,271	117	58,364
Amortisation						
At 1st July 2009	-	1,150	15,829	6,548	-	23,527
Charge for the year	-	653	4,692	879	-	6,224
At 30th June 2010	-	1,803	20,521	7,427	-	29,751
Net book value						
At 30th June 2010	5,569	3,663	15,420	3,844	117	28,613
At 30th June 2009	5,569	4,266	13,144	4,704	-	27,683

56 NOTES CONTINUED

11 INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates (all investments being in the ordinary share capital of the associate), whose accounting years end on 30th June unless otherwise stated

	Country of incorporation	Ownership 2011 %	Ownership 2010 %
RLS merilna tehnika d o o	Slovenia	50	50
Metrology Software Products Limited	England & Wales	50	50
Delcam plc (31st December)	England & Wales	20	20

Delcam plc is listed on AIM at the London Stock Exchange. Its share price on 30th June 2011 was £4.55 (2010 £2.40). The Company holds 1,543,032 shares (2010 1,524,052). Equity accounting has been applied in the Group's results based on the company's management accounts to 30th June 2011.

Movements during the year were	2011 £'000	2010 £'000
Balance at the beginning of the year	5,152	7,085
Investments made during the year	74	
Dividends received	(84)	(80)
Share of profits of associates	803	479
Amortisation of intangibles	(340)	(340)
Other comprehensive income and expense	164	(324)
Reversal of impairment/(impairment) of investment in Delcam plc	1,668	(1,668)
Balance at the end of the year	7,437	5,152

At the year end, the Board decided to reverse the impairment write down accounted for as an exceptional item in the Consolidated income statement last year. This was after a review of the performance and prospects of Delcam plc and the increase in its share price since 30th June 2010. The reversal of the impairment write down is shown as an exceptional item in this year's Consolidated income statement.

Summarised aggregated financial information for associates	2011 £'000	2010 £'000
Revenue	10,232	8,185
Share of profits for the year	803	479
Assets	10,015	7,344
Liabilities	5,049	3,432

12 ACQUISITIONS

Measurement Devices Limited

On 23rd July 2010 the Group acquired a 29% shareholding in Measurement Devices Limited ("MDL") for the sum of £2.3m. In December 2010, the Group acquired a further 10% of the share capital for an amount of £0.8m and in January 2011 the shareholding was increased by another 10%, at a cost of £0.8m resulting in a total shareholding at 30th June 2011 of 49%. In respect of part of the shareholding acquired there may be an additional payment based on the earnings of MDL in the financial year ended 31st December 2011. The shareholders' agreement provides Renishaw with the option to purchase the remaining 51% shareholding in three tranches of 17% each in May 2012, May 2013 and May 2014. The price per share to be paid is calculated as 7 times earnings before interest and tax, with a minimum price per share of £2 and a maximum price per share of £8.94. An estimate of the outstanding purchase price, based on MDL's 3 year forecast, is provided for within the financial statements. The existing shareholders holding the 51% shareholding have a put option to require Renishaw to purchase the remaining shares in the same option exercise periods for the same tranches of shares. There have been no changes to fair values of any previous holding on step acquisition, which has been all within one year.

The fair values of assets acquired were	Book value £'000	Adjustments £'000	Provisional fair value £'000
Tangible fixed assets	407	-	407
Intangible fixed assets		3,647	3,647
Inventories	2,377		2,377
Debtors and prepayments	1,018		1,018
Cash	2,335		2,335
Creditors	(2,003)		(2,003)
Fair value of assets acquired	4,134	3,647	7,781
Goodwill on consolidation			5,713
Total consideration			13,494

Of the total consideration, £3,879,000 was paid in cash and £9,615,000 has been accounted for as deferred contingent consideration and is shown within other payables (£1,303,000 within one year and £8,312,000 beyond one year).

The fair value adjustment is in respect of the valuation of acquired intangible assets, which comprise patents, technical know-how, drawings, licences, order book and customer relationships. Goodwill exists due to the potential future opportunities from combining this business with the Group's existing range of laser based products. The Group's investment in MDL will enable MDL to expand further on a global basis and benefit from Renishaw's technology, engineering and manufacturing expertise and worldwide distribution network.

12 ACQUISITIONS CONTINUED

Renishaw Advanced Materials Limited

On 3rd September 2010 the Group acquired a 55% shareholding in Diameter Limited for the sum of £0.3m. This company has since been renamed Renishaw Advanced Materials Limited ("RAM"). The trading relationship between the Group and this company prior to acquisition was not material. The non controlling interest has been accounted for on a fair value at acquisition basis.

The fair values of assets acquired were:

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Cash	300		300
Other net current assets	(49)		(49)
Intangible fixed assets		335	335
Fair value of assets acquired	251	335	586
Non controlling interest			(264)
Consideration paid in cash			322

The fair value adjustment is in respect of the valuation of acquired intangible assets which comprise patents and technical know how.

MTT Investments Limited

On 8th April 2011, the Group acquired a 100% shareholding in MTT Investments Limited ("MTT") for the sum of £3.8m.

The fair values of assets acquired were:

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Tangible fixed assets	1,129	105	1,234
Intangible fixed assets		771	771
Inventories	850		850
Debtors and prepayments	1,583		1,583
Cash	205		205
Creditors	(1,048)		(1,048)
Fair value of assets acquired	2,719	876	3,595
Goodwill on consolidation			205
Consideration paid in cash			3,800

The fair value adjustment is in respect of the valuation of acquired intangible assets, which comprise customer relationships, patents, technical know how, drawings, and acquired order book. Goodwill has arisen on this acquisition as a result of the value attributed to staff expertise and the assembled workforce which did not meet the recognition criteria for an intangible asset.

Renishaw Software Limited

On 16th June 2011, the Group acquired a 100% shareholding in Aberlink Limited, whose sole assets comprised certain calibration technology software together with drawings, designs and intellectual property relating to optical technology. The company has been renamed Renishaw Software Limited. The purchase price was £6.0m of which £3.0m was paid in cash and £3.0m is payable in June 2013. The whole value related to intangible assets.

Acquisitions costs were: MDL £147,000, RAM £1,000, MTT £19,000 and Renishaw Software Limited £54,000.

MDL's, RAM's and MTT's notional contribution to the consolidated profit before tax and their historical trading results for their previous full year were:

	Measurement Devices Limited		Renishaw Advanced Materials Limited		MTT Investments Limited	
	Year to 30th June 2011 £'000	Year to 31st December 2010 £'000	Year to 30th June 2011 £'000	Year to 31st January 2011 £'000	Year to 30th June 2011 £'000	Year to 31st December 2010 £'000
Revenue	8,325	6,997	15	59	3,400	5,100
Expenses	(8,688)	(7,349)	(75)	(90)	(3,550)	(4,910)
Profit/(loss) before tax	(363)	(352)	(60)	(31)	(150)	190
Non controlling interest	-	-	27	14	-	-
Group share of profit/(loss) before tax	(363)	(352)	(33)	(17)	(150)	190

It is not practicable to provide historical figures for Renishaw Software Limited as the business of this company was previously amalgamated within other businesses of the seller. Trading from 16th June 2011 (the date of acquisition) to 30th June 2011 was not material.

Year ended 30th June 2010

There were no acquisitions in the year ended 30th June 2010.

58 NOTES CONTINUED

13 DEFERRED TAX ASSETS AND LIABILITIES

Balances at the end of the year were	2011			2010		
	Assets £'000	Liabilities £'000	Net £'000	Assets £'000	Liabilities £'000	Net £'000
Property plant and equipment	-	(4,628)	(4,628)		(3,760)	(3,760)
Intangible assets	-	(5,329)	(5,329)	860	(4,879)	(4,019)
Intragroup trading (inventory)	8,690	-	8,690	5,309		5,309
Pension schemes	9,393	-	9,393	9,694		9,694
Other	5,667	(7,254)	(1,587)	4,193	(6,794)	(2,601)
Balance at the end of the year	23,750	(17,211)	6,539	20,056	(15,433)	4,623

The movements in the deferred tax balance during the year were	2011 £'000	2010 £'000
Balance at the beginning of the year	4,623	3,547
Movements in the Consolidated income statement	264	(744)
Movement in relation to the cash flow hedging reserve	1,667	(2,173)
Movement in relation to the pension schemes	(15)	3,993
Total movement in the Consolidated statement of comprehensive income and expense	1,652	1,820
Balance at the end of the year	6,539	4,623

No deferred tax asset has been recognised in respect of tax losses carried forward of £3,750,000 (2010 £5,513,000) due to the uncertainty over their recoverability

14 DERIVATIVES

Derivatives comprising the fair value of outstanding forward contracts with positive fair values are shown within	2011 £'000	2010 £'000
Non-current assets	684	4,002
Current assets	886	1,158
Total of derivatives with positive fair values	1,570	5,160

Derivatives comprising the fair value of outstanding forward contracts with negative fair values are shown within	2011 £'000	2010 £'000
Non-current liabilities	2,496	1,575
Current liabilities	4,789	3,346
Total of derivatives with negative fair values	7,285	4,921

15 EMPLOYEE BENEFITS

The Group operates a number of pension schemes throughout the world. The major scheme, which covers the UK based employees, was of the defined benefit type. In 2007, this scheme, along with the Irish defined benefit scheme, ceased any future accrual for current members and both were closed to new members. UK and Irish employees are now covered by defined contribution schemes.

The total pension cost of the Group for the year was £7,703,000 (2010 £4,983,000), of which £154,000 (2010 £125,000) related to directors and £2,267,000 (2010 £1,516,000) related to overseas schemes.

The latest full actuarial valuation of the UK defined benefit scheme was carried out at September 2009 and updated to 30th June 2011 by a qualified independent actuary. The major assumptions used by the actuary for the UK and Irish schemes were:

	30th June 2011		30th June 2010		30th June 2009	
	UK scheme	Irish scheme	UK scheme	Irish scheme	UK scheme	Irish scheme
Rate of increase in pension payments	3.4%	2.4%	3.3%	2.4%	3.3%	2.5%
Discount rate	5.5%	4.9%	5.3%	4.4%	6.2%	5.5%
Inflation rate (RPI)	3.6%	2.4%	3.4%	2.4%	3.4%	2.5%
Inflation rate (CPI)	2.9%	-				
Expected return on equities	8.3%	7.5%	8.1%	7.1%	8.3%	7.4%
Retirement age	64	65	64	65	64	65

The mortality assumption used for 2011 is PCA00, year of birth, medium cohort, which reflects increasing life expectancy.

The assets and liabilities in the defined benefit schemes were:

	30th June 2011	% of total assets	30th June 2010	% of total assets	30th June 2009	% of total assets	30th June 2008	% of total assets	30th June 2007	% of total assets
	£'000		£'000		£'000		£'000		£'000	
Market value of assets										
Equities	99,365	98	81,737	98	68,538	98	82,576	97	89,924	98
Bonds and cash	1,684	2	1,447	2	1,630	2	2,574	3	1,575	2
Actuarial value of liabilities	101,049 (138,713)	100	83,184 (120,435)	100	70,168 (92,626)	100	85,150 (96,205)	100	91,499 (85,937)	100
(Deficit)/surplus in the schemes	(37,664)		(37,251)		(22,458)		(11,055)		5,562	
Deferred tax thereon	9,393		9,694		5,701		2,996		(1,791)	

Note 37 gives the analysis of the UK defined benefit scheme. For the Irish defined benefit scheme, being the other scheme included here, the market value of assets at the end of the year was £5,746,000 (2010 £4,780,000) and the actuarial value of liabilities was £8,705,000 (2010 £8,866,000). The expected rates of return are based on market conditions at 30th June 2011 and represent the best estimate of future returns, allowing for risk premiums where appropriate.

For a sensitivity analysis of certain elements of the pension fund, see the note in the Business review.

The movements in the schemes' assets and liabilities were:

Year ended 30th June 2011	Assets £'000	Liabilities £'000	Total £'000
Balance at the beginning of the year	83,184	(120,435)	(37,251)
Contributions paid	667	-	667
Expected return on pension schemes' assets	6,736	-	6,736
Interest on pension schemes' liabilities		(6,239)	(6,239)
Actuarial gain/(loss) (net of tax)	10,462	(12,039)	(1,577)
Balance at the end of the year	101,049	(138,713)	(37,664)
Year ended 30th June 2010	Assets £'000	Liabilities £'000	Total £'000
Balance at the beginning of the year	70,168	(92,626)	(22,458)
Expected return on pension schemes' assets	5,671	-	5,671
Interest on pension schemes' liabilities		(5,597)	(5,597)
Actuarial gain/(loss) (net of tax)	7,345	(22,212)	(14,867)
Balance at the end of the year	83,184	(120,435)	(37,251)

60 NOTES CONTINUED

15 EMPLOYEE BENEFITS CONTINUED

The income/(expense) recognised in the Consolidated income statement was	2011 £'000	2010 £'000
Expected return on pension schemes' assets	6,736	5,671
Interest on pension schemes' liabilities	(6,239)	(5,597)
Total income recognised in the Consolidated income statement	497	74

The expected return on pension schemes' assets and the interest on pension schemes' liabilities are recognised within financial income and financial expenses respectively

The analysis of the amount recognised in the Consolidated statement of comprehensive income and expense was	2011 £'000	2010 £'000
Actual return less expected return on scheme assets	11,773	9,920
Experience loss arising on scheme liabilities	(25,221)	915
Changes in financial assumptions	11,871	(25,702)
Total amount recognised in the Consolidated statement of comprehensive income and expense	(1,577)	(14,867)

The history of experience gains and losses is

	Year ended 30th June 2011	Year ended 30th June 2010	Year ended 30th June 2009	Year ended 30th June 2008	Year ended 30th June 2007
Difference between the expected and actual return on scheme assets					
amount (£'000)	11,773	9,920	(21,601)	(14,591)	7,147
percentage of scheme assets	12%	12%	(31%)	(17%)	8%
Experience gains and losses on scheme liabilities					
amount (£'000)	(25,221)	915	(3,954)		(3,421)
percentage of present value of scheme liabilities	(18%)	1%	(4%)		(4%)
Total amount recognised in the Consolidated statement of comprehensive income and expense					
amount (£'000)	(1,577)	(14,867)	(13,032)	(20,541)	3,144
percentage of present value of scheme liabilities	(1%)	(12%)	(14%)	(21%)	4%

The assumptions used for mortality rates for members, medium cohort at the expected retirement age of 65 years are	2011 years	2010 years
Male currently aged 65	21.8	21.7
Female currently aged 65	24.1	24.0
Male currently aged 45	22.9	22.9
Female currently aged 45	25.0	25.0

Under the defined benefit deficit funding plans, there are certain UK properties owned by Renishaw plc and a property owned by Renishaw (Ireland) Limited, which are subject to registered fixed charges to secure the UK and Irish defined benefit pension schemes' deficits respectively. Renishaw plc has also established an escrow account into which it has paid £11,400,000 and into which it is obliged to pay approximately £158,000 per month until September 2012. This account is subject to a registered floating charge to secure the UK defined benefit pension scheme liabilities.

The Company has given a guarantee relating to recovery plans for the UK scheme and the trustees have the right to enforce the charges to recover any deficit up to £46,800,000 if an insolvency event occurs in relation to the Company before 1st November 2016 or if the Company has not made good any deficit up to £46,800,000 by midnight on 1st November 2016. No scheme assets are invested in the Group's own equity.

The value of the guarantee discussed above is greater than the value of the pension fund's deficit. As such, in line with IFRIC 14, the UK pension fund's liabilities have been increased by £23,700,000, to represent the maximum discounted liability as at 30th June 2011 (30th June 2010 £nil).

Following the UK government ministerial announcement in July 2010 relating to the calculation of pension fund liabilities, future UK pension increases in deferment have been determined by reference to the CPI inflation metric. This has resulted in a one off decrease in the UK pension deficit of £11,200,000. Future pension increases in payment continue to be determined by reference to the RPI inflation metric.

16 INVENTORIES

	2011 £'000	2010 £ 000
An analysis of inventories at the end of the year was		
Raw materials	20,793	13,409
Work in progress	10,560	7,107
Finished goods	18,456	10,368
Balance at the end of the year	49,809	30,884

During the year, the amount of inventories recognised as an expense in the Consolidated income statement was £82,320,000 (2010 £59,310,000) and the amount of write down of inventories recognised as an expense in the Consolidated income statement was £289,000 (2010 £434,000)

17 CASH AND CASH EQUIVALENTS

	2011 £'000	2010 £ 000
An analysis of cash and cash equivalents at the end of the year was		
Bank balances and cash in hand	12,891	17,355
Short term deposits	10,842	13,788
Cash and cash equivalents in the Statement of cash flows	23,733	31,143
Short term deposit held in an escrow account (note 15)	10,818	
Balance at the end of the year	34,551	31,143

18 PROVISIONS**Warranty provision**

	2011 £'000	2010 £'000
Movements during the year were		
Balance at the beginning of the year	539	656
Created during the year	513	482
Acquired through business combinations	99	
Utilised in the year	(381)	(599)
	231	(117)
Balance at the end of the year	770	539

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.

19 OTHER PAYABLES

	2011 £'000	2010 £'000
Balances at the end of the year were		
Payroll taxes and social security	3,814	3,081
Other creditors and accruals	18,312	11,946
Total other payables	22,126	15,027

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

20 OTHER PAYABLES (NON-CURRENT)

The deferred consideration of £12,494,000 (2010 £1,222,000) comprises

£1,182,000 (2010 £1,222,000) in respect of the investment in Renishaw Diagnostics Limited, which is payable over a five year period from the date of the initial investment,

£3,000,000 (2010 £nil) in respect of the investment in Renishaw Software Limited which is payable in June 2013 and

£8,312,000 (2010 £nil) in respect of the investment in Measurement Devices Limited, which is payable over the next three years

62 NOTES CONTINUED

21 CAPITAL AND RESERVES

Share capital	2011 £'000	2010 £'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 directly in equity on account of them being classified as hedging items. The movement in the year of £339,000 (2010 £2,201,000) comprises a gain on the net assets of foreign currency operations of £2,426,000 (2010 £3,345,000) and a loss on foreign currency bank accounts of £2,087,000 (2010 £1,144,000).

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 directly 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	2011 £'000	2010 £'000
Balance at the beginning of the year	172	(5,415)
Amounts transferred to the Consolidated income statement	2,188	4,914
Revaluations during the year	(8,142)	2,846
Deferred tax movement	1,667	(2,173)
Balance at the end of the year	(4,115)	172

Dividends paid

Dividends paid comprised	2011 £'000	2010 £'000
2010 final dividend paid of 13.6p per share	9,899	
Interim dividend paid of 10.3p per share (2010 4.0p)	7,497	2,912
Total dividends paid	17,396	2,912

A final dividend in respect of the current financial year of 24.7p per share is proposed to be paid on 17th October 2011 to shareholders on the register on 16th September 2011 with an ex-dividend date of 14th September 2011.

Other reserve

The other reserve is in relation to investments in Renishaw Mayfield S.A. and PulseTeq Limited.

Non-controlling interest

Movements during the year were	2011 £'000	2010 £'000
Balance at the beginning of the year	(432)	18
Share of investments	324	52
Share of loss for the year	(382)	(502)
Balance at the end of the year	(490)	(432)

The non-controlling interest represents the minority shareholdings in Renishaw Diagnostics Limited 15.2%, Renishaw Mayfield S.A. 25%, Renishaw Advanced Materials Limited 45% and, for 2010 only, PulseTeq Limited 25%.

22 FINANCIAL INSTRUMENTS

The Group has exposure to credit risk, liquidity risk and market risk arising from its use of financial instruments. This note presents information about the Group's exposure to these risks along with the Group's objectives, policies and processes for measuring and managing the risks.

Credit risk

The Group carries a credit risk, being the risk of non payment of trade receivables by its customers. Credit evaluations are carried out on all new customers before credit is given above certain thresholds. There is a spread of risks among a large number of customers with no significant concentration with one customer or in any one geographical area. The Group establishes an allowance for impairment in respect of trade receivables where recoverability is considered doubtful.

An analysis by currency of Group financial assets at the year end is as follows:

Currency	Trade receivables		Other receivables		Cash	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Pounds Sterling	7,455	3,466	7,272	8,009	19,161	11,637
US Dollar	22,771	19,358	268	217	1,357	6,764
Japanese Yen	7,922	6,240	438	610	3,152	1,765
Euro	17,558	12,263	1,202	525	2,688	3,721
Other	5,827	4,546	847	524	8,193	7,256
	61,533	45,873	10,027	9,885	34,551	31,143

The ageing of trade receivables past due, but not impaired, at the end of the year was	2011 £'000	2010 £'000
Past due 0 - 1 month	12,487	8,308
Past due 1 - 2 months	3,390	2,483
Past due more than 2 months	1,179	445
Balance at the end of the year	17,056	11,236

Movements in the provision for impairment of trade receivables during the year were	2011 £'000	2010 £'000
Balance at the beginning of the year	3,989	3,906
Changes in amounts provided	479	504
Amounts utilised	(461)	(421)
Balance at the end of the year	4,007	3,989

Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. The Group is cash generative and uses monthly cash flow forecasts to monitor cash requirements.

In respect of net cash, 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 which can change over time, affecting the Group's interest income. An increase of 1% in interest rates would result in an increase in interest income of approximately £200,000. The market value of forward exchange contracts is determined by reference to market data.

The contractual maturities of financial liabilities at the year end were:

Year ended 30th June 2011	Carrying amount £'000	Up to 1 year £'000	1 - 2 years £'000	2 - 5 years £'000
Trade payables	13,821	13,821	-	-
Other payables	34,620	22,126	7,348	5,146
Provisions	770	770	-	-
Forward exchange contracts	7,285	4,789	770	1,726
	56,496	41,506	8,118	6,872

64 NOTES CONTINUED

22. FINANCIAL INSTRUMENTS CONTINUED

Year ended 30th June 2010	Carrying amount £'000	Up to 1 year £'000	1 2 years £'000	2 5 years £'000
Trade payables	10,440	10,440		
Other payables	16,249	15,027	611	611
Provisions	539	539		
Forward exchange contracts	4,921	3,346	1,115	460
	32,149	29,352	1,726	1,071

For non current other receivables of £684,000 (2010 £4,002,000), £591,000 (2010 £723,000) is receivable between 1 and 2 years and £93,000 (2010 £3,279,000) is receivable between 2 and 5 years

The contracted cash flows for the financial liabilities are the same as the carrying values. There is no significant difference between the fair value of financial assets and financial liabilities and their carrying value in the Consolidated balance sheet.

Under the disclosure requirements of IFRS 7, all fair value measurements of financial assets and liabilities are considered to be categorised as Level 2.

Market risk

As noted in the Business review under Risks and uncertainties, the Group operates in a number of foreign currencies with the majority of sales being made in these currencies but with a concentration of manufacturing in the UK, Ireland and India.

Exchange rates and sensitivity analysis

The main exchange rates which may have a significant effect on the Group's results are the US Dollar and Japanese Yen. The Group has hedged a significant proportion of its forecasted Euro cash flows and hence there is not expected to be a material impact on the Group's results resulting from fluctuations in the Euro exchange rate against Sterling.

The following are the exchange rates which have been applicable during the financial year. Also noted is the increase in profit that a one US Dollar cent change and a one Japanese Yen change in exchange rate where the foreign currency is strengthening against Sterling might have on the Group's results. The method of estimation involves assessing the impact of this currency on the Group's transactions assuming all other variables are unchanged.

Currency	2011		2010		Increase in group profit of one cent/yen movement £'000
	Year end exchange rate	Average exchange rate	Year end exchange rate	Average exchange rate	
US Dollar	1.61	1.60	1.50	1.58	370
Japanese Yen	129	132	132	143	130
Euro	1.11	1.16	1.22	1.14	
Average US Dollar forward contract rates	-	1.45		1.69	
Average Japanese Yen forward contract rates	-	139		155	
Average Euro forward contract rates	-	1.30		1.31	

The Company has US Dollar, Japanese Yen and Euro forward contracts which mature after the balance sheet date. The fair value of these contracts at the year end resulted in a loss carried forward of £4,115,000 (2010 profit £172,000) (see note 21). The nominal amounts of foreign currencies relating to these forward contracts are, in Sterling terms £44,195,000 in US Dollars, £28,890,000 in Japanese Yen and £116,024,000 in Euro.

The Group classifies its forward contracts hedging forecasted transactions as cash flow hedges and states them at fair value. Further details are noted in the Treasury policies in the Business review.

Net assets and associated borrowings

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

Currency	Net assets of subsidiary £'000	Currency borrowing £'000	Base borrowing interest rate %
US Dollar	26,464	25,950	0.25%
Japanese Yen	16,084	14,510	0.10%
Euro	28,430	28,335	1.50%

The currency borrowings are short term, with floating interest rates. In order to minimise the cost of these borrowings, short-term currency swaps are used on a rolling one month cycle, so that at the year end, the currency borrowings are not in existence but forward contracts are in place to re-establish the currency borrowing shortly after the year end. These currency swaps are not reflected in the table above.

For the net assets of the overseas subsidiaries not hedged, a 5% change in exchange rates will affect reserves by approximately £800,000.

Capital management

The Board's policy is to maintain a strong capital base and to maintain a balance between significant returns to shareholders with a progressive dividend policy whilst ensuring the security of the Group supported by a sound capital position.

23 OPERATING LEASES

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

	2011 £'000	2010 £'000
Expiring within one year	1,842	1,346
Expiring between two and five years	2,724	2,121
Total future minimum lease payments	4,566	3,467
Lease payments recognised as an expense during the year were	2011 £'000	2010 £'000
Total lease payments for the financial year	1,792	1,185

24 CAPITAL COMMITMENTS

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

	2011 £'000	2010 £'000
Authorised and committed	13,047	2,991

The major items of capital commitments at 30th June 2011 were in respect of the property at Miskin South Wales for £7.0m and in respect of a property for our Canada subsidiary for £1.3m

25 CONTINGENCIES

The UK banking arrangements are subject to cross guarantees between the Company and its UK subsidiaries. These accounts are subject to a right of set off.

26 RELATED PARTIES

During the year, associates and other related parties purchased goods and services from the Group to the value of £276,000 (2010 £199,000) and sold goods and services to the Group to the value of £3,142,000 (2010 £2,329,000). At 30th June 2011, associates owed £100,000 to the Group (2010 £169,000). Associates were owed £229,000 by the Group (2010 £144,000). Dividends of £84,000 were received from associates during the year (2010 £80,000). Loans to related parties from Renishaw plc at 30th June 2011 were £1,498,000 (2010 £nil).

All transactions were on an arm's length basis. There were no bad debts written off during the year (2010 £nil).

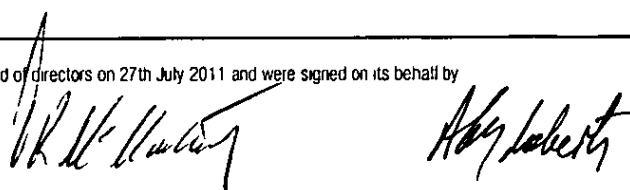
66 COMPANY BALANCE SHEET

at 30th June 2011

	Notes	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	28	49,816	44,395
Investments in subsidiaries	29	31,939	7,161
Investments in associates	30	6,888	4,363
		88,643	55,919
Current assets			
Deferred tax	31	867	3,118
Stock	32	27,701	19,073
Debtors	33	190,294	173,133
Cash at bank		18,592	17,630
		237,454	212,954
Creditors			
Amounts falling due within one year	34	(69,548)	(50,093)
Net current assets			
Due within one year		94,128	75,440
Due after more than one year		73,778	87,421
		167,906	162,861
Total assets less current liabilities		256,549	218,780
Creditors			
Amounts falling due after more than one year	35	(16,598)	(4,425)
Provisions for liabilities			
	36	(543)	(416)
Net assets excluding pension liability		239,408	213,939
Pension liability	37	(25,682)	(23,879)
Net assets including pension liability		213,726	190,060
Capital and reserves			
Called up share capital	38	14,558	14,558
Share premium account		42	42
Currency reserve	39	(4,115)	172
Profit and loss account	40	203,241	175,288
Shareholders' funds – equity		213,726	190,060

These financial statements were approved by the Board of directors on 27th July 2011 and were signed on its behalf by

Sir David McMurtry
A C G Roberts
Directors



RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 30th June 2011	2011 £'000	2010 £'000
Profit for the financial year	47,928	19,253
Dividends paid	(17,396)	(2,912)
Fair value of forward exchange contracts, net of deferred tax	(4,287)	5,587
Actuarial loss in the pension scheme, net of deferred tax	(2,579)	(10,177)
Increase in shareholders' funds	23,666	11,751
Shareholders' funds at 1st July 2010	190,060	178,309
Shareholders' funds at 30th June 2011	213,726	190,060

27 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company

Basis of preparation

The financial statements have been prepared in accordance with applicable UK GAAP

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

Advantage has been taken of FRS 8 'Related party disclosures' not to disclose transactions with subsidiaries on the basis that all transactions were with members of the Group, 100% of whose voting rights were controlled

The Company has adopted FRS 29 'Financial Instruments Disclosures', which came into effect from 1st January 2007. However, the Company has taken the exemption available to parent companies not to present financial instrument disclosures as the Group financial statements contain disclosures that comply with the standard

Investments

Investments in subsidiary and associated undertakings are stated at cost less any provision for permanent impairment losses

Tangible assets and depreciation

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

Freehold buildings – 50 years

Plant and equipment – 3 to 10 years

Motor vehicles – 3 to 4 years

No depreciation is provided on freehold land

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately declared and authorised and no longer at the discretion of the Company. Unpaid dividends that do not meet this criteria are disclosed in the Directors' report

Research and development

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

Taxation

The charge for taxation is based on the Company profit for the year. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered

Long-term amount owed by a group undertaking

A balance owing to the Company by a subsidiary undertaking, which is expected to be repaid over a number of years, has been initially valued at fair value and is valued at amortised cost thereafter

Employee benefits

The Company operated a contributory pension scheme, of the defined benefit type up to 5th April 2007, after which this scheme was closed for future accruals to existing members and was closed to new members. Since 5th April 2007, the Company has operated a defined contribution scheme, which is part of the same scheme

The scheme is administered by trustees who are independent of the Company finances

Pension scheme assets in the defined benefit scheme 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 expected return on the scheme's assets and the interest on the scheme's liabilities arising from the passage of time are included in other finance income

The pension scheme's surplus, to the extent that it is considered recoverable, or deficit is recognised in full and presented on the face of the balance sheet net of the related deferred tax

Accruals are made for holiday pay, based on a calculation of the number of days holiday earned during the year, but not yet taken and also for the annual performance bonus

Warranty on the sale of products

The Company provides a warranty from the date of purchase on all its products. This is typically for a twelve month period, although up to three years is given for a small number of products. A warranty provision is included in the accounts, which is calculated on the basis of historical returns and internal quality reports

Derivative financial instruments

In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments

Derivative financial instruments are recognised initially at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account. The fair value of forward exchange contracts is their quoted market price at the balance sheet date

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

Foreign currencies

Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on such translation are recognised in the profit and loss account

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review, where also given are details of the financial and liquidity positions. In addition, note 22 in the financial statements includes the Group's objectives and policies for managing its capital, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk

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 foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and accounts

68 NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

28 TANGIBLE FIXED ASSETS

Year ended 30th June 2011	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 2010	35,743	73,092	2,155	566	111,556
Additions	-	3,411	651	7,053	11,115
Transfers	1,529	1,165	-	(2,694)	-
Disposals	-	(170)	(236)	-	(406)
At 30th June 2011	37,272	77,498	2,570	4,925	122,265
Depreciation					
At 1st July 2010	8,212	57,304	1,645	-	67,161
Charge for the year	761	4,612	292	-	5,665
Released on disposals	-	(141)	(236)	-	(377)
At 30th June 2011	8,973	61,775	1,701	-	72,449
Net book value					
At 30th June 2011	28,299	15,723	869	4,925	49,816
At 30th June 2010	27,531	15,788	510	566	44,395

At 30th June 2011 properties with a net book value of £22,718,000 (2010 £23,393,000) were subject to a registered charge to secure the UK defined benefit pension scheme liabilities. The trustees have the right to enforce the charge to recover any deficit up to £46,800,000 if an insolvency event occurs in relation to the Company before 1st November 2016 or if the Company has not made good any deficit up to £46,800,000 by midnight on 1st November 2016.

Additions to assets in the course of construction of £7,053,000 (2010 £546,000) comprise £2,420,000 (2010 £95,000) for freehold land and buildings and £4,633,000 (2010 £451,000) for plant and equipment.

29 INVESTMENTS IN SUBSIDIARIES

	2011 £'000	2010 £'000
Movements during the year were		
Balance at the beginning of the year	7,161	6,034
Investments made during the year	24,778	1,127
Balance at the end of the year	31,939	7,161

A list of subsidiary undertakings is shown in note 44.

30 INVESTMENTS IN ASSOCIATES

	2011 £'000	2010 £'000
Movements during the year were		
Balance at the beginning of the year	4,363	6,814
Investments made during the year	74	-
Reversal of impairment of investment	2,451	(2,451)
Balance at the end of the year	6,888	4,363

The reversal of the impairment of investment was in respect of the revaluation of the investment in Delcam plc, based on its share price of £4.55 at 30th June 2011.

31 DEFERRED TAX

	2011 £'000	2010 £'000
Movements during the year were		
Balance at the beginning of the year	3,118	7,909
Movements during the year	(2,251)	(4,791)
Balance at the end of the year	867	3,118

31 DEFERRED TAX CONTINUED

	2011 £'000	2010 £'000
The deferred tax asset is represented by		
Difference between accumulated depreciation and capital allowances	(790)	(282)
Other timing differences	1,657	3,400
	867	3,118
Deferred tax on pension scheme liability	9,023	9,286
Balance at the end of the year	9,890	12,404
	2011 £'000	2010 £'000
The movements in the deferred tax balance were		
Balance at the beginning of the year	12,404	13,285
Amount charged to the Profit and loss account	(3,918)	(2,618)
Amount reflected through the Statement of total recognised gains and losses	1,404	1,737
Balance at the end of the year	9,890	12,404

32 STOCK

	2011 £'000	2010 £'000
An analysis of stock at the end of the year was		
Raw materials	12,286	8,695
Work in progress	9,605	6,613
Finished goods	5,810	3,765
Balance at the end of the year	27,701	19,073

33 DEBTORS

	2011 £'000	2010 £'000
An analysis of debtors at the end of the year was		
Debtors due within one year		
Trade debtors	9,741	6,667
Amounts owed by group undertakings	97,578	76,200
Amounts owed by associated undertakings	1,593	132
Corporation tax	-	428
Prepayments and other receivables	3,868	2,670
Fair value of forward exchange contracts	886	1,158
	113,666	87,255
Debtors due after more than one year		
Amounts owed by group undertakings	75,944	81,876
Fair value of forward exchange contracts	684	4,002
Balance at the end of the year	190,294	173,133

Amounts owed by group undertakings due after more than one year at 30th June 2011 are shown at their amortised cost calculated using the effective interest method. The balance at 30th June 2011 of £75,944,000 (2010 £81,876,000) is based on an original amount of £85,029,000 (2010 £95,029,000).

34 CREDITORS

	2011 £'000	2010 £'000
Amounts falling due within one year		
An analysis of creditors due within one year at the end of the year was		
Trade creditors	8,281	6,844
Corporation tax	2,214	
Amounts owed to group undertakings	43,348	33,117
Amounts owed to associated undertakings	87	89
Other taxes and social security	1,750	1,402
Other creditors	9,079	5,295
Fair value of forward exchange contracts	4,789	3,346
Balance at the end of the year	69,548	50,093

70 NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

35 CREDITORS

Amounts falling due after more than one year

	2011 £'000	2010 £'000
An analysis of creditors due after more than one year was		
Deferred consideration	14,102	2,850
Fair value of forward exchange contracts	2,496	1,575
Total creditors due after more than one year	16,598	4,425

The deferred consideration of £14,102,000 (2010 £2,850,000) comprises £2,790,000 (2010 £2,850,000) in respect of the investment in Renishaw Diagnostics Limited which is payable over a five year period from the date of the initial investment £3,000,000 (2010 £nil) in respect of the investment in Renishaw Software Limited which is payable in June 2013 and £8,312,000 (2010 £nil) in respect of the investment in Measurement Devices Limited, which is payable over the next three years

36 PROVISIONS FOR LIABILITIES AND CHARGES

Warranty provision

	2011 £'000	2010 £'000
Movements during the year were		
Balance at the beginning of the year	416	543
Created in the year	472	492
Utilised in the year	(345)	(619)
	127	(127)
Balance at the end of the year	543	416

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

37 PENSION SCHEME

The Company operated a defined benefit pension scheme, which, in April 2007, ceased any future accrual for current members and was closed to new members. Employees of the Company are now covered by a defined contribution scheme. See note 15 regarding details of registered charges relating to the UK pension scheme liabilities.

The total pension cost of the Company for the year was £5,186,000 (2010 £3,422,000), of which £154,000 (2010 £125,000) related to directors.

The latest full actuarial valuation of the scheme was carried out at September 2009 and updated to 30th June 2011 on an FRS 17 basis by a qualified independent actuary. The major assumptions used by the actuary for the scheme were:

	30th June 2011	30th June 2010	30th June 2009
Rate of increase in pension payments	3.4%	3.3%	3.3%
Discount rate	5.5%	5.3%	6.2%
Inflation rate (RPI)	3.6%	3.4%	3.4%
Inflation rate (CPI)	2.9%		
Expected return on equities	8.3%	8.1%	8.3%
Retirement age	64	64	64

The mortality assumption adopted for 2011 is PCA00, year of birth medium cohort (2010 medium cohort), which reflects the increasing life expectancy.

The assets and liabilities in the scheme were:

	30th June 2011 £'000	% of total assets	30th June 2010 £'000	% of total assets	30th June 2009 £'000	% of total assets	30th June 2008 £'000	% of total assets	30th June 2007 £'000	% of total assets
Market value of assets										
Equities	94,941	100	78,248	100	65,550	99	79,143	98	84,906	98
Bonds and cash	362	0	156	0	441	1	1,243	2	1,740	2
Actuarial value of liabilities	95,303	100	78,404	100	65,991	100	80,386	100	86,646	100
	(130,008)		(111,569)		(85,192)		(90,889)		(79,796)	
Deficit in the scheme	(34,705)		(33,165)		(19,201)		(10,503)		6,850	
Deferred tax thereon	9,023		9,286		5,376		2,941		(1,920)	
Pension (liability)/asset	(25,682)		(23,879)		(13,825)		(7,562)		4,930	

37 PENSION SCHEME CONTINUED

The history of experience gains and losses is	Year ended 30th June 2011	Year ended 30th June 2010	Year ended 30th June 2009	Year ended 30th June 2008	Year ended 30th June 2007
Difference between the expected and actual return on scheme assets					
amount (£'000)	11,650	9,357	(20,244)	(12,651)	6,738
percentage of scheme assets	12%	12%	(31%)	(16%)	8%
Experience gains and losses on scheme liabilities					
amount (£'000)	(25,221)		(3,954)		(2,751)
percentage of present value of scheme liabilities	(19%)		(5%)		(3%)
Total amount recognised in the Statement of total recognised gains and losses					
amount (£'000)	(2,588)	(14,135)	(10,279)	(19,842)	3,444
percentage of present value of scheme liabilities	(2%)	(13%)	(12%)	(22%)	4%

The movements in the scheme were	2011 £'000	2010 £'000
Deficit in scheme at 1st July	(33,165)	(19,201)
Contributions	609	
Other finance income	439	171
Actuarial loss	(2,588)	(14,135)
Deficit in scheme at 30th June	(34,705)	(33,165)

The income recognised in the Profit and loss account was	2011 £'000	2010 £'000
Expected return on pension scheme's assets	6,308	5,381
Interest on pension scheme's liabilities	(5,869)	(5,210)
Total income recognised in the Profit and loss account	439	171

The analysis of the amount recognised in the Statement of total recognised gains and losses was	2011 £'000	2010 £'000
Actual return less expected return on scheme assets	11,650	9,357
Experience loss arising on scheme liabilities	(25,221)	
Changes in financial assumptions	10,983	(23,492)
Total recognised in the Statement of total recognised gains and losses	(2,588)	(14,135)

38 SHARE CAPITAL	2011 £'000	2010 £'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.

72 NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

39 CURRENCY RESERVE

The unrealised currency gain/(loss) on foreign exchange forward contracts outstanding at the year end has been recognised net of deferred tax

	2011 £'000	2010 £'000
Movements during the year were		
Balance at the beginning of the year	172	(5,415)
Amounts recycled into the Profit and loss account in the year	2,188	4,914
Revaluations during the year	(8,142)	2,846
Deferred tax movement	1,667	(2,173)
Balance at the end of the year	(4,115)	172

40 PROFIT AND LOSS ACCOUNT

	2011 £'000	2010 £'000
Movements in the Profit and loss account during the year were		
Balance at the beginning of the year	175,288	169,124
Profit for the year	47,928	19,253
Dividends paid in the year	(17,396)	(2,912)
Actuarial loss in the pension scheme	(2,588)	(14,135)
Deferred tax thereon	9	3,958
	(2,579)	(10,177)
Balance at the end of the year	203,241	175,288

The profit and loss account reserve in the Company of £203,241,000 (2010 £175,288,000) includes £105,070,000 (2010 £101,294,000) which is currently non-distributable

41 RELATED PARTIES

During the year related parties, these being Renishaw Diagnostics Limited, Renishaw Mayfield S.A., Measurement Devices Limited, Renishaw Advanced Materials Limited and the Group's associates (see note 11), purchased goods and services from the Company to the value of £1,134,000 (2010 £465,000) and sold goods and services to the Company to the value of £1,516,000 (2010 £926,000).

At 30th June 2011, related parties owed £922,000 (2010 £699,000) to the Company. Related parties were owed £245,000 (2010 £89,000) by the Company. Dividends of £84,000 were received from related parties during the year (2010 £80,000). Loans to related parties from Renishaw plc at 30th June 2011 were £7,595,000 (2010 £2,873,000). All transactions were on an arm's length basis. There were no bad debts written off during the year (2010 £nil).

42 PERSONNEL EXPENSES

	2011 £'000	2010 £'000
The aggregate payroll costs for the year were		
Wages and salaries	53,477	41,021
Compulsory social security contributions	5,773	4,347
Contributions to pension scheme	5,186	3,422
Total payroll costs	64,436	48,790

	Number	Number
The average number of persons employed by the Company during the year was	1,479	1,209

43 CAPITAL COMMITMENTS

	2011 £'000	2010 £'000
Capital commitments at the end of the year for which no provision has been made in the financial statements, were		
Authorised and committed	10,986	1,281

44 SUBSIDIARY UNDERTAKINGS

The following are the subsidiary undertakings of Renishaw plc, all of which are wholly owned, unless otherwise stated, and all of which are consolidated into the results of the Group. The country of incorporation and registration is England and Wales unless otherwise stated. The country of incorporation is also the country of operation. The accounting year end for each subsidiary undertaking is 30th June unless otherwise stated.

Company	Principal activities
Renishaw International Limited*	Overseas holding and investment company
Renishaw (Ireland) Limited (Republic of Ireland)*	Manufacture and sale of advanced precision metrology and inspection equipment
Renishaw Holdings Limited	Holding and investment company
Renishaw Finance Limited*	Group finance company
Renishaw S A S (France)*	Service distribution, research and development and manufacture of group products
itp GmbH (Germany)*	Manufacture and sale of advanced precision metrology and inspection equipment
Wotton Travel Limited	Travel agency
Renishaw Diagnostics Limited (84.8%) (Scotland)	Design and sale of molecular diagnostics and surface enhanced Raman spectroscopy products
Renishaw Mayfield S A (75%) (Switzerland)*	Manufacture and sale of surgical robots for neurosurgical applications
PulseTeq Limited	Manufacture and sale of coils for the enhancement of images from MRI scanners
Renishaw Metrology Systems Private Limited (India) (31st March)	Manufacture and sale of advanced precision metrology and inspection equipment
Measurement Devices Limited (49%) (31st December)	Manufacture and sale of laser scanning equipment
MTT Investments Limited (31st December)	Manufacture and sale of additive manufacturing and rapid prototyping systems
Renishaw Advanced Materials Limited (55%) (31st January)	Sale of diamond like carbon coatings and shape memory alloys
Renishaw Software Limited (31st December)	Development and sale of software solutions

Company – principal activity is the service and distribution of group products

Renishaw Inc (USA)	Renishaw Sp z o o (Poland)
Renishaw KK (Japan)	OOO Renishaw (Russia) (31st December)
Renishaw GmbH (Germany)	Renishaw AB (Sweden)
Renishaw S p A (Italy)	Renishaw (Austria) GmbH (Austria)
Renishaw Ibérica S A U (Spain)	Renishaw (Korea) Limited (South Korea)
Renishaw AG (Switzerland)	Renishaw (Canada) Limited (Canada)
Renishaw (Hong Kong) Limited (Hong Kong)	Renishaw (Israel) Limited (Israel)
Renishaw Latino Americana Ltda (Brazil) (31st December)	Renishaw (Shanghai) Trading Company Limited (The People's Republic of China) (31st December)
Renishaw Benelux BV (The Netherlands)	Renishaw (Singapore) Pte Limited (Singapore)
Renishaw Oceania Pty Limited (Australia)	Renishaw (Taiwan) Inc (Taiwan)
Renishaw s r o (Czech Republic)	

* equity held by a subsidiary undertaking

During the year, the Group increased its investment in PulseTeq Limited from 75% to 100%

74 SHAREHOLDERS' PROFILE

Shareholdings										
1 – 5 000	1 934 (3.0%)					Directors	53.1%			
5,001 – 25,000	179 (2.9%)					Institutions	45.0%			
25,001 – 50,000	45 (1.6%)					Individuals	1.9%			
50,001 – 100,000	38 (2.6%)									
100,001 – 500 000	48 (13.6%)									
500,001 – 1 000,000	11 (7.1%)									
1,000,001 – 3 000 000	5 (16.2%)									
more than 3 000 000	2 directors (53.0%)									

The above information was compiled from the register as at 19th July 2011

10 YEAR FINANCIAL RECORD

Results	note 2 2011 £'000	note 2 2010 £'000	note 2 2009 £'000	note 2 2008 £'000	note 2 2007 £'000	2006 £'000	note 1 2005 £'000	2004 £'000	2003 £'000	2002 £'000
Overseas revenue	273,989	170,957	159,988	189,137	169,094	164,322	144,438	118,881	100,969	94,769
UK and Ireland revenue	14,761	10,650	11,259	12,020	11,789	11,513	10,361	8,820	9,671	9,721
Total revenue	288,750	181,607	171,247	201,157	180,883	175,835	154,799	127,701	110,640	104,490
Operating profit	78,946	28,095	5,991	37,335	29,729	35,468	29,307	18,053	15,644	13,448
Profit before tax	80,410	28,725	8,843	41,715	32,672	38,102	31,733	20,146	17,799	16,062
Taxation	16,345	5,745	2,105	8,309	6,532	7,621	6,297	4,023	3,454	880
Profit for the year	64,065	22,980	6,738	33,406	26,140	30,481	25,436	16,123	14,345	15,182
Capital employed	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Share capital	14,558	14,558	14,558	14,558	14,558	14,558	14,558	14,558	14,558	14,558
Share premium	42	42	42	42	42	42	42	42	42	42
Reserves	187,118	144,021	129,162	151,725	153,400	128,136	110,857	93,110	90,626	93,085
Shareholders' funds	201,718	158,621	143,762	166,325	168,000	142,736	125,457	107,710	105,226	107,665
Statistics	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Overseas sales as a percentage of total sales	94.9%	94.1%	93.4%	94.0%	93.5%	93.5%	93.3%	93.1%	91.3%	90.7%
Basic earnings per share	88.0p	31.6p	9.3p	45.9p	35.9p	41.9p	34.9p	22.1p	19.7p	20.9p
Proposed dividend per share	35.0p	17.6p	7.76p	25.39p	22.87p	21.78p	19.80p	18.00p	16.70p	15.90p

Notes

- For the year 2005 and onwards, the financial statements have been prepared under adopted IFRS. Financial statements for the years prior to 2005 were prepared under UK GAAP and have not been adjusted to adopted IFRS.
- The results and basic earnings per share for the years 2007 to 2011 exclude the exceptional items. These were: 2007 and 2008 pension curtailment credits (2007 £19.5m, 2008 £1.3m), 2009 redundancy costs (£4.1m), 2010 impairment write down (£1.7m), and 2011 reversal of impairment write down (£1.7m).

Renishaw first exhibited in China in the 1980s and now it is the largest market for Renishaw at 19% of turnover.

Fold out this page to take a closer look at our business in the Far East

FOCUS ON THE FAR EAST

As early as the 1980s, Renishaw first recognised the potential of the Far East markets, opening a subsidiary office in Japan and also exhibiting products in China. In 1993 the Company established a subsidiary office in Hong Kong. This initiated a programme of investment that has grown steadily ever since.

FOCUS ON THE FAR EAST

In 1994 we opened offices and subsidiaries in Beijing and Singapore. In 1999 we invested in Korea – a country that was then making huge strides in advanced technology. We then invested in Taiwan (another fast moving economy) in 2000, Australia in 2001, Thailand and Malaysia in 2006 and Indonesia in 2008. In 2005 we were among the first to open a 100% foreign-owned trading company in China, when we established a subsidiary in Shanghai. We continue to invest in high quality sales and service operations, and now have nine offices across China, where we will soon have over 100 employees.

The growth experienced in China has been truly staggering, and in 2011 accounted for 19% of total group sales.

No longer home to primarily cheap and cheerful goods, China has grown up. Fast. In the years since 1993 it has become the World's Factory, the second largest global economy.

Now China leads the world both in the manufacturing and consumption of cars and is also vigorously forging ahead in the

aerospace industry. R&D is rapidly moving forward, fed by the endless graduates emerging from state-of-the-art universities throughout the region. Local manufacturers are constantly being pushed up the value chain, with their high-tech products topping western shopping lists as well as meeting China's own sky-rocketing needs. China now aims to focus on and produce goods of the highest quality. And this is very good news for Renishaw.

We foresaw China's exciting future. To our great benefit, we are now realising the potential here for our portfolio of quality and process control products. But we aren't alone, global interest and investment is widespread and steadily increasing as the West turns to China for growth. It's widely acknowledged that this makes China the most competitive market on earth. Fortunately, with innovation firmly at our core and constant development in our sights, Renishaw looks particularly well-placed to meet any competition head on.

“

We foresaw China's exciting future and, to our substantial benefit, are now realising the potential for our portfolio of quality and process control products here.

”

INTERVIEW WITH JEAN-MARC MEFFRE, MD OF RENISHAW (HONG KONG) LTD

Q Based on your experiences, what differences are there between Asian and European markets?

In 1988 I began working for Renishaw in France and probing techniques were not well known. We had to sell a concept before we could sell a product. This was a steep and difficult learning curve for potential users who were unaware of the benefits. Ten years later I moved to Hong Kong and faced the same problem, but this time it was magnified because manufacturing was mainly low-tech. The Chinese didn't need probes.

Now, of course, all that has changed. I believe we're at the start of the kind of intensive automated manufacturing seen 15 years ago in the West.

Q What are the main challenges you have had to overcome?

Asia is a vast continent, very different both in size and culture to Western countries. But the benefit of being European is our historical understanding that different countries have different personalities. This helps us better appreciate the gaps between Eastern and Western culture and behaviour. We are aware that we must constantly remain open to different ways of thinking and adapt to different practices, always respecting other

people's views. What we mustn't do is try to impose our ways upon a world they're not suited for.

Renishaw has an excellent reputation in the Far East for expertise and support for a host of applications, and this is where I believe we can make a real difference.

Q How do the Chinese approach business?

I think Westerners have many misconceptions about the Chinese, as the Chinese do of us. Time doesn't have the same value here, so, even though things get done quickly, building long-term relationships is what really matters. This applies whether a relationship is commercial or personal. Once your company is accepted the Chinese are trusting and reliable business partners with a keen sense of fair play. Once a personal relationship based on mutual trust and understanding develops, you are accepted and you've made a very caring friend.

Q Is there anything that still surprises you about the country?

Coming from Europe, the sheer size of this region and its population is a constant surprise. It's impossible to remain indifferent to the size of

the companies we deal with, the speed at which the country's infrastructure is being built and the amazing progress that is achieved year on year.

Q What's next for Renishaw in the region?

Despite the tendency of most companies to focus specifically on China, it's my belief that we should diversify and continue to build our presence in other Asian markets. Having already proven that being 'first in' brings significant competitive advantage in the market, we are already developing our presence in the rapidly growing economies of Thailand, Indonesia and Vietnam.

In this region, however, intra-trade takes precedence over Western-led export, and all these economies rely on China's performance. China can succeed on its strength in Asian markets, and is not looking to the US or Europe exclusively to spur its growth. That is one of the compelling reasons for believing in China's, and Asia's, continuing success, and for making the region an on-going priority for Renishaw's sales and future growth.

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