RENISHAW
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ANNUAL REPORT AND ACCOUNTS 2012

Contents

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Front cover: The new XR20-W rotary axis calibrator works together with the XL-80 laser interferometer system to measure rotary axis positional accuracy to within 1 arc second.

This Annual report 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 Annual report 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.

Introduction

Renishaw is one of the world's leading metrology companies, applying innovation to our global markets.

With our highly experienced team, we are confidently driving our future growth through innovative and patented products and processes, efficient, high-quality manufacturing and the ability to provide local support in all our markets.

Our continuing investment in new property, plant and equipment and new product development (c.£63m in the last year) is the key to our confidence in our long-term strategic prospects. With in excess of 2,900 skilled and motivated staff, we continue to be at the leading edge of technological innovation.

Chairman's statement

Renishaw's markets exhibit attractive, **long-term structural growth drivers** with continuing global investment in production systems and processes.

Sir David R McMurtry
CBE, RDI, FRS, FREng, CEng, FIMechE
Chairman and Chief Executive

Overview

I am pleased to announce a record set of Group results in terms of both revenue and profit for the year ended 30th June 2012; a year of further progress and growth.

Total Group revenue for the year was £331.9m, 15% ahead of the £288.7m for last year. All geographic areas saw good progress, with growth of 18% in the Americas (revenue of £76.8m), 14% in the Far East (£130.2m), 12% in Europe (£95.7m) and 28% in the UK (£18.9m) benefitting from a full year's trading from acquisitions. In the Far East we saw a strong recovery in the final quarter of the year, principally due to revenue from China.

Group profit before tax for the year was £86.0m, compared with £80.4m last year (excluding a £1.7m exceptional item), an increase of 7%.

Adjusted earnings per share were 95.6p, an increase of 8% over last year's adjusted earnings per share of 88.5p. Reported earnings per share for the year were 95.6p (2011 90.8p).

Segmental analysis

Metrology

Revenue from our metrology business was extremely strong in the last quarter of the year, resulting in revenue for the full year of £305.8m, compared with £267.0m last year, an increase of 15%. Operating profit was £91.8m, compared with £87.7m in 2011.

All product lines reported growth, apart from encoder products which experienced a slowdown during the year but a recovery in the final quarter. The machine tool and calibration product lines performed particularly well and there was strong interest for our Equator product which is gaining wider exposure and acceptance.

Measurement Devices Limited (MDL) and MTT Investments Limited (the latter now operating as the additive manufacturing product line), acquired last year, also contributed to the growth in this segment. In June an additional 17% shareholding in MDL was acquired, bringing the Company's shareholding to 66%.

New product releases during the period include the RESOLUTE™ ETR, an absolute encoder with extended temperature range for operation in very cold environments such as aerospace; the XR20-W rotary axis calibrator; the REVO® SFP1 surface finish probe and a multi-axis option for our Productivity+™ software.

On 3rd February 2012 the Group acquired Thomas Engineering and Construction Limited, an MDL distributor and services provider based in Canada, for the sum of £0.7m, of which £0.2m was paid at the date of acquisition and the balance is payable over the following two years.

On 26th April 2012 the Group acquired R&R Sales LLC ("R&R") for the sum of £2.6m plus additional payments based on future performance. R&R is a US-based supplier of fixtures for the measurement and inspection market. The acquisition of R&R will provide fixturing solutions for our Equator gauge and enable R&R to expand further by utilising Renishaw's worldwide sales and distribution network.

Healthcare

Revenue from our healthcare business for the year was £26.1m, compared with £21.7m last year, an increase of 20%. Spectroscopy sales were at a record level, driven by an increasing range of applications in nanotechnology, advanced materials and life sciences, and there was also growth in the dental and neurological product lines.

During the year, the Board refocused part of the healthcare activities to a smaller number of projects, particularly in our neurological products line, and withdrew from the supply of radio frequency coils for use in MRI scanning research which was no longer considered core to our business strategy.

Our spectroscopy product line introduced a new integrated Raman/Atomic Force Microscope package and the neurological product line saw further sales of its neuromate® surgical robot used for neurosurgical procedures with the UK's first Stereo Electro Encephalography procedures being carried out to aid the treatment of chronic epilepsy at Frenchay Hospital in Bristol. The next generation of neuroinspire™ surgical planning software achieved CE approval in January 2012.

The continuing significant expenditure on research and development in this segment resulted in an operating loss of £8.6m, compared with a loss of £8.4m for last year. The Board is targeting that the Healthcare segment will move into profit in the next two years.

2012 performance

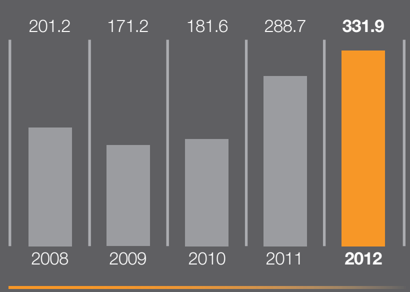
	2012	2011	Change
Revenue (£m)	**331.9**	288.7	+15%
Adjusted operating profit (£m)*	**83.2**	79.3	+5%
Adjusted profit before taxation (£m)*	**86.0**	80.4	+7%
Adjusted earnings per share (pence)*	**95.6**	88.5	+8%
Dividend per share (pence)	**38.5**	35.0	+10%

Statutory

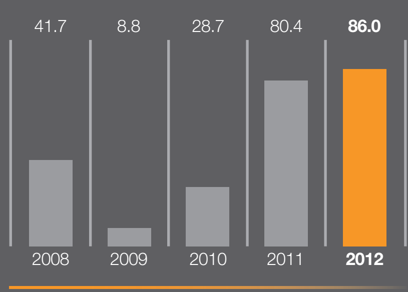
Profit before tax (£m)	**86.0**	82.1	+5%
Basic earnings per share (pence)	**95.6**	90.8	+5%

*Adjusted figures are stated after excluding the exceptional item, a reversal of an impairment write-down, in 2011.

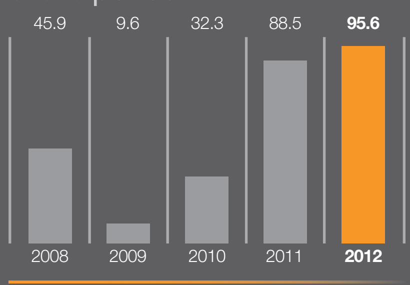
Revenue £m



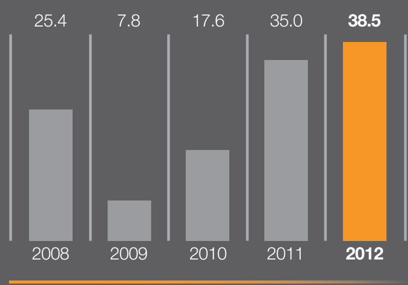
Adjusted profit before tax £m



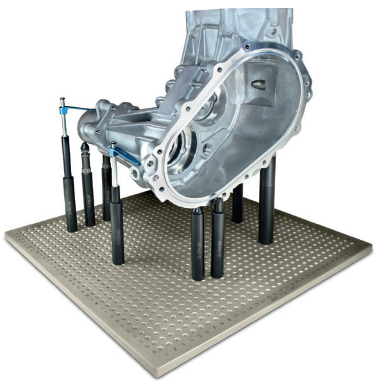
Adjusted earnings per share pence



Dividend per share pence



Chairman's statement continued



Top: Miskin site near Cardiff, South Wales

Middle left: Miskin site before refurbishment started

Middle right: Miskin site after refurbishment completed

Above: Wide ranging applications for MDL products

Right: R&R fixtures holding engine component for measurement

Investment for growth

The Group continues to invest for long-term growth and during the year has invested £30.3m (2011 £16.5m) on facilities, plant and machinery and information technology capacity to provide the platform to accommodate growth expectations:

- In September 2011, the Group completed its purchase of the premises at Miskin, South Wales. 68,500 sq ft (of a total of 461,000 sq ft) has been refurbished and new CNC machine tools have now been brought into production.
- In York, construction of 20,000 sq ft of new premises for occupation by MDL has begun, with completion due at the end of this calendar year.
- In Dublin, planning consent has been received for a 26,000 sq ft extension of our manufacturing facility. This is due to be completed by the end of this calendar year.
- At New Mills and Charfield, planning consent has been granted for 230,000 sq ft and 50,000 sq ft respectively, primarily to provide additional research and development space on a phased basis.
- In Slovenia, a new 30,000 sq ft facility has been recently completed and occupied by our associate company, RLS.

During the year the Group expended a total of £47.9m (2011 £40.0m) on engineering including research and development, current product engineering and manufacturing processes, which is planned to increase further in the coming year.

We continue to grow and expand our global marketing and distribution activities to support the new products introduced:

- The Group has established a new subsidiary company in Mexico to market and support the Group's products in that country and other Central American countries.
- We have expanded our working premises in Germany, Brazil and China, and have refurbished and re-occupied a 16,000 sq ft building in Schaumburg, USA.
- Our Canadian subsidiary has acquired, refurbished and moved into a larger 17,000 sq ft facility in Mississauga, Toronto.
- Our Spanish subsidiary has relocated to newly acquired premises in Barcelona and, in Italy, our subsidiary purchased the property it has occupied for a number of years.

Balance sheet and working capital

Net cash balances at 30th June 2012 were £21.1m, compared with £23.7m in 2011. In addition, there is an escrow account amounting to £11.5m (30th June 2011 £10.8m) relating to the provision of security to the Company's defined benefit pension scheme.

The Group has also financed an increase of £23.1m in working capital, primarily trade receivables resulting from exceptionally strong revenue in the final quarter.

Directors

David Snowden and Terry Garthwaite have each completed nine years on the Board and will not be seeking re-election at the AGM on 18th October 2012. The Board is very grateful for their considerable contributions to the Group.

The Board is pleased that Dr David Grant has joined the Board with effect from 25th April 2012 and further appointments will be made in due course.

Resolutions to re-elect all continuing directors will be put to the AGM.

Employees

The directors thank the Group's employees for their continuing support and significant contribution during this successful year.

Headcount at the end of June 2012 was 2,904, an increase of 229 during the year. There are currently 182 staff vacancies in the Group, of which 118 are in the UK, and in common with other UK engineering companies Renishaw is continuing to experience difficulty in recruiting high-calibre engineers.

Awards

The Group has again received a number of awards during the year, including our 15th Queen's Award for Enterprise 2012 in the Innovations Category for the SP80 ultra-high accuracy analogue scanning probe.

Outlook

As expected the final quarter of the year saw an increase in revenue growth and was a record quarter for the Group, with revenue of £103m. Renishaw's markets exhibit attractive, long-term structural growth drivers with continuing global investment in production systems and processes. The Group therefore continues to invest a significant amount in R&D, manufacturing, marketing and distribution capability with a number of initiatives underway. Although the world economic outlook is uncertain, the Board remains optimistic regarding the Group's own future and prospects and expects that 2013 will be another year of progress for Renishaw.

Dividends

A final dividend of 28.2p per share will be paid on 22nd October 2012 to shareholders on the register on 21st September 2012.

Sir David R McMurtry

CBE, RDI, FRS, FREng, CEng, FIMechE

Chairman and Chief Executive

25th July 2012

Above: Renishaw wins National Business Award 2011

(From left) Mike Tobin, CEO, TelecityGroup (Winner 2010), David Maxwell, Partner, Grant Thornton, Ben Taylor, Assistant Chief Executive, Renishaw, and awards host John Humphrys, BBC

Above: Award winning SP80

Our business sectors

Metrology

Key highlights

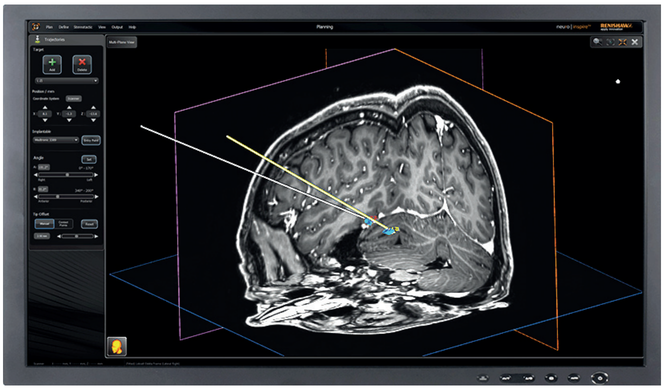
- Record revenue and profit
- Excellent growth due to investment in production systems
- Further acquisitions of complementary businesses

£305.8m
Revenue (+15%)

£91.8m
Operating profit (+5%)

92%
Percentage of group revenue

See more on page 23



Healthcare

Key highlights

- Record revenue
- New product releases
  – CE marked neuroinspire™
  – Integrated Raman AFM package
- First SEEG procedure in UK

£26.1m
Revenue (+20%)

£8.6m
Operating loss

8%
Percentage of group revenue

See more on page 28

Our products/**Metrology**

Our technologies help manufacturers to maximise production output, to significantly reduce the time taken to produce and inspect components, and to keep their machines running reliably. In the fields of industrial automation and motion systems our high-quality position measurement and calibration systems allow builders to manufacture highly accurate and reliable products.

The product range includes the following:

Machine tool probe systems
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 re-work. These include laser tool setters, contact tool setters, tool breakage detectors, touch probes and high-accuracy inspection probes.

Co-ordinate measuring machine (CMM) products
Sensors, software and control systems for three dimensional CMMs that allow the highly accurate measurement of manufactured components and finished assemblies, including touch-trigger probes, automated probe changers, motorised indexing probe heads and five-axis measurement systems.

Styli for probe systems
Precision styli that attach to probe sensors for CMMs and machine tools to ensure that accurate measurement data is acquired at the point of contact.

Performance testing products
Calibration and testing products to determine the positioning accuracy of a wide range of industrial and scientific machinery to international standards, including a laser interferometer and wireless ballbar.

Gauging
Innovative flexible gauging technology, based on the comparison of production parts to a reference master part, that can greatly increase throughput and reduce scrap rates at a fraction of the cost of an equivalent custom gauging system.

Large scale metrology
High-speed laser measurement and surveying systems for use in extreme environments such as marine positioning and mine/quarry scanning.

Fixtures
Modular and custom fixtures used to hold parts securely for dimensional inspection on CMM, vision and gauging systems.

Materials research
Commercial and research solutions to materials technology challenges including diamond-like carbon coatings and shape memory alloys.

Position encoders
Position feedback encoders that ensure accurate linear and rotary motion control in a wide range of applications from electronics, motorsports, robotics and semi-conductors to food manufacturing and print production. These include incremental optical encoders, laser interferometer encoders, magnetic encoders and absolute optical encoders.

Additive manufacturing
Additive manufacturing and rapid protoyping systems that allow the rapid manufacture of components as part of a product development process or for full-scale production, including laser melting machines, a range of vacuum, nylon and metal casting machines, injection moulding machines and a range of materials to support these technologies.

Our products/**Healthcare**

Our technologies are also helping within applications such as dentistry, neurosurgery, chemical analysis and nanotechnology research. These include systems, materials and manufacturing services that allow dental laboratories to manufacture high-quality dental restorations and engineering solutions for stereotactic neurosurgery. We also supply non-destructive analytical tools that identify and characterise the chemistry and structure of materials.

The product range includes the following:


Dental scanners
3D contact scanners certified to international standard ISO 10360-4 for digitising of dental preparations for crowns or bridges.

Dental CAD software
Dental CAD software that allows set-up of scanning routines and enables laboratory staff to design abutments and structures for crowns and bridges, including strength calculations.

Dental milling machines
Milling machines and powerful computer aided manufacturing (CAM) software that allow dental laboratories to machine their own structures from zirconia billets also supplied by Renishaw.

Dental structures manufacturing service
A central manufacturing service that can handle CAD files from various dental scanning systems to produce structures for crowns and bridges in zirconia or cobalt chrome and abutments in cobalt chrome.

Neurosurgical robot
A stereotactic robot, plus a range of options, that provides a platform solution for a broad range of functional neurosurgical procedures including deep brain stimulation (DBS) and neuro-endoscopy.

Neurosurgical planning software
Planning software that allows advanced planning of targets and trajectories for stereotactic neurosurgery.

Neurosurgical implantables
Implantable devices that allow surgeons to verify expected DBS electrode position relative to targeted anatomy using magnetic resonance imaging (MRI).

Raman microscopes
inVia Raman microscopes comprising a research-grade optical microscope coupled to a high-performance Raman spectrometer for analytical applications as diverse as pharmaceutical, forensic science, nanotechnology and semiconductors.

Combined Raman systems
Combined Raman and atomic force microscope (AFM) instruments that investigate chemical and structural properties of materials at sub-micrometre scales. Also combined Raman and infrared spectroscopy instruments that identify unknown materials by combining both vibrational spectroscopic techniques.

Structural and chemical analyser
A structural and chemical analyser (SCA) that unites scanning electron microscopy (SEM) and Raman spectroscopy to allow morphological, elemental, chemical, physical and electronic analysis without moving the sample between instruments.

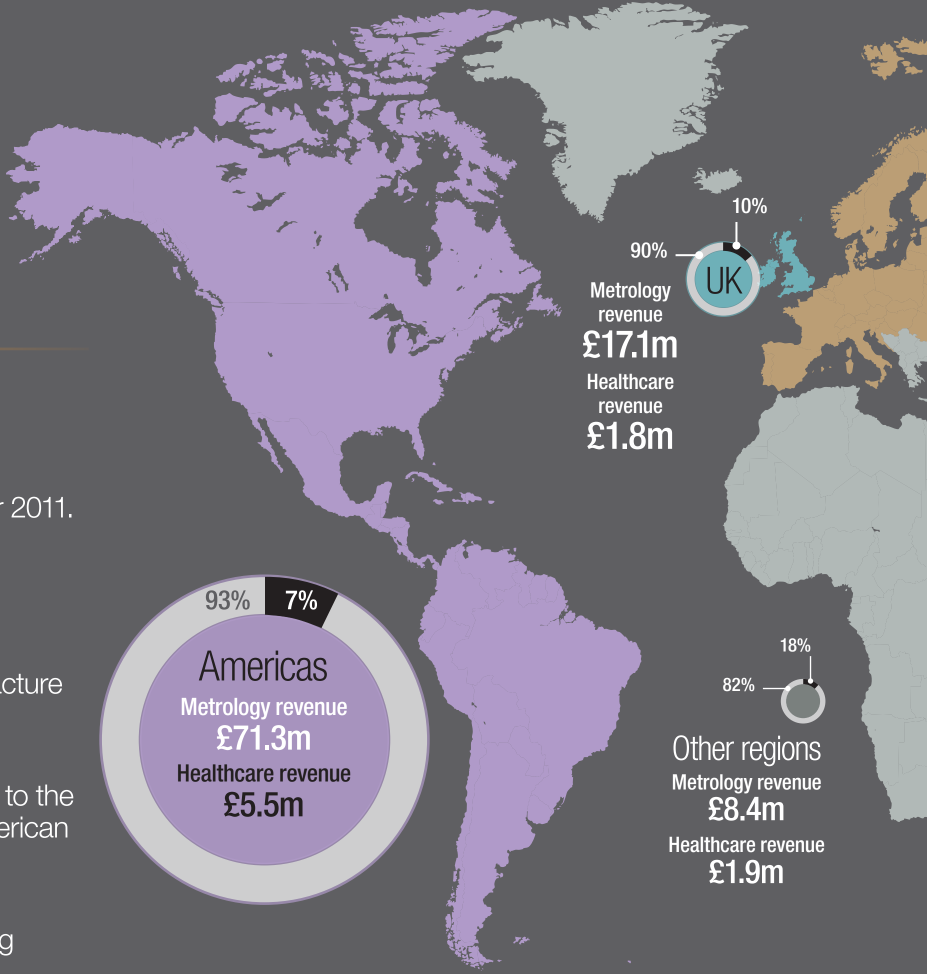
In situ monitors
Compact Raman systems for process monitoring and bulk material analysis enabling in situ monitoring in the laboratory, pilot plant, or process line.

Diagnostic systems
Automated multiplex diagnostic and clinical research systems, currently being developed by Renishaw Diagnostics Limited for infectious disease identification.

See more at **www.renishaw.com**

Our markets/**Delivering solutions globally**

The Group has operations in 32 countries from where it distributes and supports products for its global customer base, with 94% of sales outside the UK. It manufactures its products in the UK, Ireland, India, Germany, USA and France



Metrology
Healthcare

Key new facilities

Miskin, South Wales

Purchase of 193 acre site with 461,000 sq ft factory space completed on 30th September 2011. Refurbished 68,500 sq ft and production commenced in May 2012

Schaumburg, USA

Refurbished and re-occupied a 16,000 sq ft building in 2012 now partially used to manufacture dental structures for the US market

San Pedro Garza García, Mexico

New subsidiary opened to give local support to the Group's expanding Mexican and Central American customer base

Mississauga, Canada

Acquired and refurbished 17,000 sq ft building for future growth of Canadian subsidiary

Barcelona, Spain

Re-located to newly acquired premises close to Barcelona airport

Powergen

Key drivers

More traceability of components in systems for oil and gas production

Manufacture of large components for civil nuclear and wind energy

Energy costs increasing focus on maximising output from machinery

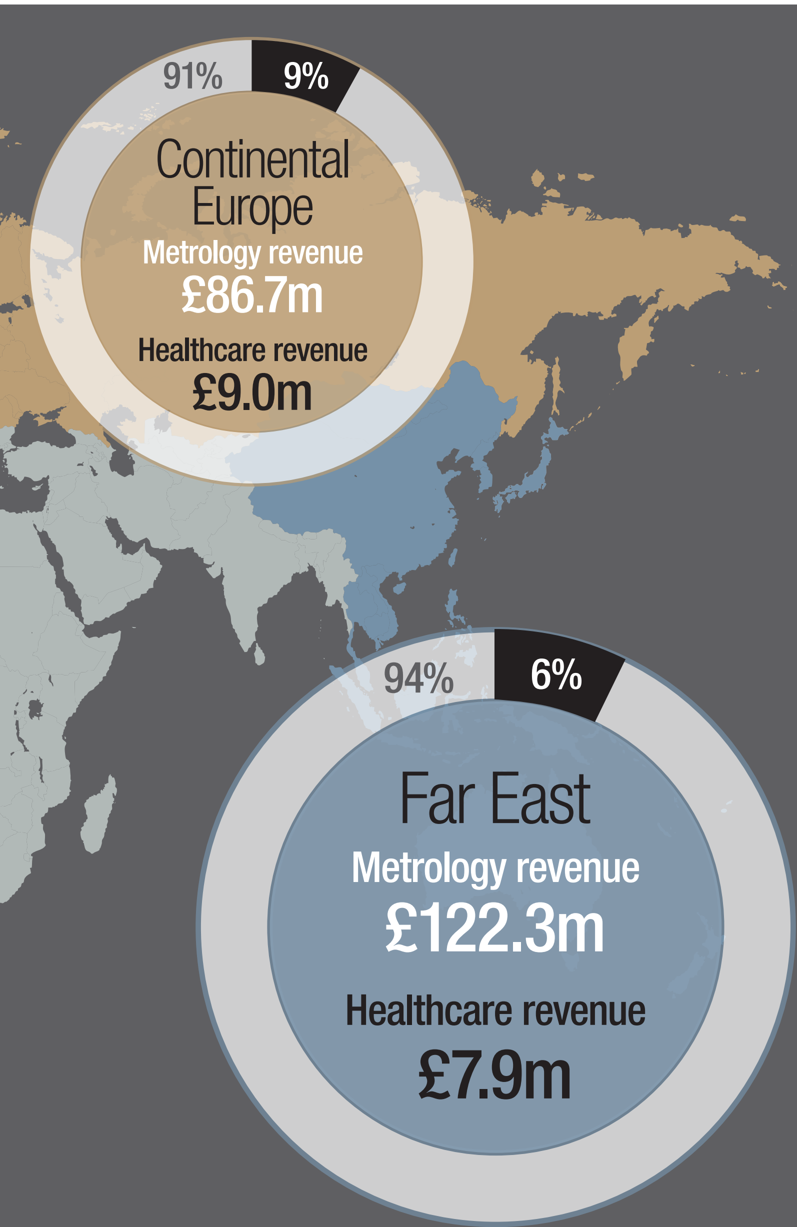
Medical

Key drivers

Neurological disorders require highly precise surgical therapies

Growing demand for cosmetic dentistry with superior aesthetics

Need to rapidly diagnose infectious diseases for faster, more specific treatments



Agriculture

Key drivers

Increasing demand for meat products from developing nations

Increasing demand for biofuels to reduce carbon emissions

Greater investment in machinery for intensive farming capabilities

Automotive

Key drivers

Strong investment in manufacturing capacity to meet growing global demand

Improved fuel efficiency requires tighter tolerances on powertrain components

Cost efficiencies and automated processes required throughout the supply chain

Aerospace

Key drivers

New aircraft production to meet growing global demand for civil air transport

New fuel efficient engines with complex parts requiring faster measurement

Improvements to fuel efficiency by minimising airframe weight

Consumer products

Key drivers

Rapid growth in consumer products

New technologies (e.g. OLED) prompting flat screen factory investment

New generations of electronic devices demand precision manufacturing systems

Construction

Key drivers

Major infrastructure projects in BRIC and USA driving heavy equipment sales

Skills shortages requiring more automation in equipment manufacturers

Enhanced safety standards for mines necessitates surveying tools

Our structure/**Board of directors and company secretary**

Full biographies of the Board of directors are available online: see **www.renishaw.com/directors**

Sir David McMurtry (72)

CBE, RDI, FRS, FREng, CEng, FIMechE

Chairman and Chief Executive.

- Formerly employed by Rolls-Royce plc, Bristol, for 17 years, latterly holding the positions of Deputy Chief Designer and Assistant Chief of Engine Design of all Rolls-Royce engines manufactured at Filton, Bristol.
- Invented the original measuring probe in the early 1970s and co-founded Renishaw with John Deer in 1973.
- 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 (74)

Deputy Chairman.

- Trained as a mechanical engineer and worked for Rolls-Royce plc, Bristol, for 14 years.
- Co-founded Renishaw with Sir David McMurtry in 1973. Managing Director of Renishaw from 1974 to 1989, primarily involved in the commercial direction of the Group, with particular emphasis on marketing and the establishment of the Group's wholly-owned subsidiaries.
- Responsible for group manufacturing and chairman of the overseas marketing subsidiaries.

Ben Taylor (63)

CEng, FIMechE

Assistant Chief Executive.

- Before joining Renishaw Inc as President in 1985, he was the Director of Engineering at Sheffield Measurement, USA.
- Appointed to the Board of Renishaw plc in 1987.
- Responsible for group marketing, international operations, human resources and group quality.
- Ben also reports to the Board on corporate social responsibility matters.

Allen Roberts (63)

FCA

Group Finance Director.

- Qualified as a Chartered Accountant in 1972 with Peat, Marwick, Mitchell & Co. before joining Renishaw in 1979.
- Appointed to the Board of Renishaw plc in 1980.
- Heads group finance, business systems and Wotton Travel Ltd.

Geoff McFarland (44)

Group Engineering Director.

- Graduated with a BEng in computer aided mechanical engineering at Heriot-Watt University, where he subsequently worked for several years as a research associate.
- After working briefly in the high-volume manufacturing electronic sector, joined Renishaw in 1994 and appointed to the Board of Renishaw plc in 2002.
- Heads the group engineering function and is also responsible for group IP and patents.
- Geoff is a non-executive director of Delcam plc.

Terry Garthwaite (65)
FCA

Non-executive director.

- Member of the Nomination and Remuneration committees and Chairman of the Audit committee.
- Appointed to the Board of Renishaw plc in July 2003.
- Formerly Group Finance Director at Senior plc.
- Terry is a non-executive director of Brammer plc and Wilmington Group plc.

David Snowden (75)
FCA

Non-executive director.

- Member of the Nomination and Audit committees and Chairman of the Remuneration committee.
- Appointed to the Board of Renishaw plc in July 2003.
- Formerly Senior Partner of KPMG in South Wales.

Bill Whiteley (63)
FCMA

Senior non-executive director.

- Member of the Nomination, Audit and Remuneration committees.
- Appointed to the Board of Renishaw plc in June 2008.
- Formerly Chief Executive at Rotork plc.
- Bill is also the Chairman of Spirax-Sarco Engineering plc, Hill and Smith Holdings plc and Brammer plc.

Dr David Grant (64)
CBE, FREng, FLSW, CEng, FIET

Non-executive director.

- Member of the Nomination, Audit and Remuneration committees.
- Appointed to the Board of Renishaw plc in April 2012.
- Currently Vice-Chancellor of Cardiff University and previously held leadership positions at Dowty Group and GEC.
- Also member of the governing board of the Technology Strategy Board and Chair of the oversight committee for "Catapult" centres. Non-executive director of the Defence Science and Technology Laboratory. Chair of STEMNET.

Norma Tang (48)

Head of Legal and Company Secretary.

- Joined Renishaw in 2001.
- Qualified as a solicitor in 1988 and since then has specialised in company and commercial legal matters, advising business clients and as an in-house counsel.
- Heads the legal and company secretariat function, advising the Board on legal compliance and governance matters.

Our structure/**Executive Board**

Sir David McMurtry

Chairman and Chief Executive, Chair of Executive Board.

See pages 12–13 for biography

John Deer

Deputy Chairman.

See pages 12–13 for biography

Ben Taylor

Assistant Chief Executive.

See pages 12–13 for biography

Allen Roberts

Group Finance Director.

See pages 12–13 for biography

Geoff McFarland

Group Engineering Director.

See pages 12–13 for biography

Leo Somerville (54)

President, Renishaw Inc.

- Joined Renishaw in 1984
- Initially served as Business Manager for machine tool probing and calibration products at Renishaw Inc.
- Became President of Renishaw Inc in 1993 and appointed to Executive Board in 2004.
- Appointed as a member of the International Sales and Marketing Board in 2008.

Dr Tim Prestidge (41)

CPhys FInstP

Director and General Manager.

- Joined Renishaw in 1990 through Renishaw's sponsored student scheme.
- Over 12 years as Director and General Manager of Machine Tool Products Division. Also now Director and General Manager of Styli and Fixturing Products Division.
- Appointed to the Executive Board in 2008.

Dave Wallace (41)

M.Eng

Director and General Manager.

- Joined Renishaw in 1989 through Renishaw's sponsored student scheme.
- Worked in various functions of the business including a one year secondment at Renishaw's German subsidiary before being appointed Director and General Manager of CMM Products Division in 2002.
- Appointed to the Executive Board in 2008.

Norma Tang

Head of Legal and Company Secretary.

See pages 12–13 for biography

The International Sales and Marketing Board

John Deer

Deputy Chairman,
Chair of International Sales and Marketing Board.

See pages 12–13 for biography

Allen Roberts

Group Finance Director.

See pages 12–13 for biography

Ben Taylor

Assistant Chief Executive.

See pages 12–13 for biography

Kevin Gani (40)

Director of Sales Development.

- Joined Renishaw in 2011 and was appointed Director of Sales Development in 2012.
- Over 20 years' experience in business development and sales management.
- Appointed as member of the International Sales and Marketing Board in 2012.

Rainer Lotz (47)

Managing Director, Renishaw GmbH.

- Joined Renishaw in 2006.
- Over 15 years' experience in related positions.
- Appointed as member of the International Sales and Marketing Board in 2008.

Jean-Marc Meffre (58)

Managing Director Far East.

- Joined Renishaw in 1988 as Managing Director of Renishaw France.
- Moved to Renishaw Hong Kong in 1997. Responsible for all the Far East operations, except Japan.
- Appointed as a member of the International Sales and Marketing Board in 2008.

Masumu Oishi (54)

President Renishaw KK.

- Joined Renishaw in 1982 and was appointed as president of Renishaw KK in 2002.
- Over 30 years' experience in Japan's machine tool industry.
- Appointed as member of the International Sales and Marketing Board in 2008.

Rhydian Pountney (51)

General Manager ROW sales division.

- Joined Renishaw in 1979.
- Appointed as a member of the International Sales and Marketing Board in 2008.
- Over 30 years in sales and marketing. Responsible for 10 overseas operations including India and Russia.
- Also a member of the UKTI's Advanced Engineering Advisory Board.

Leo Somerville

President, Renishaw Inc.

See page 14 for biography

Norma Tang

Head of Legal and Company Secretary.

See pages 12–13 for biography

Overview
Performance
Governance
Financial statements
Shareholder information

Strategy and business model

Strategic milestones:

- We completed the purchase of the Miskin premises in South Wales on 30th September 2011 and have subsequently completed refurbishment of 68,500 sq ft for the provision of additional manufacturing space, to accommodate our rapid growth, and commenced manufacturing.
- New product releases during the period include the RESOLUTE™ ETR, which is our absolute encoder with extended temperature range for operation in very cold environments such as aerospace, the XR20-W rotary axis calibrator (front cover image), the REVO® SFP1 surface finish probe (p6 image) and a multi-axis option for our Productivity+™ software.
- In November, Renishaw Diagnostics Limited, which is developing the RenDx® multiplex assay system for infectious disease research and diagnosis, achieved certification to ISO 13485:2003.
- A new subsidiary was established in Mexico to market the Group's products in that country and other Central American countries.
- The Applications Academy continues to evolve. Programmes are being developed including the Graduate Induction Programme, the Application Engineers Programme and the Sales Programme. Engineers from Germany, China, India, UK and many other countries have attended training throughout the year.
- We have invested significant resource to benefit from the high-end additive manufacturing sector as well as establishing solid foundations to grow revenue from our very well received Equator™ product line.
- We acquired R&R Sales LLC, a US-based supplier of fixtures for the global measurement and inspection market, increased our shareholding in Measurement Devices Limited (MDL) from 49% to 66% and acquired Thomas Engineering and Construction Limited, a company based in Canada in order to strengthen our Canadian distribution and services channel for laser surveying products.

Securing growth for the long term:

1

Continual research creating strong market positions in innovative products

We invested £47.9m on R&D and engineering to maintain market leading positions in our various technologies. Much of our technology is proprietary and protected by patents and/or process know-how. New products are principally developed in-house or by acquisition. Renishaw consistently takes a long-term view of engineering and science-based projects, but as our Group Engineering Director, Geoff McFarland says, "It requires a passionate belief in the ultimate commercial viability of the technology, and the ability to hold your nerve, because the length of time from fledgling technology to commercial launch can be significant."

2

Efficient high-quality manufacturing

The highly exacting specifications of Renishaw's products mean that efficient, innovative and high-quality manufacturing facilities are vital. Our manufacturing plants are located in UK, Ireland, India, Germany, USA and France. We believe that top-line revenue growth is enhanced by providing maximum flexibility and scalability of manufacturing capability for our rapidly growing businesses. We have recently purchased a manufacturing facility in Miskin, South Wales, which offers 461,000 sq ft of existing factory space on a 193 acre site. We have also recently obtained planning permission to refurbish 26,000 sq ft at our site near Dublin, Ireland.

3

Strong market presence and focus on emerging markets

We are focused on expanding our business globally to allow us to access increased markets worldwide, with particular emphasis on growth economies such as China, Latin America and India. We have established over 60 offices in 32 countries, whilst an extensive network of distributors covers all other major industrialised nations. We have recently opened a new subsidiary in Mexico to support that country and other Central American countries. We are continually investing in our facilities, including recently, Italy, India, Canada and Spain and have refurbished our 16,000 sq ft building in Schaumburg, USA. We have also enlarged our offices in Brazil, China and Germany.

4

Building the business via acquisition

We seek to enhance our product portfolio, speed geographic market penetration and gain access to new technologies and customers via acquisition. We focus on businesses that have strong complementary technology and people.

"To assure success, **we undertake as many of our core activities as possible**, including design, manufacturing, sales and support."

"We aim to continue **at the forefront of the metrology industry** whilst applying our **significant measurement expertise** into our growing healthcare business."

5

Customer support

We support our customers at all times via our global presence, which allows us to build long-term partnerships as they grow and develop in new directions.

6

Consistent organic growth

The Group has a long history of profitable growth with excellent prospects for future growth, driven by the emerging markets in the developing world and the increasing requirement for solutions that reduce energy consumption. Total sales growth over the last 30 years has averaged over 16% per annum.

7

People

People lie at the heart of the business and we aim to attract, retain and develop high-quality staff that are fully committed to Renishaw. We invest in our facilities and organisation to create environments which stimulate positive engagement, high levels of loyalty and team building. We have a performance-based work culture and are always looking at ways to further engage and empower employees.

8

Focus on becoming a solutions provider

We are seeking to move from supplying technology towards delivering solutions. This is evident in our new product lines (dental, gauging, neurological, diagnostics, additive manufacturing). This is also increasingly the case in our core businesses such as CMM, machine tool and calibration. This is driving us to expand our applications engineering capabilities, to retrain our sales force and to invest in facilities. Solutions also change the nature of our engineering. They require applications software to deliver the customer experience, an area in which the business has invested heavily in recent years (such as MODUS, Productivity+, dental CAD/CAM, diagnostics, surgical planning and Apex), using engineers both in the UK and India.

Business review

Review of 2012

Despite continuing global macroeconomic uncertainties, we managed to achieve record revenues and record profits, whilst still investing strongly in product development, people, infrastructure, marketing channels and manufacturing capacity, to prepare the business for future growth.

The purchase of the Miskin site was completed at the end of September 2011 and an area of 68,500 sq ft (approximately 15%) was refurbished to allow component part production to commence during May 2012. A multi-million pound investment was also made during the year in 29 CNC machine tools, of which 17 will be located at Miskin and the remainder at our Stonehouse machine shop. In June 2012, permission was also granted for a 26,000 sq ft expansion of our existing Irish manufacturing facility, whilst associate business RLS moved to new purpose-built facilities in Slovenia.

With projected future growth in R&D expenditure across all product lines and the required growth in corporate support functions, there were also planning applications submitted and approved for expansion at New Mills (a phased development of 230,000 sq ft) and Charfield (50,000 sq ft).

In other territories, our Spanish subsidiary completed the purchase, refurbishment and move to a new facility near Barcelona airport, in Italy we purchased the building which we have occupied since the early 1990s, Renishaw Inc refurbished and re-occupied a 16,000 sq ft building (formerly tenanted) to provide space for production of dental structures and expansion of our US business, whilst across the Great Lakes we acquired a 17,000 sq ft facility in Mississauga to allow for growth in our Canadian business.

An important aspect of our business for many years, and especially key at a time of strong growth, new facilities and company acquisitions, has been our investment in Information Technology (IT) systems. Across the Group's worldwide operations we employ common hardware and software systems, such as customer relationship management (CRM) software, which bring business efficiencies such as lower costs of maintenance, less reliance on local IT staff and the ability to remotely diagnose issues from the Group's central IT functions. It is also these efficiencies that enable Renishaw to be one of the quickest reporting companies listed in the London FTSE index.

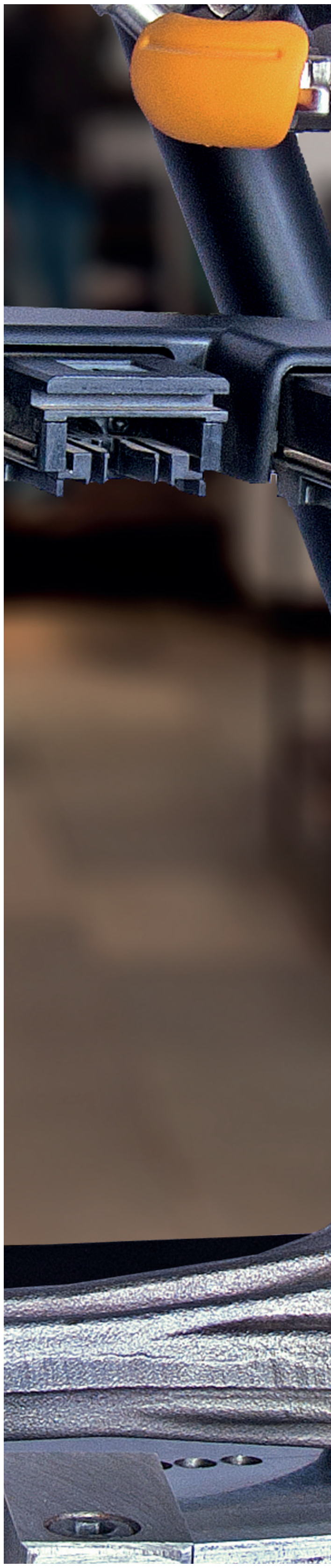
During the year we worked on multiple IT projects including infrastructure at Miskin and the new additive manufacturing business based in Staffordshire. Recognising the benefits of faster communication, plus time and cost savings, there were also new videoconferencing systems installed at our offices in Bangalore, Old Town (Wotton-under-Edge), Staffordshire and the York office of our subsidiary Measurement Devices Limited (MDL).

There was also a renewed focus on recruitment, enabling us to achieve both an increase of 229 staff during the year (against a backdrop of skills shortages) and to revitalise our graduate recruitment programmes, which will see an additional 40 young people start their careers with Renishaw during summer 2012.

Client insight

"Quality is critical to us, we constantly strive to achieve 100% quality, at the same time as improving efficiency and passing those savings on to the customer. Equator™ has taken us to another level."

Mr Shantibhai Changela
Managing Director, Kishan Autoparts, Gujarat, India.



Costs and gauging times cut by 80% and accuracy maintained despite temperature variations

Kishan Autoparts based in Gujarat, India, is a world leader in the manufacture of engine connecting rods for many of the world's leading manufacturers in light and heavy commercial vehicles, passenger cars, tractors, marine engines, earthmoving equipment and compressors.

A new Renishaw Equator gauging system is currently used to inspect over 70 variants of connecting rods, typically taking just 55 seconds, which is up to 80% faster than Kishan's existing air gauges.

The Equator system can also check all key dimensions, whereas 3 or 4 different expensive air gauges are needed to check each rod variant. Despite shop floor temperature variations of around 20°C, measuring performance has also been unaffected due to Equator's unique "re-mastering" process.

See more at **www.renishaw.com**

Business review continued

Above: Alejandro Silva, the new Director and General Manager of Renishaw Mexico

Above: Geoff McFarland and Leo Somerville with John and Debbie Ray of R&R Sales LLC (centre)

Market conditions

After the strong global market recovery seen during the 2011 financial year, driven by a combination of re-stocking and the recovery of capital investments in manufacturing capacity, it was inevitable that this year growth would be at more modest levels.

In the first half of the year we saw good growth in the Americas and Europe, but as a result of a 25% decrease in sales to China, primarily due to an industry and worldwide slowdown in the micro-electronics and opto-electronics markets, Far East sales were lower than the previous year. However, an exceptionally strong final quarter for sales to China, driven by projects for consumer products, meant that all key geographic areas grew above last year.

Global investment in production systems for automotive, civil aviation, agriculture and energy (including oil, gas and renewables) continued to boost sales. These sectors all require more complex technologies that require tighter levels of process control and measurement accuracy, whilst at the same time aiming for more cost-effective processes. Renishaw systems help businesses to achieve these aims. The electronics sector also showed signs of recovery which is important for our encoder product line.

Strategy

During the year there were examples of actions that support several of our key strategic aims of strong local customer support, fast market entry via acquisition and an increased focus on delivering customer solutions.

A new subsidiary was created in Mexico to provide local support and to expand our marketing activities in this growing market, whilst in February 2012 the Group acquired Thomas Engineering and Construction Limited, a Canadian-based company which distributes products for MDL.

In April we acquired R&R Sales LLC, based in Michigan, USA, a supplier of fixtures for the global measurement and inspection market, to help gain access to an accessory which will be important to help drive sales of our Equator™ gauge and other metrology system sales made to end users.

To further support solution sales our Applications Academy also extended its programmes to include sales development training and expanded its geographic reach to train engineers from across the Group, including China and India.

Client insight

"Since we started using Renishaw probes and software, we have been able to consistently manufacture critical components. There has been a reduction of 66% in set-up time and we have stopped talking about component rejections and manual errors, as these have been eliminated completely."

H J Bishnu

Director, Associated Tools, Kolkata, India.

Precision manufacturer relies on Renishaw for the production of critical components

Associated Tools, a Kolkata based Indian manufacturing company, uses BFW, LMW and Hurco machine tools, each one fitted with Renishaw touch trigger inspection probes and tool setting systems, for supplying products to the defence industry. Prior to installing probes, and despite large investments in machines, the company was facing problems with slow machining cycle times, set-up idle times, operator errors and inconsistent quality.

Since adopting the machine tool probes, Associated Tools has benefitted from an elimination of component rejections and a 66% reduction in tooling set-up times. Additionally, with stable and predictable machining processes and automated machines, the company is well placed to compete for high-accuracy work.

See more at **www.renishaw.com**

Business review/**Manufacturing**

Above: Mark Moloney, Director and General Manager, Renishaw (Ireland) Limited and also responsible for manufacturing in India and Lyon, France.

Making a strong commitment to manufacturing

At the end of September 2011 we completed the purchase of a 461,000 sq ft manufacturing facility at Miskin, South Wales. Following the completion of the refurbishment of 68,500 sq ft of space and investment in CNC machine tools and associated plant, machining of component parts began in May 2012 on a single shift. Additional new staff have now been hired in preparation for the second shift which is commencing during August, and a third shift is planned to commence in early 2013.

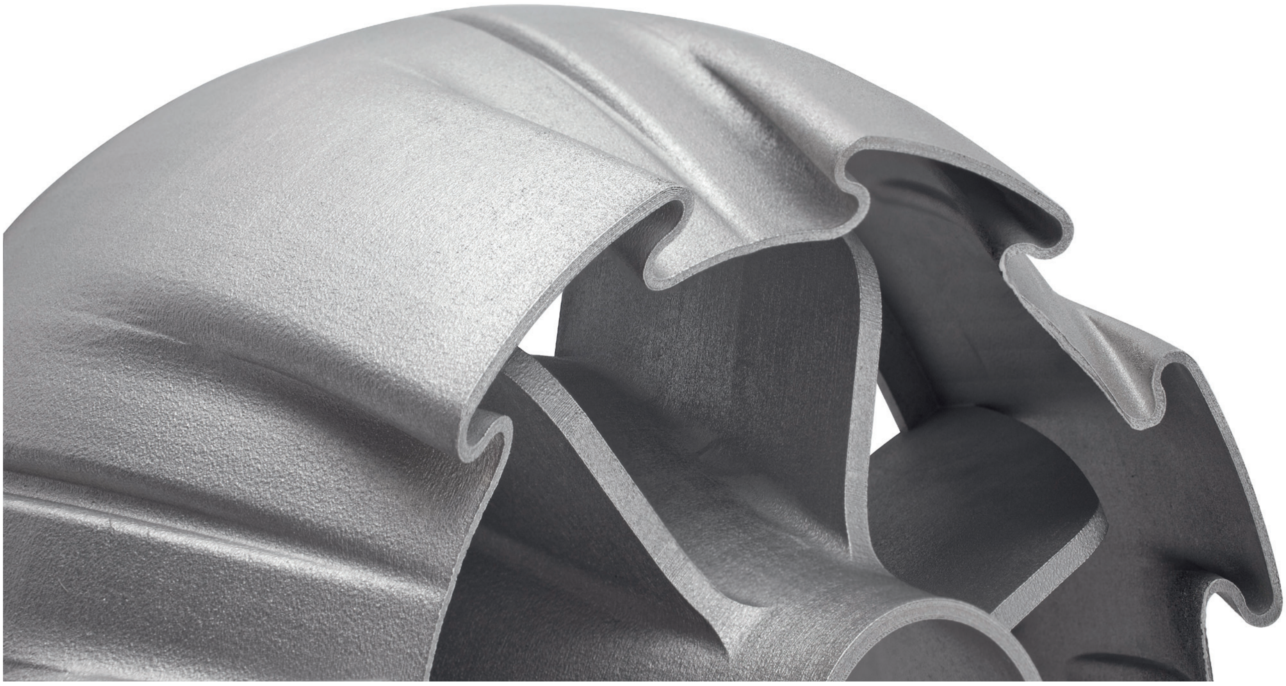
The Miskin site will provide additional capacity to enable the Group to meet its longer term manufacturing needs and the opportunity to source skilled employees from a wide geographic area due to the site's prime location close to the M4 motorway.

We have also received planning permission for a 26,000 sq ft expansion of our assembly facility near Dublin, Ireland.

The Miskin project has been overseen by Deputy Chairman John Deer (above right), who is responsible for group manufacturing operations, and Gareth Hankins (above left) Director, Group Manufacturing Services Division.

See more at **www.renishaw.com**

Business review/**Metrology**



Above: A demonstration component typical of those used for modelling flow dynamics of a turbine produced using a Renishaw laser melting machine

Performance

Growth came from almost all metrology product lines, including the additive manufacturing products business acquired last financial year through MTT Technologies. This new line has benefitted significantly from the market credibility of the Renishaw brand, our global distribution network, investment in additional demonstration machines and manufacturing infrastructure.

A key growth factor was the increasing use of machine tool probe systems by Asian manufacturers in the production of precision components for consumer products. With our extensive infrastructure investments in the Far East over many years and manufacturing capabilities, we are excellently positioned to provide the rapid supply and expert local support required by customers working in the fast-paced needs of this sector.

There was also significant growth in sales of the REVO® five-axis measurement system, especially in the automotive sector, where we have seen excellent adoption rates within manufacturing plants where historically our competitors have been the supplier of choice. The significant measurement throughput benefits offered by REVO have convinced several leading engine producers to switch suppliers.

Our subsidiary MDL also grew its business for high-speed laser measurement and large-scale scanning systems, driven by the requirement for enhanced safety standards when surveying mines and quarries, the desire to reduce time and costs for surveying large areas such as coastlines and ports, and increased use of traffic monitoring systems in urban areas.

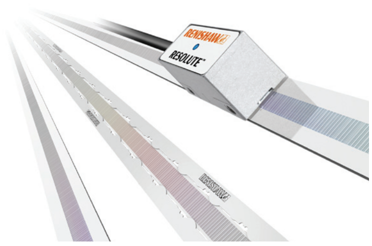
During the year we continued to build the infrastructure necessary to support sales and service of the new Equator™ gauge which is increasingly being accepted by the wider market as an alternative to traditional custom gauges. This new product also won two more international awards, being judged as winner in the "Best Quality Control Equipment" category at the UK's MWP Awards in April 2012 and also winning the Gold Award at the Techni-Show Innovation Awards held in The Netherlands during March.

Metrology revenue by region £m

	2012 £m	2011 £m
1 Far East	**122.3**	106.7
2 Continental Europe	**86.7**	79.4
3 Americas	**71.3**	60.6
4 UK and Ireland	**17.1**	12.7
5 Other regions	**8.4**	7.6
Total	**305.8**	267.0

Business review/**Metrology** continued

Above: MDL's laser scanning systems are complementary to Renishaw's existing products



Above: Technology focus includes ultra-high resolution position feedback encoders

Market conditions

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 skills shortages faced on a global basis in engineering and manufacturing is also driving increased investments in automated processes, many of which require our products.

Despite global uncertainties, our metrology products are supplied to sectors in which there are currently high levels of investment, notably automotive and civil aviation, where there is a drive to produce more fuel efficient engines, and consumer products produced in Asia that require precision-machined components.

Strategy for growth

A key focus is on developing technologies that provide patented products and methods which support our product strategies, with £34.6m (net of capitalisation costs) expenditure on R&D and engineering during the year. The current technology focus includes high-speed, high-accuracy dimensional measurement systems, motion controllers with enhanced high-speed performance, ultra high-resolution position feedback encoders and the development of additive manufacturing systems with faster processing capability. We will also invest in businesses that provide complementary technologies for fast market access, as demonstrated by the purchase of the R&R fixtures business.

We constantly evaluate new opportunities for existing technologies to expand upon our traditional customer base, especially within the metal cutting sector. A good example is the Equator gauge which transfers existing technologies employed in our dental scanning and milling systems to a new shop floor measurement application. Whilst many sales will be to existing customers, we are also seeing sizeable opportunities for applications where historically no Renishaw products have been utilised.

In the past we have been very much a component supplier, with our 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" and reducing the risks of over-reliance on large customers.

Client insight

"REVO®, the flexible measuring system, significantly increases our measuring capacity and also scans deep-set features with high accuracy".

Herbert Grau
Quality Assurance, MTU Friedrichshafen GmbH, Germany (manufacturer of commercial internal combustion engines).

Five-axis measurement speeds up inspection at Kawasaki

Kawasaki's Maryville, Ohio, plant in the USA produces single and twin-cylinder air-cooled or water-cooled engines, 1,000 cc or smaller, for commercial and consumer lawnmowers, as well as for a sister plant that manufactures all-terrain and utility vehicles.

Co-ordinate measuring machines equipped with Renishaw REVO® systems have significantly reduced the time to collect measurement data from complex parts, reduced the need for expensive part fixturing, and also reduced probe calibration times from around six or seven hours, to just 45 minutes. Additionally the increased throughput achieved by the REVO systems is allowing faster feedback of data to Kawasaki's manufacturing and R&D departments to aid decision-making on product and process design.

See more at **www.renishaw.com**

Business review/**Metrology** continued

Reliable positioning eliminates expensive machine crashes

Miniaturised components used in modern micro-electronics and micro-optics are made almost exclusively on fully-automated Micro Assembly Cells, for applications in the automotive sector, telecommunications and IT. Amicra Mikrotechnologie GmbH in Regensburg, Germany, develops complex machines with high levels of accuracy and reliability, some capable of mounting micro-components with an accuracy of up to ±0.5 microns.

The company's NovaPlus series incorporates handling units, work tables and other processing units, designed to pick, place, solder, bond and inspect components, at high speed and with simultaneous motion. The many horizontal and vertical axes within the machines use Renishaw's RESOLUTE true-absolute encoders to reliably detect the position of each machine element to avoid crashes and expensive downtime.

See more at **www.renishaw.com**

Client insight

"The main advantage of the RESOLUTE encoders is that they detect the absolute position at all times without a reference run. Consequently, the Micro Assembly Cells can start their automated cycle quicker, without relying on the operator's vigilance, after a stoppage or on commissioning. Process reliability is improved, unproductive times are reduced and expensive crashes are prevented."

Horst Lapsien
Managing Director, Amicra Mikrotechnologie GmbH, Regensburg, Germany.

Key developments

A major success during the year was the launch of our XR20-W rotary axis calibrator at the EMO trade show in Hannover, Germany. Demand for this new wireless product, which works together with our laser interferometer system to assess the performance of rotary axes, was significantly higher than initial forecasts.

There was significant focus on introducing the newly Renishaw branded additive manufacturing technology, with many of our trade stands featuring laser melting machines and several new events attended specifically for rapid manufacturing products.

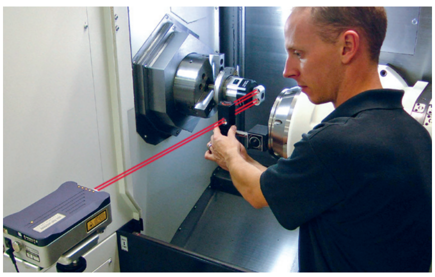
There was also a range of new position encoder models introduced during the year. RESOLUTE™ ETR is a variant of our market-leading absolute optical encoder with extended temperature range, allowing it to operate in very cold environments such as aerospace and observatories. There were also three new protocols added during the year for the standard RESOLUTE encoders, including for the Mitsubishi Melservo-J4 range of servo amplifiers, which are regularly used in industries such as electronic assembly, and Fanuc serial communications for linear encoding in the machine tool industry.

The position encoder line was further strengthened by LinACE™, a new heavy-duty absolute linear magnetic encoder designed and manufactured by our associate company RLS, that integrates into hydraulic, pneumatic and electromechanical actuators as a feedback element for position or velocity.

For users of CMMs we introduced the REVO® SFP1 probe which allows surface finish measurement to be fully integrated within standard dimensional inspection routines, eliminating the need for hand-held sensors or dedicated machines. Other products included UCCFusion, a controller/amplifier for entry level 3-axis computer controlled CMMs with touch trigger probing.

For our machine tool probing products there were also new software releases including 64-bit support and a multi-axis option for our Productivity+™ software, whilst our OMV Pro software for on-machine verification now includes more advanced geometric dimensioning and tolerancing functionality.

MDL released new variants of its Dynascan™ 3D mobile mapping product range, including Conic™, which incorporates two lasers into a single scanning laser module to achieve a light, streamlined design that mounts onto a wider variety of mobile platforms. The Dynascan HD100 is also the first entry into the high definition 3D mobile laser scanning market.



Above: XR20-W rotary axis calibrator

Outlook

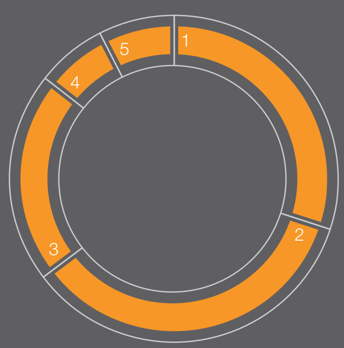
The outlook for global investment for production systems in automotive, civil aviation, consumer products, agriculture, construction and power generation (including oil, gas and renewables) continues to look favourable. These trends should all result in increased demand for our metrology products to help drive efficiencies, reduce waste, increase automation and aid product measurement traceability. We are also expecting a continuing recovery in the electronics sector which will especially benefit our position encoder product line.

Above: LinACE absolute magnetic linear encoder

Business review/**Healthcare**

Above: Renishaw inVia Raman Microscope coupled with a Bruker Nano Systems Innova atomic force microscope. This combination enables the chemical and topographic analysis of biological samples.

Healthcare revenue by region £m



	2012 £m	2011 £m
1 Far East	**7.9**	7.8
2 Continental Europe	**9.0**	6.3
3 Americas	**5.5**	4.5
4 UK and Ireland	**1.8**	2.1
5 Other regions	**1.9**	1.0
Total	**26.1**	21.7

Performance

Growth came from across all current healthcare product lines, with spectroscopy achieving record annual sales driven by increased applications in nanotechnology, advanced materials and life sciences.

During the first half of the year, we undertook a review of our healthcare business and refocused part of the activities to a smaller number of projects, particularly in our neurological products line. As part of this review we also decided to withdraw from the supply of radio frequency coils for use in magnetic resonance imaging (MRI) scanning research which was no longer considered core to our business strategy. This decision and the outcome of the neurological products business review resulted in a number of staff being reallocated to our metrology business, where there were vacancies for skilled engineers.

Renishaw Diagnostics Limited, which is developing the RenDx® multiplex assay system for infectious disease research and diagnosis, achieved certification to the international medical device standard ISO 13485:2003 for the design, development, product manufacture and management of subcontracted manufacture of molecular diagnostic systems for infectious diseases.

In our neurological business, the next generation of neuroinspire™ surgical planning software was CE marked in January 2012 and is now commercially available in most European Union countries. The software continues to be used in planning for Deep Brain Stimulation (DBS) procedures, a treatment which is effectively used in disorders of the brain, such as chronic pain, essential tremor, dystonia or Parkinson's disease. We are seeing increased international interest in neuroinspire from neurosurgical centres in Europe and Japan.

There was also an increase in the number of neuromate® robots sold for neurosurgical sterotactic use. Frenchay Hospital in Bristol, also carried out the UK's first Stereo Electro Encephalography (SEEG) procedures to aid the treatment of chronic epilepsy using our robot as a stereotactic platform.

Performance continued

Our dental business saw increasing sales of structures for crowns and bridges, especially our LaserPFM™ metal structures, made using an additive manufacturing process, which are at record production levels. The decision to develop our dental CAD/CAM process into more of an "open" system is also increasing production volumes by allowing users of a wide range of scanners to send their data to our central dental manufacturing units, including our new facility based in Schaumburg, Illinois, USA.

Market conditions

Despite global economic uncertainties, there are many factors driving our healthcare business. With increasing life expectancy in developed countries there are greater incidences of degenerative neurological diseases which require medical treatments. In developing markets there are also higher levels of wealth at a national and individual level, which are driving demand for higher quality medical treatments and this often means the purchase of more technologically advanced products. There also continues to be strong global funding for biomedical research where our spectroscopy systems are increasingly seen as a powerful analytical tool.

Strategy for growth

As with our metrology business, a key focus is developing technologies that provide patented products and methods, with £10.4m (net of capitalisation costs) of expenditure on R&D and engineering during the year. The regulatory requirements for healthcare products also demand significant investment, but make barriers to entry high for competitive products.

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.

We are 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, software and machining technologies for dental CAD/CAM products and the application of 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.

We also actively consider acquiring businesses and/or technologies that we feel are complementary to our existing healthcare products.

Key developments

In December 2011, we introduced a new integrated Raman AFM package, developed in collaboration with Bruker Nano, that consists of a Renishaw inVia Reflex Raman spectrometer coupled to a Bruker Innova compact AFM (atomic force microscope). By combining both analytical techniques users can measure physical properties at molecular resolution and conduct chemical analysis on the sub-micrometre scale.

Our spectroscopy product line also introduced the RA800-series of benchtop instrument solutions, providing research-grade Raman microscopy performance with simple-to-use software for materials analysis solutions across a wide range of application areas. The instruments can be configured in a range of variants, which differ in excitation wavelength, spectral coverage, sample handling and software, enabling OEM companies to provide a system that is optimised for customers' requirements. One variant is already in use with Renishaw Diagnostics, where it forms part of the RenDx RUO multiplex assay system.

At the Pittcon 2012 show in March 2012, we demonstrated our new 3D Raman imaging capability for our inVia Raman microscopes, enabling users to collect and display data from within transparent materials and provide full 3D manipulation of their data.

At the end of the financial year we introduced a new process to dental laboratories that allows them to design dental abutments which are then produced using an additive manufacturing process. Our LaserAbutments™ are metal structures that connect to a dental implant and to which are attached a crown or bridge. Within our dental business we also launched a new option for users of 3shape™ dental scanners, that allows them to submit data to our central manufacturing facilities.

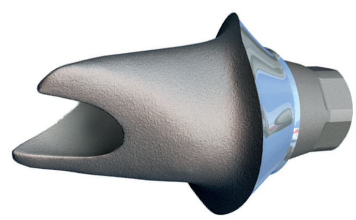
As noted above, within our neurosurgical business a key development was the use of our neuromate® robot in the UK's first SEEG procedure to aid in the treatment of chronic epilepsy (see page 31). We expect that the increasing awareness will lead to further robot sales.

Outlook

Following restructuring within the healthcare business, we anticipate an improved performance in the future.

With an ageing global population there are rising incidences of neurological disorders which will require surgical therapies and we are well placed to supply surgeons with the products and techniques to support such procedures. We have been preparing for the future by investing in our global supply chain infrastructure and are actively seeking regulatory approval for the neuromate in the USA and Japan to enable us to make it commercially available in those countries.

Above: Dental milling machines at central manufacturing facility in Stonehouse



Above: CAD image of a new LaserAbutment™

Business review/**Healthcare** continued

Above: Raman spectroscopy seminar in Tokyo, Japan

Above: RA800 series benchtop Raman instrument

The increasing pressure on public finances in many countries is also leading the drive for faster, more cost-effective healthcare treatments and a reduction in the length of time that patients spend in hospitals. One aspect of this is the need to rapidly diagnose infectious diseases for hospitalised patients, so that they can be treated with more specific antibiotics or therapies which should lead to faster recovery and discharge. Renishaw Diagnostics is responding to these challenges with its development of the RenDx multiplex assay system.

Especially in emerging markets, rising personal wealth is leading to increased demand for cosmetic dentistry with high-quality aesthetics, whilst in markets where personal incomes and healthcare budgets are under pressure there is demand for lower cost dental crowns and bridges. Our dental products are meeting both these requirements and we are seeing especially good growth in volumes of our low-cost metal dental structures produced using a laser sintering process.

Commercial applications for Raman spectroscopy continue to grow, including new fields such as nanotechnology, advanced materials and the life sciences. One exciting area is the ability to quickly analyse graphene, a material which has great promise as a key material for future electronic devices. Within healthcare, researchers are also investigating the potential of Raman spectroscopy to distinguish between cancerous and non-cancerous tissue in vivo and to identify stem cells from differentiated cells in the field of regenerative medicine.

Client insight

"We've been using neuromate® since 2001, implanting 2,039 electrodes with it for SEEG procedures. In late 2008 we started to use the robotic system for all trajectories, making surgery faster, more accurate and virtually without any 3D space constraints. neuromate assisted implantations were not affected by any major complications."

Dr Francesco Cardinale
Neurosurgeon, "Claudio Munari" Centre for Epilepsy and Parkinson Surgery, Niguarda Hospital, Milan.

Stereotactic robot platform supports SEEG treatment to improve patient outcomes

The conventional approach to assessing patients with epilepsy originating outside the temporal lobe of the brain is to insert subdural grids; electrodes laid on the surface of the brain to record seizure onset. Says Mr David Sandeman, Consultant Neurosurgeon at Frenchay Hospital, Bristol, UK: "This requires major surgery with significant risk of complications and results are also imprecise as recording of seizure onset in the deep structures of the brain is suboptimal."

A minimally invasive solution now used by Mr Sandeman, is the stereotactic placement of multiple deep brain electrodes – Stereo Electro Encephalography (SEEG). "The precision required to do this safely has been provided by the Renishaw neuromate® surgical robot. The first case was carried out in October 2011 and the diagnostic quality of videotelemetry has been enhanced and the complication rate of the surgery reduced by over 90%."

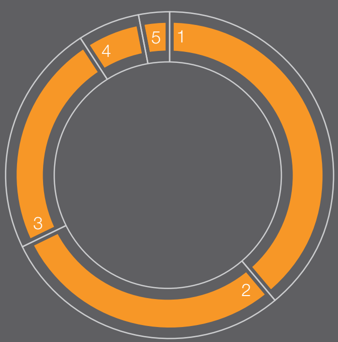
See more at **www.renishaw.com**

Business review/**Financial**

Group revenue for the year was a **record £331.9m**, an **increase of £43.2m**.

Allen Roberts FCA
Group Finance Director

Revenue – geographical analysis



	2012 %	2011 %
1 Far East	**39**	40
2 Continental Europe	**29**	30
3 Americas	**23**	23
4 UK and Ireland	**6**	5
5 Other regions	**3**	2

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).

Financial performance

The Group is reporting a record set of financial results with both increased revenue and profit. We have significantly increased our investment in research and development expenditure, provided additional manufacturing facilities, expanded our distribution infrastructure and made further acquisitions whilst maintaining a strong balance sheet.

Revenue

Group revenue for the year was a record £331.9m, an increase of £43.2m, or 15%, over the previous year of £288.7m largely driven by growth in our metrology segment which increased by £38.8m (including £6.9m from acquisitions made in the previous year) to £305.8m, an increase of 15%. Our healthcare segment increased by 20%, from £21.7m to £26.1m.

The table on page 33 shows the analysis of revenue by geographical market.

Geographical analysis of our metrology and healthcare segmental businesses is shown in the Business review earlier in this report.

£86.0m
Profit before tax for the year

£47.9m
Total engineering costs including new product research and development expenditure

£242.4m
Total equity at the end of the year

Geographical analysis – total

	2012 sales at actual exchange rates £'000	2011 sales at actual exchange rates £'000	Increase £'000	Increase %
Far East, including Australasia	**130,169**	114,553	15,616	+14%
Continental Europe	**95,702**	85,751	9,951	+12%
North, South and Central America	**76,841**	65,113	11,728	+18%
UK and Ireland	**18,885**	14,761	4,124	+28%
Other regions	**10,295**	8,572	1,723	+20%
Total group revenue	**331,892**	288,750	43,142	+15%

Profit, tax and earnings per share

Operating profit for the year was £83.2m, compared with an adjusted £79.3m last year. The metrology business profit grew to £91.8m from £87.7m in 2011. Our healthcare business sustained a loss of £8.6m, a small increase over the previous year loss of £8.4m. Following the reorganisation and refocus of the healthcare segment in the first half of the year, second half losses reduced to £2.6m compared to £6.0m in the first half. We are targeting that this segment will move into profit in the next two years.

Adjusted profit before tax increased from £80.4m in 2011 to £86.0m in 2012.

The overall effective rate of tax, being a combination of the varying tax rates applicable throughout the countries in which the Group operates, was 19.8%. The comparable rate for the previous year was 19.9%.

Adjusted earnings per share, excluding the exceptional item in 2011, increased from 88.5p to 95.6p.

Research and development

Investment in research and development is core to the Group's organic growth in both its metrology and healthcare businesses. Gross expenditure in engineering costs including research and development costs on new products was £47.9m (2011 £40.0m). The capitalisation of development costs (net of amortisation charges) amounted to £2.9m (2011 £2.9m), giving a net charge in the Consolidated income statement of £45.0m (2011 £37.1m). The gross charge amounts to 14% of group revenue (2011 14%).

Between the reportable segments, net of the capitalisation costs, £34.6m (2011 £28.0m) was spent in the metrology segment and £10.4m (2011 £9.1m) spent in our healthcare segment.

New product research and development expenditure amounted to £33.3m which compares with £29.4m spent last year.

Group headcount

Group headcount has increased from 2,675 at 30th June 2011 to 2,904 at 30th June 2012, with the average being 2,765, compared with 2,385 last year. The increase of 229 represents an additional 124 staff in the UK and 105 overseas and includes 28 staff employed in the two acquisitions made during the year.

Labour costs increased by £15.8m, from £106.5m last year to £122.3m, an increase of 15%, reflecting the additional staff recruited this year and the full year cost of the large increase in staff taken on last year to support increased activity.

Consolidated balance sheet

The Group's total equity at the end of the year was £242.4m, an increase of £40.7m over the £201.7m at 30th June 2011 and reflects an increase in retained reserves.

The Group invested £30.3m on additions to fixed assets of which £13.7m was spent on property and £16.6m on plant, equipment and vehicles.

The main property additions are set out below.

In September 2011, the Group completed its purchase of the premises at Miskin, South Wales and subsequently refurbished 68,500 sq ft (of a total of 461,000 sq ft) which has now been brought into operation.

Also in the UK, the Group is constructing a 20,000 sq ft building for occupation by MDL in York.

In Canada a 17,000 sq ft property has been purchased and refurbished by our subsidiary based in Toronto and our Spanish subsidiary acquired and relocated into new premises in Barcelona.

In Italy, we purchased the property we had been renting for a number of years.

Our associate company RLS, based in Slovenia, constructed and moved into a new facility in May 2012, thus consolidating its activities into one premises, having previously operated from five buildings in various locations.

Business review/**Financial** continued

Intangible fixed assets increased by £7.3m during the year, from £47.1m to £54.4m reflecting capitalised research and development expenditure of £2.9m (net of annual amortisation charges) and additions to goodwill of £4.3m relating to the acquisition of R&R Sales LLC.

Cash flows from operating activities were £64.3m, compared with £58.8m last year. This was after financing an increase in working capital £23.1m, primarily trade receivables resulting from exceptionally strong revenue in the final quarter and an 8% increase in inventory.

Cash balances at 30th June 2012 were £21.1m, compared with of £23.7m at 30th June 2011.

At the end of the year, the Group's defined benefit pension schemes, now closed for future accrual, showed a deficit of £42.0m, compared with a deficit of £37.7m at 30th June 2011. Defined benefit pension scheme assets at 30th June 2012 reduced to £95.2m from £101.0m at 30th June 2011, following weak performance in equity markets, and liabilities also reduced, from £138.7m to £137.2m, reflecting changes in the market rates at 30th June 2012 compared with last year.

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 £11.5m at 30th June 2012 (2011 £10.8m). The application of IFRIC 14 increased pension fund liabilities by £9.7m.

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

Valuation sensitivity	Valuation	Approximate effect on liabilities
Discount rate	0.1%	£3.3m
Inflation	0.1%	£2.6m

Company balance sheet

During the year, the Group undertook a reorganisation of its group structure. Following the receipt of dividends from subsidiary undertakings, the shareholders' funds increased during the year from £213.7m to £397.0m.

Acquisitions

On 3rd February 2012 the Group acquired a 100% shareholding in Thomas Engineering and Construction Limited for the sum of £0.7m, of which £0.2m was paid at the date of acquisition and the balance is payable over the following two years. The company is a supplier in Canada of products manufactured by Measurement Devices Limited, a subsidiary undertaking of Renishaw plc. Further payments may be payable subject to the future profitability of the acquired company, although the amount will not be material.

On 26th April 2012 the Group acquired a 100% shareholding in R&R Sales LLC ("R&R") for the sum of £2.6m. There may be additional payments in respect of the shares acquired based on the earnings of R&R over the five-year period to 31st December 2016. R&R is a US-based supplier of fixtures for the global measurement and inspection market.

In June 2012 the Group acquired an additional 17% shareholding in MDL at a cost of £2.0m bringing our shareholding to 66%.

See note 12 for details of the fair values of assets acquired and goodwill for the above acquisitions.

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.

There are forward contracts in place to hedge against the Group's Euro, US Dollar and Japanese Yen 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.

Investment for the future

We will continue to invest in R&D, manufacturing and production processes to ensure capacity for the future, and expand our marketing and support presence around the world.

A C G Roberts FCA
Group Finance Director

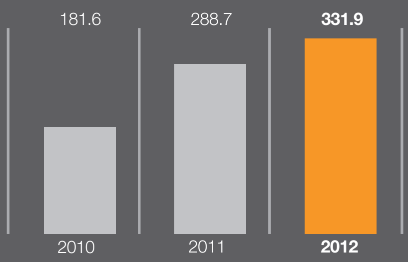
25th July 2012

Business review/**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.

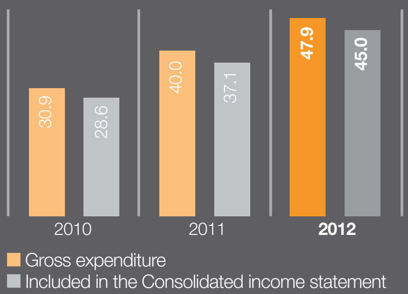
The main financial performance measures monitored by the Board are:

Revenue growth £m



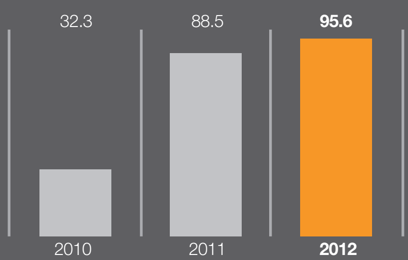
We are focused on growth in revenue, through increasing our market and geographic penetration and continually introducing new products. We have also made a number of acquisitions over the last two years which expand our product range and will support revenue growth by using the Group's worldwide marketing and distribution infrastructure to expand these businesses.

Total engineering costs including research and development £m



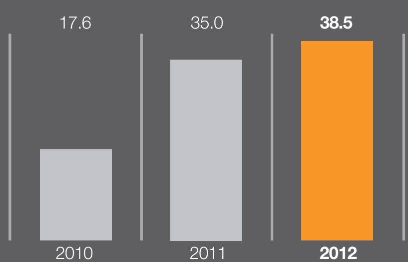
The growth of the business is fundamentally dependent on the continuing investment in engineering costs for the development of new products and processes. The Group continues to make significant investment in future products, with engineering costs equal to approximately 14% of group revenue, and has also been accelerating new product development in certain areas.

Adjusted earnings per share pence



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.

Dividend per share pence



We aim to achieve significant long-term returns to shareholders by maintaining a progressive dividend policy, whilst maintaining a solid capital base with sufficient working capital to support the forecast growth.

Business review/**Principal risks and uncertainties**

The principal risks and uncertainties are considered by management to be as shown below:

Area of risk	Description
Current trading levels and order book	Revenue growth is unpredictable and orders from customers generally involve short lead-times with the outstanding order book at any time being around one month's worth of revenue value.
Research and development	The development of new products and processes involves risk, such as development timescales, meeting the required technical specification and the impact of alternative technology developments.
Supply chain management	Customer deliveries may be threatened by a failure in the supply chain.
Regulatory legislation for healthcare products	The expansion of the Group's business into the healthcare markets involves a significantly increased requirement to obtain regulatory approval prior to the sale of these products.
Defined benefit pension schemes	Investment returns and actuarial valuations of the defined benefit pension scheme liabilities are subject to economic and social factors which are outside of the control of the Group.
Treasury	Fluctuating foreign exchange rates may affect the results of the Group.

Potential impact	Mitigation
Global market conditions continue to highlight risks to growth and demand, especially in the Far East, with a forecast economic slowdown in China, where high growth over the past three years has helped to sustain the global economic recovery and in the Eurozone where governments are targeting substantial cuts in public expenditure budgets. Against this background, revenue growth for the Group for the year was encouraging at 15%, but future growth is difficult to predict, especially with such a short-term order book. This limited forward order visibility leaves the annual revenue forecasts uncertain.	The Group has sought to expand and diversify its product range in order to maintain a world-leading position in its sales of metrology products and to lessen the risks to revenue growth by applying our measurement expertise into the growing healthcare business sector. The Group has made a small number of acquisitions to expand the product range with complementary technologies into new market areas. The Group pays close attention to the management of production and inventory levels, to ensure the timely supply of product to customers, whilst keeping inventory levels at an acceptable level. The Board monitors costs closely and approves all labour additions.
Being at the leading edge of new technology in metrology and healthcare, there are uncertainties whether new developments will provide an economic return.	R&D 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. When necessary, projects may be cancelled. Development of alternative technologies, whether in the Group or externally, is monitored closely. Expenditure is only capitalised once the commercial and technical feasibility of a product is proven.
Inability to meet customer deliveries could result in loss of revenue and profit.	Production facilities are maintained with fire and flood risk in mind and production lines are replicated at different locations where practical. Regular vendor reviews are performed for critical part suppliers and stock policies are reviewed by the Board on a regular basis. Product quality is closely monitored.
Regulatory approval can be very expensive and time-consuming. This area is also very complex and there is a risk that the correct approvals are not obtained.	Specialist legal and regulatory staff have been recruited to support the healthcare business. Along with external advisers, all regulatory legislation is considered and approvals obtained as necessary.
Volatility in investment returns and actuarial assumptions can significantly affect the defined benefit pension fund deficit, impacting on future funding requirements.	The investment strategy is managed by the pension scheme trustees who operate in line with a statement of investment principles which is agreed by the Company. Recovery plans are in place for the defined benefit pension schemes which will be reviewed following the tri-annual actuarial valuations.
With over 94% of revenue generated outside of the UK, there is an exposure to major currency fluctuations, mainly in respect of the US Dollar, Euro and Japanese Yen. Such fluctuations could adversely impact both the Group's income statement and balance sheet.	The Group enters into forward contracts to hedge significant proportions of forecast US Dollar, Euro and Japanese Yen revenue. The Group also uses currency contracts to hedge the foreign currency denominated assets held in the Group's balance sheet.

Business review/**Corporate social responsibility**

We wish to **be recognised** collectively and individually **as leaders and contributors** in our field and our community.

Ben Taylor CEng, FIMechE
Assistant Chief Executive

Business ethics

The Renishaw Group Business Code sets out the principles of business conduct and standards that all companies in the Renishaw Group are expected to follow. It is communicated 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 and as relayed last year we published our "zero-tolerance" attitude to bribery and corruption. A committee set up last year analysed the risks of bribery within the Group and following its recommendations made during the year, the Board approved the adoption and implementation of the Renishaw Group Anti-Bribery Policy ("the Policy") which is available at **www renishaw.com.**

The Policy has been issued to all staff (including new staff as part of their induction process) and a dedicated intranet page has been set up with related key documentation. Staff who may encounter bribery and corruption during the course of their duties have been identified and are undertaking an online training module, along with other training.

The in-house legal department has worked with senior management both in the UK and other countries in which the Group operates to identify the higher risk areas and is working in collaboration with management through a compliance programme to mitigate risk.

The programme includes providing the Policy to agents and other representatives of the Group and due diligence procedures when appointing new agents and representatives. The Group will continue to monitor compliance through its internal controls processes and regular reports to the Audit committee and the Board.

Our people

Diversity

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 2012 22.0% of UK staff are aged over 50 (2011 20.4%), with 13.5% below 25 (2011 13.3%) and 23.7% of employees are female (2011 23.7%).

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.

Health and safety

Health and safety matters are given special attention by the directors and last year a management policy was established that improves the organisation, control and monitoring of matters relating to health and safety, as well as establishing a framework for the completion, management and review of risk assessments. The aim is to safeguard employees, customers and visitors. During the year there were no workforce fatalities.

51

Record number of apprentices in training

40

Record summer graduate intake

Staff retention

Long service is rewarded at every five years of service and can include small gifts, extra holiday allowance and a cash sum, with 242 staff achieving a milestone this financial year, including 18 people who achieved awards of 25 years or more. A group performance bonus programme rewards all qualifying staff with an annual bonus based upon group results and individual performance (qualification requires that a full year of service is completed from 1st July to 30th June).

Variable working time has been adopted as standard practice for most UK staff, allowing staff members to create a better worklife balance, whilst at the same time maintaining full support to Renishaw's worldwide customer base. Other benefits that staff receive include the use of gyms 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.

UK staff turnover, excluding fixed term contract staff, has reduced compared to last year at 5.5% (2011 6%), which compares very favourably with the 2011 average in the UK manufacturing sector of 9.3% (source: Chartered Institute of Personnel and Development).

Communication and participation

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 Group 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 given by the Assistant Chief Executive.

A worldwide staff newsletter "Probity" is published every two months, with contributions encouraged from across the Group. Printed copies are produced for manufacturing areas and also distributed to Renishaw pensioners. Throughout the year other company updates and items felt to be of interest to employees are also regularly communicated via email.

The Company encourages business participation through direct employee feedback, either to immediate supervisors or board members. Employee work forums exist and representatives liaise with management on employee matters. Annual individual appraisals are also held across the Group which give employees a formal opportunity to feedback their thoughts about the Group, including a survey that enables us to measure employee satisfaction on a range of issues.

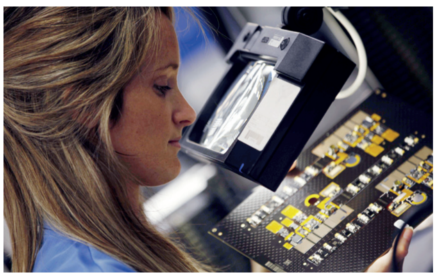
A suggestion scheme exists with awards for the best ideas received, plus an inventors' award scheme for individuals who are named as inventors on patent applications that are subsequently granted.

Training and development

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. During the year examples of expenditure on staff training include £178,000 on apprenticeships and £203,000 on centrally administered cross-departmental training.

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 80 undergraduates (2011 85) entered Renishaw for paid placements – 60 summer placements, 15 one-year industrial placements and 5 pre-university placements, amongst which the most promising students will be given financial incentives to maintain a relationship with the Company into the future. There are 51 craft and technical apprentices currently in training (2011 33) and 20 new starters confirmed for September 2012 (2011 20), plus 4 software apprentices. A further 40 recent graduates also started with Renishaw this summer (2011 30) of which 32 are participating in the new comprehensive graduate induction programme that commenced in 2011.

Above: Software engineers at Charfield site



Above: Inspection of circuit board assembly at Woodchester site

Business review/**Corporate social responsibility** continued

Our next generation
Several directors of our business divisions are former sponsored students (see page 41) and Gareth Hankins, Director, Group Manufacturing Services Division joined us as an apprentice aged just 16 and was supported by Renishaw to undertake and complete his engineering degree in manufacturing systems and management.

We were especially proud that this year, Tom Silvey, one of our third-year technical apprentices, won two awards at Gloucestershire's inaugural Apprenticeships Awards. As well as being voted the Outstanding Apprentice in the Engineering & Manufacturing category, Tom also received the Diamond Jubilee Gloucestershire Apprentice of the Year award which recognises the year's most outstanding apprentice across disciplines as varied as health, manufacturing, finance and construction.

Renishaw was well represented at the awards as two of our other young apprentices, Aaron Booth (3rd year) and Ollie Counsell (1st year), also achieved nominations for the Engineering & Manufacturing award.

Tom, aged 23, is currently training as a production engineer at our Stonehouse machine shop and his route into apprenticeships was far from conventional, having initially started a mechanical engineering degree which he quickly decided was too theoretical and lacking in practical aspects.

To help encourage other young people to consider an engineering career, this year we also supported the organisers of the UK's largest manufacturing trade show, MACH 2012, with their special education initiative. Over the five days of the show 16 of our apprentices, including Tom, led groups of 14 to 16 year-old students on tours of "student-friendly" exhibitor stands (including Renishaw) to learn about the vital role that the latest engineering technology plays in our everyday lives and the excellent career opportunities available.

Above: Renishaw's staff newsletter is published frequently during the year

Above: Award-winning apprentice Tom Silvey

A measure of success – from sponsored students to senior directors

Now aged 41, both Dave Wallace and Tim Prestidge joined Renishaw as sponsored students over 20 years ago. Together with Gareth Hankins, a graduate and former apprentice who is now Director, Group Manufacturing Services Division and Will Lee, a former sponsored student who now heads our Laser & Measurement Calibration products division, they illustrate the value to the business of the investments that we have made in our staff development schemes over many years.

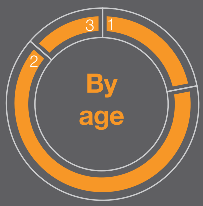
Now members of the Executive Board (see page 14) their varied experiences in academia and industry are now being used positively to help the next generation of engineers. For example, Tim is a trustee of Young Engineers, a charitable organisation whose objective is to inspire young people to consider careers in engineering.

See more at **www.renishaw.com**

Business review/**Corporate social responsibility** continued

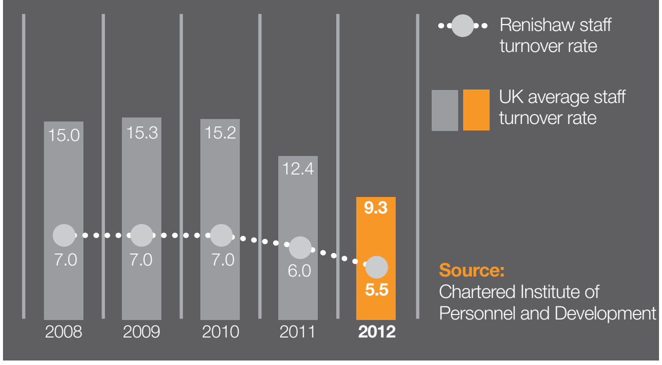
UK employees mix

	2012	2011
1 Male (%)	**76.3**	76.3
2 Female (%)	**23.7**	23.7



	2012	2011
1 Over 50 (%)	**22.0**	20.4
2 25 – 50 (%)	**64.5**	66.3
3 Below 25 (%)	**13.5**	13.3

Staff turnover %



Source:
Chartered Institute of Personnel and Development

The environment

Renishaw takes its responsibilities for the environment seriously and continues to make 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 has been completed, giving us the ability to identify opportunities for reduced consumption. Investments have also continued to be made in our monitoring equipment to identify specific peaks in electricity usage, quantify reductions and make continuous improvements across various sites. Additionally, recent investments are allowing us to monitor gas and water usage at our main UK sites, allowing these energy streams to be similarly reduced.

During the period we refurbished an older building at our New Mills headquarters site, taking the opportunity to upgrade interior lighting and control systems, including passive infra-red detectors and lower wattage lighting systems.

The partial refurbishment of our Miskin site included a £100,000 investment in very high standard Pilkington energiKare™ triple glazed low-emissivity glass windows with Krypton gas filling, to achieve a U-value of just 0.9. A new building in York for our subsidiary MDL is also being built to the highest standards of the Building Research Establishment's Environmental Assessment Method (BREEAM), a rating system which is recognised nationally and internationally as the most robust and rigorous method for assessing the environmental performance of buildings.

As Renishaw consumed more than 6 megawatts of electricity in 2008 we are bound by UK legislation to comply with the CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment) and have registered accordingly. To continue progress made in recent years by monitoring usage and to reduce CO_2 emissions, we are committed and continue to work towards achieving the Carbon Trust Standard (CTS) which will also benefit us in terms of our ranking within the CRC Energy Efficiency Scheme and any rebates due under the terms of the scheme.

Emissions (Fig. 1)

Unless otherwise stated, the analysis in Figure 1 includes the Group's global operations for the 12-month period 1st June 2011 to 31st May 2012, with the exception of MDL 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 and in some cases estimates have been made for some markets where data is not readily available. The figures quoted can also be highly variable due to sharply fluctuating official conversion rates. In Scope 1 the purchase of the large Miskin factory accounts for much of the rise in gas consumption, whilst group vehicle fuel costs rose by 32% due to market factors. Increases in volumes of generator diesel usage is primarily due to the expansion of our Pune manufacturing facility. The other significant change was in Scope 3 where although we did purchase less metal this year, the reduction appears much more significant due to the official CO_2 conversion rates.

A best estimate is that 30,553 tonnes of CO_2 were emitted through our activities (2011 30,607 tonnes). Given that there were increased activity levels within the Group and a continued focus on improving efficiencies in energy management, the figures are very susceptible to the official conversion factors.

Fig. 1 Greenhouse gas (GHG) emissions CO_2/tonnes

Scope 1		Significant scope 3	
Gas consumption	1,456	Business travel	2,210
Owned transport	2,469	Product distribution*	4,058
Generator diesel	85	Metal purchase*	4,622
Heating oil	75	Post/Communications*	398
Total scope 1	4,085	Total significant scope 3	11,288
Scope 2			
Purchased electricity	15,180		
Total scope 2	15,180		

*UK data only

Fig. 2 Landfill totals tonnes

Data for significant sites

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

Waste Management (Fig. 2)

Renishaw has continued to analyse waste streams and 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 20% increase in landfill, reversing the positive trend seen over the previous four years. Although there continued to be reductions at Old Town and Stonehouse, the New Mills site was the subject of significant refurbishment and building waste during the period as we sought to maximise space in light of staff and business growth, whilst at Woodchester we also cleared two older buildings leading to significant amounts of general waste.

Reduction of waste at source is 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. Regular marketing communications with customers in our main markets is now solely by email, and our employee newsletter "Probity" is primarily distributed electronically, with a small quantity printed for manufacturing sites. In the UK Renishaw staff no longer receive hard copy pay slips but can access these electronically.

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 and the majority of legacy encoder products are now RoHS compliant and we are continuing 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, whilst achieving several earlier dates for healthcare products.

We are continuing to work 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 our products at a level requiring any action. To co-ordinate our activities with regard to compliance with both RoHS and REACH directives, we have a dedicated project manager who manages risk assessments and information gathering from suppliers.

See more at **www.renishaw.com**

Overview
Performance
Governance
Financial statements
Shareholder information

Business review/**Corporate social responsibility** continued

400

Number of visitors to April community open days at Stonehouse

Above: Sir David McMurtry speaks to UK Business Minister, Mark Prisk MP during Stroud Festival of Manufacturing and Engineering

Above: Ben Taylor addresses the British Government's Asian Ambassadors

The community

Renishaw is one of Gloucestershire's largest companies and we recognise the positive role that we can play through our ongoing relationships with the local community, businesses, schools and sports organisations. With the recognised national shortage in the UK of skilled engineers and scientists, we continue 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 we therefore host 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.

In April 2012, we made a significant contribution to the success of the first Stroud Festival of Manufacturing and Engineering, which aimed to highlight the importance of engineering within the area and the many career opportunities within the sector. As part of the event our staff contributed to a Women in Engineering day, and we also held open days at our Stonehouse machine shop for local schools and the general community, attracting 400 visitors. We are also a member of the Gloucestershire Local Enterprise Partnership's Sector Group for Advanced Engineering.

We actively support the business community both regionally and nationally, imparting our knowledge through roundtable discussions and business conferences, and sponsor award programmes. In the past year, for example, we spoke about export trade at the EEF National Manufacturing Conference alongside senior UK Government Ministers and business leaders, whilst in May 2012, Ben Taylor was invited to speak to the British Government's Asian Ambassadors and High Commissioners. Throughout the year we also hosted business networking groups at our facilities.

During the year we sponsored and actively contributed to numerous local community festivals, including the Nibley Music Festival where "The Renishaw Stage" provides a platform for young acts in the early stage of their careers. We sponsored the "Renishaw Science & Engineering Zone" at the Gloucestershire Motor Show where we provided various interactive activities for younger visitors. We continued to forge closer links with Gloucester Rugby Club, which plays in the English Premiership league, sponsoring the club's young centre Henry Trinder and the Young Player of the Year award.

We helped to support the costs of many local town and village celebrations of Her Majesty The Queen's Diamond Jubilee, including the funding of a special commemorative mug that was presented to all schoolchildren in the local town of Wotton-under-Edge.

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.

Above: Together in Matson community group who won the "Wish Campaign"

Above: The first group of "Young Brunels" (see over)

250

Number of charities and voluntary organisations supported during the year

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 donations to support Christian Aid's work following the floods emergency in the Indian state of Orissa.

During the year the RCC made donations to around 250 individual organisations totalling over £105,000. Beneficiaries were diverse in nature including schools, infant playgroups, carers support groups, hospital appeals, air ambulance groups, Multiple Sclerosis therapy centres, the Samaritans, youth football clubs, church appeals, food banks, senior citizen groups, scout groups, youth clubs and hospice care organisations.

The Door is a youth project created in the town of Stroud in 1991 for the benefit of all young people aged 11 to 25, including those excluded from school or their homes. It gives youngsters a safe venue away from the streets where they can take part in fun, challenging activities and trips to help channel their energies in a positive manner. Staff also carry out training and mentoring to ultimately help people turn their lives around. After seeing the good work first-hand the RCC donated £5,000 to help the organisation move to a new location where it can provide more services and become self-funding.

The Severn Area Rescue Association (SARA) in Gloucestershire, is an inshore rescue boat and land search organisation covering the Severn Estuary and surrounding area. The River Severn is a notoriously dangerous waterway, with the second highest tidal range in the world. SARA provides Search and Rescue services 24/7, 365 days of the year and has crew specialised in the rescue of endangered persons from fast moving and flood water incidents. During the year the RCC donated £2,000 to help purchase a new boat for the organisation's Sharpness station which was set up in 1986 after the tragic drowning of a mother, father and small child who were caught out by the fast incoming tide.

A major initiative that the RCC funded during the year was The Citizen newspaper's "Wish Campaign", which gave local community groups, schools and youth organisations the opportunity to win a share of £15,000 to fund their projects. Some 75 organisations applied to be part of the competition, and after evaluation by the RCC and staff from the newspaper's owners, 30 of these were shortlisted for the final stage of the campaign, where supporters of each organisation collected daily tokens ("votes") from The Citizen. There were over 42,000 votes cast and "Together in Matson", a community group from the city of Gloucester, received the most votes to win £1,800. However, all shortlisted groups were awarded at least £100, and the RCC ultimately decided to donate £100 to the other 45 organisations not shortlisted, as all met the committee's criteria for funding. The total funding to all 75 community groups amounted to £19,500 and helped the RCC uncover worthy groups that would not necessarily be aware of Renishaw's charitable support for the community.

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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. During the year our new education liaison executive took her role within the Company and she is helping us to co-ordinate and initiate new activities and stronger relationships with selected secondary schools, universities and STEM (Science Technology Engineering and Mathematics) enrichment organisations. The aims are to encourage STEM teaching and out-of-school clubs, to raise the profile of Renishaw as a potential employer and to ensure that we attract the most talented individuals.

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

We again supported National Science and Engineering Week in March, when four of our engineers were released to mentor pupils at Bluecoat Primary School in Wotton-under-Edge. Our staff were each allocated a class and helped them to construct a working model which related to a mode of transport. The children, aged 5 to 11, learned new skills including creating electrical circuits and problem solving. We also helped to fund the purchase of materials and the week culminated with an award ceremony for the most talented pupils.

Throughout the year we have also participated in numerous graduate and school careers fairs, including presentations from our apprentices and graduates. This includes sponsorship of a Postgraduate Research Symposium at Imperial College, London, where we help judge and award prizes for the best projects.

We sponsored numerous activities that aim to inspire young engineers, such as the Brunel Institute's "Young Brunels" initiative, where every year, 12 children are selected to join a five-year scheme to mentor them towards a career in science and engineering. Further events include the Big Bang Fair in Swansea, the "Careering Around" initiative organised by the Cheltenham Science Festival, and the Engineering Education Scheme Wales. As part of the latter event, two of our young graduates mentored projects at Monmouth School and Chepstow School, with the former project winning the award for "Best Application" and has also been entered as a finalist at the National Big Bang Fair being held in London in 2013.

Greenpower is a national organisation that runs competitions for primary and secondary schools to design, build and then race battery powered cars. In May we were pleased to host Greenpower's "Goblin" class regional event for primary school pupils in Bristol and Bath, who raced their vehicles around a car park at our New Mills headquarters. Last October we also sponsored the Western Regional Heat of the Secondary Schools competition held at Castle Combe race circuit.

Within Renishaw we also run our own Applications Academy which offers a varied training curriculum from "Face-to-Face Communications" and "Report Writing", to the "Fundamentals of Manufacturing" and "CNC programming". During the year 94 staff from across the Group benefitted from Academy training, plus many more who made use of e-learning programmes available as part of our new learning management system (LMS) in which we have made a significant investment. The LMS software is used for the administration, documentation, tracking and reporting of training programmes, classroom and online events, e-learning programmes and training content.

He Jiandong (front) and Li Xiang (to the right with Academy Manager, Paul Saunders) are just two of the many beneficiaries of the Renishaw Applications Academy

The Renishaw Applications Academy gives our engineers the skills to give expert customer support

With an increasingly diverse range of products, training is vital to maintaining our reputation for excellent technical support. Nowhere is this more important than China, where we have significantly expanded our customer base in recent years

Last year we recruited three Chinese MSc engineering graduates from Sheffield University who, after a 13-week induction programme which covered all metrology products and commercial aspects of the business, are spending a series of six-month assignments on key projects, including one at the Advanced Manufacturing Research Centre in Sheffield.

Li Xiang says that the Academy will also help to improve liaison between HQ and our Chinese offices when the engineers return to China in summer 2013, as they "will have a deep understanding of both the UK corporate and local Chinese culture."

See more at **www.renishaw.com**

Governance

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

Bill Whiteley FCMA
Senior non-executive director

We report on the operation of our business in the following ways:

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 description of the Group's products and markets, the Business review and in the description of corporate social responsibility activities on pages 6 to 47.

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 the directors' report.

For the purposes of the Disclosure Rules and Transparency Rules and the UK Corporate Governance Code (the Code), a description of the work of the Audit committee and 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.

Accordingly pages 18 to 57 form the directors' report for statutory and regulatory disclosure purposes.

Directors' corporate governance report

A. Leadership

The role of the Board

The Board comprises five executive and four non-executive directors. The directors holding office at the date of this report and short biographical details are given on pages 12 and 13. Full biographical details are available on **www.renishaw.com.** The Company maintains liability insurance for its directors and officers as disclosed in the Other statutory and regulatory disclosures.

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 2012, 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 management 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 responsible for two core product lines of the Group and the North and Central American market. The Executive Board usually meets for two days on a monthly basis and considers the performance and strategic direction of the metrology business on one day and on the other, the healthcare business and other matters of general importance to the Group. In addition, there is an executive sales and marketing committee known as the International Sales and Marketing Board which meets quarterly to determine the Group's sales and marketing policies and strategies and review the activities. This committee is chaired by the Deputy Chairman and includes the Assistant Chief Executive and Group Finance Director plus the managing directors of the five largest sales territories and the Director of Sales Development.

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 and the level of authorities given to management below 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.

The role of Chairman and Chief Executive is a combined role and thus contrary to the recommendations of the Code. Sir David McMurtry has held this position since the Company became a quoted company and he, together with John Deer, holds the majority of the voting interests in the Company. 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 Board and Executive Board meet on a regular basis to make decisions of significance to the two business segments and review management actions. It is intended that this combined role will continue for so long as Sir David McMurtry remains on the Board and he and John Deer hold a majority of the voting interests in the Company.

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. Terry Garthwaite and David Snowden, appointed to the Board on 1st July 2003, have completed nine years as directors of the Company and therefore will not be seeking re-election at the forthcoming AGM on 18th October 2012. It is also noted that Terry Garthwaite and Bill Whiteley are both on the Board of Brammer plc. This situation has been reviewed and the Board has concluded that there is no impact on either of them so far as their independence is concerned.

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 and, as noted below, a recruitment process is currently being undertaken. It is noted that during the 2013 financial year, Terry Garthwaite and David Snowden will not seek re-election to the Board. Consideration will be given to recruiting a further non-executive director when a review of the skills and experience of the Board has been undertaken in light of the recent and forthcoming changes to board personnel.

Directors' corporate governance report continued

Appointments to the Board

The Nomination committee is responsible for reviewing the structure and composition of the Board and nominating candidates for appointment to the Board. The majority of the members of this committee are independent non-executive directors and the members and the chair of the committee are shown on pages 12 and 13. 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.

One new appointment was made to the Board during the year. David Grant became known to the Board as a result of his association with the Company in his capacity of vice-chancellor of Cardiff University which has 30,000 students, 6,000 members of staff and an annual income of £430m. His previous lengthy experience in the industrial engineering sector, including Dowty Group and GEC, and his knowledge and contacts with academic institutions make him a well-qualified addition to the Board's resources.

A recruitment consultant, Augmentum Consulting, was engaged to seek an appropriate candidate to take on the role of chair of the Audit committee with effect from the next AGM and was provided a job specification for this purpose. The shortlist for interview was to include candidates that have the required skills and experience and, where possible, primarily female candidates. Augmentum Consulting has no connection with the Company. The recruitment process is ongoing.

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. However, the Board acknowledges that diversity of all types should be borne in mind when recruiting for all roles within the Group and has a policy to provide for equal opportunities to all.

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 in board reports and otherwise 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.

Re-election

In accordance with the Code all the directors will retire from the Board at the next AGM and, except 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.

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, which is regularly reviewed and accords with the Turnbull guidance. The Board confirms that necessary action has been or is being taken to remedy any significant failings or weaknesses identified from its review.

Audit committee and auditors

The Audit committee comprises the four non-executive directors. The members and the chairman are shown on pages 12 and 13. 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 in them. 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. A new audit partner has been allocated responsibility for the Company's audit this year, which will be taken into account in relation to consideration of the timing of the tender for audit services in future.

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. It also monitors the effectiveness of the Company's procedures to avoid any bribery by or received by employees and representatives of the Group.

Directors' corporate governance report continued

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 to the Board 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 or one of the Company's sites 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 via an RIS and 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 Other statutory and regulatory disclosures.

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)	–	–	2 (2)
D J Deer	10 (10)	–	–	–
B R Taylor	10 (10)	–	–	–
A C G Roberts	10 (10)	–	–	–
G McFarland	9 (10)	–	–	–
T B Garthwaite	10 (10)	3 (3)	2 (2)	2 (2)
D Grant*	2 (2)	0 (0)	0 (0)	0 (0)
T D Snowden	10 (10)	2 (3)	2 (2)	2 (2)
W H Whiteley	9 (10)	2 (3)	2 (2)	1 (2)

* D Grant was appointed on 25th April 2012.

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 did not comprise independent non-executive directors.

W H Whiteley
Senior independent director

25th July 2012

Directors' remuneration report

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 the members and the chair of the committee is identified on pages 12 and 13. 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. One non-executive director was appointed 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.

The performance conditions firstly require the achievement each year of a base line eps (excluding directors' bonus and exceptional credits) which for 2012 was set at 67.86p, being the eps at which the bonus was capped in 2011, with the target designed to deliver 75% of salary at 98.91p. 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 2012 the Group is reporting eps of 96.42p (before directors' bonus) which therefore gives rise to a bonus entitlement of

$$\frac{96.42 - 67.86}{98.91 - 67.86} \times 75 = 69.0\% \text{ of salary for each of the executive directors}$$

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

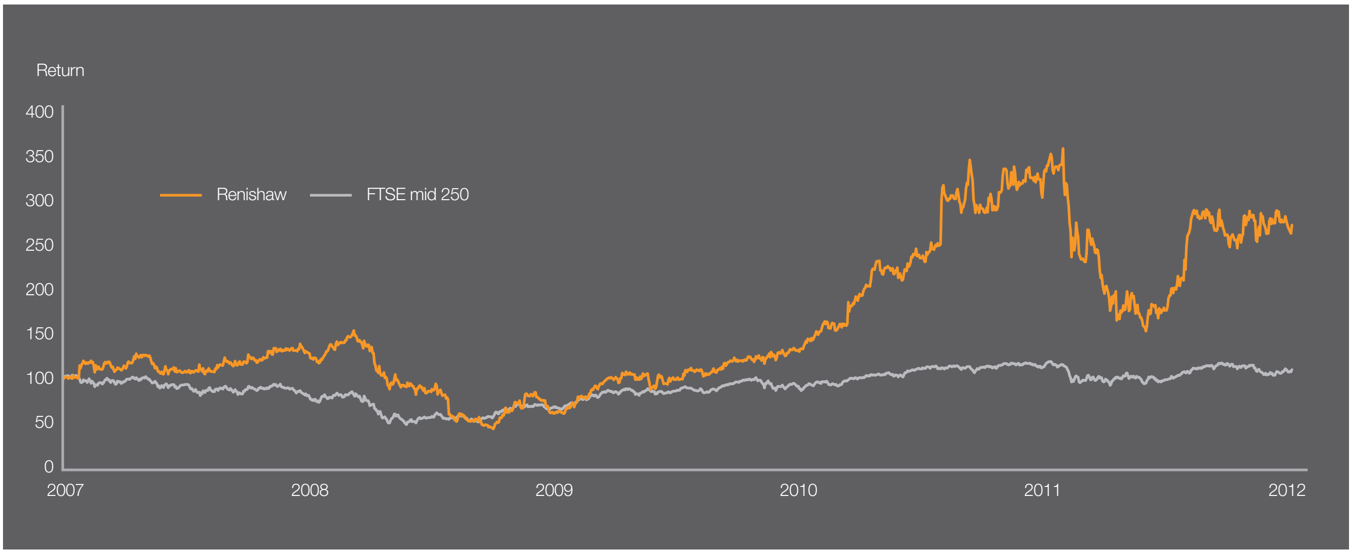
The executive directors have each entered into a service contract with the Company. The contracts do not contain any specific provisions governing the payment of compensation for loss of office or employment, whether as a result of a takeover bid or otherwise. The notice period for termination of the contract is 12 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.

Directors' remuneration report continued

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 25th July 2012 and has been signed on its behalf by:

T D Snowden FCA
Chairman, Remuneration committee

Other statutory and regulatory disclosures

Principal activities

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.

The Group has established and acquired overseas manufacturing, marketing and distribution subsidiaries to manufacture some of the Group's products and to provide support to customers in our major markets in the following regions outside the UK:

- Europe: Germany, France, Italy, Spain, Switzerland, The Netherlands, Czech Republic, Poland, Russia, Sweden and Austria;
- Americas: USA, Mexico, 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.

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

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 £20,526,369 or 28.2p per share (2011 £17,978,770 or 24.7p per share) which, together with the interim dividend of £7,497,220 or 10.3p per share (2011 7,497,220 or 10.3p per share) makes a total amount of dividends for the year of £28,023,589 or 38.5p per share, compared to £25,475,990 or 35.0p per share for the previous year.

Directors and their interests

The directors who served during the year are listed below together with their interests in the share capital of the Company (with the equivalent number of voting rights) at the beginning and end of the financial year.

Ordinary shares of 20p each

	30th June 2012	1st July 2011 (or date of appointment if later)
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
T D Snowden	5,000	5,000
T B Garthwaite	3,000	3,000
D Grant*	nil	nil
W H Whiteley	6,765	3,765

* D Grant was appointed to the Board on 25th April 2012.

All the above holdings were beneficially held with the exception of 2,434,411 shares (2011 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 2012 to 25th July 2012.

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 18th October 2012 except for David Snowden and Terry Garthwaite. Details of the directors are shown on pages 12 and 13 and full biographical details are available on **www.renishaw.com.**

Sir David McMurtry, as one party, and John 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. Under this agreement Sir David McMurtry, John Deer and Mrs Deer agree that (i) Mr and Mrs Deer will vote their shares in favour of any ordinary resolution if requested to do so by Sir David McMurtry and (ii) Sir David McMurtry will vote his shares against any special or extraordinary resolution if requested to do so by John Deer. The voting arrangement will terminate on the earlier of 25th May 2013 and the deaths of both of Sir David McMurtry and John Deer.

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.

Other statutory and regulatory disclosures continued

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 a maximum of 10% of its own shares was in existence during the 2012 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 statement 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 99 to 102. 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.

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 2012:

	% of issued share capital	Number of shares
BlackRock Inc	5.07%	3,692,431
Capital Research and Management Company	4.76%	3,465,730
Standard Life Investments Limited	4.99%	3,631,612

No notifications have been received under the provisions of DTR 5 in the period 1st July 2012 to 25th July 2012.

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, including computer aided design and manufacturing systems, and relating to healthcare products, including Raman spectroscopy systems, dental systems and certain areas in the medical devices field. Further information on the expenditure on research and development is contained in the financial review section of the Business review.

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 2012 was approximately 30 days (2011 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. Employees who become disabled whilst with the Company will be given every opportunity to continue their employment through reasonable adjustment to their working conditions, equipment or, where this is not possible, re-training for other positions. They will also be afforded opportunities to continue training and gain promotion on the same basis as any other employee.

Details on information provided to staff on the performance of the business, consultation with employees and performance incentives are contained in the description of corporate social responsibility activities set out on pages 38 to 47.

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 £105,000 (2011 £215,000). 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 six 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 44 and 45.

No political donations were made during the year (2011 £nil).

On behalf of the Board

N Tang
Company Secretary

25th July 2012

Renishaw plc

Registered number 1106260, England and Wales

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 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

25th July 2012

Independent auditors' report to the members of Renishaw plc

We have audited the financial statements of Renishaw plc for the year ended 30th June 2012 set out on pages 60 to 97. 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 auditor's 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 set out on the previous page, 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/private.cfm.

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 2012 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 49 to 52 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 on page 51, in relation to going concern;
- the part of the corporate governance statement on pages 49 to 52 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.

V J Stevens (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

25th July 2012

Consolidated income statement

for the year ended 30th June 2012

from continuing operations	Notes	2012 £'000	2011 £'000
Revenue	2	**331,892**	288,750
Cost of sales		**(154,996)**	(128,443)
Gross profit		**176,896**	160,307
Distribution costs		**(62,155)**	(52,088)
Administrative expenses including exceptional items		**(31,553)**	(27,265)
Operating profit excluding exceptional item		**83,188**	79,286
Exceptional item: Reversal of impairment write-down made in 2010		**–**	1,668
Operating profit		**83,188**	80,954
Financial income	4	**8,979**	7,108
Financial expenses	4	**(6,811)**	(6,447)
Share of profits of associates	11	**690**	463
Profit before tax	5	**86,046**	82,078
Income tax expense	6	**(17,008)**	(16,345)
Profit for the year from continuing operations		**69,038**	65,733
Profit attributable to:			
Equity shareholders of the parent company		**69,555**	66,115
Non-controlling interest	21	**(517)**	(382)
Profit for the year from continuing operations		**69,038**	65,733
		pence	pence
Dividend per share arising in respect of the year	21	**38.5**	35.0
Dividend per share paid in the year		**35.0**	23.9
Earnings per share (basic and diluted)	8	**95.6**	90.8

Consolidated statement of comprehensive income and expense

for the year ended 30th June 2012

	Notes	2012 £'000	2011 £'000
Profit for the year		**69,038**	65,733
Foreign exchange translation differences		**(1,779)**	339
Actuarial loss in the pension schemes	15	**(7,781)**	(1,577)
Effective portion of changes in fair value of cash flow hedges, net of recycling	21	**9,039**	(5,954)
Comprehensive income and expense of associates		**(1,229)**	164
Deferred tax on income and expense recognised in equity		**(1,397)**	1,652
Expense recognised directly in equity		**(3,147)**	(5,376)
Total comprehensive income and expense for the year		**65,891**	60,357
Attributable to:			
Equity shareholders of the parent company		**66,408**	60,739
Non-controlling interest	21	**(517)**	(382)
Total comprehensive income and expense for the year		**65,891**	60,357

Consolidated balance sheet

at 30th June 2012

	Notes	2012 £'000	2011 £'000
Assets			
Property, plant and equipment	9	**100,972**	82,344
Intangible assets	10	**54,407**	47,095
Investments in associates	11	**6,790**	7,437
Deferred tax assets	13	**17,777**	23,750
Derivatives	14	**3,532**	684
Total non-current assets		**183,478**	161,310
Current assets			
Inventories	16	**53,983**	49,809
Trade receivables	22	**83,407**	61,533
Current tax		**2,791**	2,134
Other receivables		**10,590**	8,457
Derivatives	14	**3,157**	886
Pension fund cash escrow account	15,17	**11,523**	10,818
Cash and cash equivalents	17,22	**21,127**	23,733
Total current assets		**186,578**	157,370
Current liabilities			
Trade payables		**22,900**	13,821
Current tax		**5,662**	5,591
Provisions	18	**1,170**	770
Derivatives	14	**1,052**	4,789
Other payables	19	**25,596**	22,126
Total current liabilities		**56,380**	47,097
Net current assets		**130,198**	110,273
Non-current liabilities			
Employee benefits	15	**41,988**	37,664
Deferred tax liabilities	13	**19,492**	17,211
Derivatives	14	**2,313**	2,496
Other payables	20	**7,484**	12,494
Total non-current liabilities		**71,277**	69,865
Total assets less total liabilities		**242,399**	201,718
Equity			
Share capital	21	**14,558**	14,558
Share premium		**42**	42
Currency translation reserve	21	**2,583**	4,362
Cash flow hedging reserve	21	**2,526**	(4,115)
Retained earnings		**223,820**	187,750
Other reserve	21	**(389)**	(389)
Equity attributable to the owners of the Company		**243,140**	202,208
Non-controlling interest	21	**(741)**	(490)
Total equity		**242,399**	201,718

These financial statements were approved by the Board of directors on 25th July 2012 and were signed on its behalf by:

Sir David R McMurtry A C G Roberts Directors

Consolidated statement of changes in equity

for the year ended 30th June 2012

Year ended 30th June 2011	**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 2010	14,558	42	4,023	172	140,459	(201)	(432)	158,621
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
Year ended 30th June 2012								
Profit/(loss) for the year	–	–	–	–	69,555	–	(517)	69,038
Other comprehensive income and expense								
Actuarial loss in the pension schemes (net of tax)	–	–	–	–	(6,780)	–	–	(6,780)
Foreign exchange translation differences	–	–	(1,779)	–	–	–	–	(1,779)
Changes in fair value of cash flow hedges (net of tax)	–	–	–	6,641	–	–	–	6,641
Relating to associates	–	–	–	–	(1,229)	–	–	(1,229)
Total other comprehensive income	–	–	(1,779)	6,641	(8,009)	–	–	(3,147)
Total comprehensive income	–	–	(1,779)	6,641	61,546	–	(517)	65,891
Acquisition of non-controlling interest	–	–	–	–	–	–	266	266
Dividends paid	–	–	–	–	(25,476)	–	–	(25,476)
Transactions with owners recorded directly in equity	–	–	–	–	(25,476)	–	266	(25,210)
Balance at 30th June 2012	**14,558**	**42**	**2,583**	**2,526**	**223,820**	**(389)**	**(741)**	**242,399**

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

Consolidated statement of cash flow

for the year ended 30th June 2012

	Notes	2012 £'000	2011 £'000
Cash flows from operating activities			
Profit for the year		**69,038**	65,733
Adjustments for:			
Amortisation of development costs	10	**6,747**	7,200
Amortisation of other intangibles	10,11	**3,901**	3,855
Depreciation	9	**9,518**	7,575
Profit on sale of property, plant and equipment		**(94)**	(8)
Share of profits from associates	11	**(1,030)**	(803)
Reversal of exceptional impairment write-down		**–**	(1,668)
Financial income	4	**(8,979)**	(7,108)
Financial expenses	4	**6,811**	6,447
Tax expense	6	**17,008**	16,345
		33,882	31,835
Increase in inventories		**(4,006)**	(15,698)
Increase in trade and other receivables		**(24,704)**	(16,634)
Increase in trade and other payables		**5,173**	5,705
Increase in provisions	18	**400**	231
		(23,137)	(26,396)
Defined benefit pension contributions		**(1,359)**	(667)
Income taxes paid		**(14,079)**	(11,698)
Cash flows from operating activities		**64,345**	58,807
Investing activities			
Purchase of property, plant and equipment	9	**(30,328)**	(16,491)
Development costs capitalised	10	**(9,679)**	(10,123)
Purchase of other intangibles		**(1,123)**	(1,203)
Investment in subsidiaries and associates		**(2,611)**	(8,418)
Sale of property, plant and equipment		**414**	71
Interest received	4	**695**	372
Dividend received from associate	11	**108**	84
Contributions to pension fund escrow account (net)		**(705)**	(10,818)
Cash flows from investing activities		**(43,229)**	(46,526)
Financing activities			
Interest paid	4	**(296)**	(208)
Dividends paid	21	**(25,476)**	(17,396)
Cash flows from financing activities		**(25,772)**	(17,604)
Net decrease in cash and cash equivalents		**(4,656)**	(5,323)
Cash and cash equivalents at the beginning of the year		**23,733**	31,143
Effect of exchange rate fluctuations on cash held		**2,050**	(2,087)
Cash and cash equivalents at the end of the year	17	**21,127**	23,733

Notes (forming part of the financial statements)

1. Accounting policies

Basis of preparation

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

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

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS") 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.

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 2011 and 2012 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 obsoleted, the accumulated capitalised development costs would need to be immediately written off in the Consolidated income statement.

(v) Pension fund cash escrow account

The Company holds a pension fund cash escrow account as part of the security given for the UK defined benefit pension scheme. This account is shown within current assets in the Consolidated balance sheet as it may be used to settle pension fund liabilities at any time.

1. Accounting policies continued

New, revised or changes to existing accounting standards

There have been no new or amendments to accounting standards and interpretations, issued by the IASB and endorsed by the EU or International Financial Reporting Interpretations Committee (IFRIC), which are effective for the first time in the current financial year and which have had a significant impact on the Group's consolidated results or financial position.

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 exposure on the net assets of the foreign operations, are accounted for directly in equity, to the extent that hedge accounting criteria are met and are included in the Consolidated statement of comprehensive income and expense.

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

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Consolidated income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

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.

Cash flow hedges

Forward exchange contracts are recognised 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.

Notes continued

1. Accounting policies continued

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. Deferred consideration relating to acquisitions is subject to discounting to the date of acquisition and subsequently unwound to the date of the final payment.

Goodwill arising on acquisition represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired, net of deferred tax. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

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

Intangible assets such as customer lists, patents, trademarks, know-how and intellectual property that are acquired by the Group are stated at cost less amortisation and impairment losses. Amortisation is charged to the Consolidated income statement on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful lives of the intangible assets included in the Consolidated balance sheet reflect the benefit derived by the Group and vary from 5 to 10 years.

On a transaction by transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

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 12-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, largely for UK and Irish employees, which 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 finances. Pension scheme assets of the defined benefit schemes are measured using market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. 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.

1. Accounting policies continued

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 limited number of foreign employees.

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

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

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.

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.

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. Within metrology, there are multiple operating segments that are aggregated into a reporting segment for reportable purposes, where the nature of the products and their customer base are similar. The revenue, depreciation and amortisation, and operating profit for each reportable segment were:

Year ended 30th June 2012	**Metrology £'000**	**Healthcare £'000**	**Total £'000**
Revenue	**305,832**	**26,060**	**331,892**
Depreciation and amortisation	**16,360**	**3,806**	**20,166**
Operating profit/(loss)	**91,845**	**(8,657)**	**83,188**
Share of profits from associates	**690**	**–**	**690**
Net financial income	**–**	**–**	**2,168**
Profit before tax	**–**	**–**	**86,046**

Year ended 30th June 2011	Metrology £'000	Healthcare £'000	Total £'000
Revenue	267,022	21,728	288,750
Depreciation and amortisation	15,337	3,293	18,630
Operating profit/(loss) before exceptional item	87,738	(8,452)	79,286
Exceptional item – reversal of 2010 impairment write-down	1,668	–	1,668
Share of profits from associates	463	–	463
Net financial income	–	–	661
Profit before tax	–	–	82,078

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:

	2012 £'000	2011 £'000
Far East, including Australasia	**130,169**	114,553
Continental Europe	**95,702**	85,751
North, South and Central America	**76,841**	65,113
UK and Ireland	**18,885**	14,761
Other regions	**10,295**	8,572
Total group revenue	**331,892**	288,750

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:

	2012 £'000	2011 £'000
China	**65,166**	54,204
USA	**64,581**	52,796
Germany	**42,539**	38,612
Japan	**38,496**	36,139

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:

	2012 £'000	2011 £'000
United Kingdom	**114,329**	93,071
Overseas	**47,840**	43,805
Total non-current assets	**162,169**	136,876

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

3. Personnel expenses

The aggregate payroll costs for the year were:

	2012 £'000	2011 £'000
Wages and salaries	**100,468**	88,442
Compulsory social security contributions	**12,121**	10,369
Contributions to defined contribution plans	**9,674**	7,703
Total payroll costs	**122,263**	106,514

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

	2012 Number	2011 Number
UK (including Ireland)	**1,926**	1,650
Overseas	**839**	735
Average number of employees	**2,765**	2,385

4. Financial income and expenses

Financial income	2012 £'000	2011 £'000
Expected return on assets in the pension schemes (note 15)	**8,284**	6,736
Bank interest receivable	**695**	372
Total financial income	**8,979**	7,108

Financial expenses	2012 £'000	2011 £'000
Interest on pension schemes' liabilities (note 15)	**6,186**	6,239
Bank interest payable	**296**	208
Unwinding of deferred acquisition cost interest	**329**	–
Total financial expenses	**6,811**	6,447

Notes continued

5. Profit before tax

Included in the profit before tax are the following costs/(income):

	Notes	2012 £'000	2011 £'000
Depreciation of property, plant and equipment	(a)	**9,518**	7,575
Amortisation of intangibles	(a)	**10,648**	11,055
Research and development expenditure	(b)	**33,278**	29,392
Profit on sale of property, plant and equipment	(c)	**(94)**	(8)
Foreign currency losses	(c)	**183**	201
Auditors:			
Fees payable to the Company's auditor for audit of the Company's annual accounts	(c)	**96**	77
Audit of subsidiary undertakings pursuant to legislation	(c)	**189**	180
Tax services	(c)	**176**	334
Fees in respect of pension schemes – audit	(c)	**14**	16
– advisory	(c)	**47**	71
Other services	(c)	**69**	18

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

	2012 £'000	2011 £'000
Current tax:		
UK corporation tax on profits for the year	**7,906**	9,223
Overseas tax on profits for the year	**5,049**	7,460
Adjustments for prior years	**–**	(74)
Total current tax	**12,955**	16,609
Deferred tax:		
Origination and reversal of other temporary differences	**4,982**	447
Effect on deferred tax for change in UK tax rate to 24%	**(929)**	(711)
	4,053	(264)
Tax charge on profit	**17,008**	16,345
Effective tax rate (based on profit before tax)	**20%**	20%

6. Income tax expense continued

The tax for the year is lower (2011 lower) than the weighted average of the UK standard rate of corporation tax of 25.5% (2011 27.5%). The differences are explained as follows:

	2012 £'000	2011 £'000
Profit before tax	**86,046**	82,078
Tax at 25.5% (2011 27.5%)	**21,942**	22,571
Effects of:		
Different tax rates applicable in overseas subsidiaries	**(3,776)**	(4,126)
Research and development tax credit	**(1,342)**	(1,461)
Adjustments for prior years	**–**	(74)
Expenses not deductible for tax purposes	**312**	142
Companies with unrelieved tax losses	**527**	406
Exceptional item with no tax effect	**–**	(459)
Effect on deferred tax for change in UK tax rate to 24%	**(929)**	(711)
Other differences	**274**	57
Tax charge on profit	**17,008**	16,345

The UK corporation tax rate is proposed to reduce to 22%, with a phased reduction until April 2014. As a result of the reduction in the corporation tax rate by 1% to 23%, which is expected to take effect from 1st April 2013, the group tax charge is estimated to reduce next year by approximately £600,000. A further reduction of £400,000 in the group tax charge is expected to be made in the following year if the corporation tax rate reductions are enacted as proposed.

7. Directors' remuneration

The key management personnel are considered to be the Board of directors.

The total remuneration of the directors was:

	2012 £'000	2011 £'000
Salary and fees	**2,082**	1,937
Bonus	**1,353**	1,823
Benefits	**70**	83
Pension contributions	**162**	154
Total remuneration of the directors	**3,667**	3,997

Notes continued

7. Directors' remuneration continued

	2012					2011				
	Salary and fees £'000	Bonus £'000	Benefits £'000	Pension contributions* £'000	Total £'000	Salary and fees £'000	Bonus £'000	Benefits £'000	Pension contributions* £'000	Total £'000
Chairman										
Sir David McMurtry	572	395	2	–	969	532	532	2	–	1,066
Other executive directors										
D J Deer	346	238	23	–	607	322	322	32	–	676
B R Taylor	397	274	15	60	746	369	369	17	55	810
A C G Roberts	323	223	15	48	609	300	300	17	47	664
G McFarland	323	223	15	54	615	300	300	15	52	667
Non-executive										
J P McGeehan	–	–	–	–	–	9	–	–	–	9
T D Snowden	38	–	–	–	38	35	–	–	–	35
T B Garthwaite	38	–	–	–	38	35	–	–	–	35
W H Whiteley	38	–	–	–	38	35	–	–	–	35
D Grant**	7	–	–	–	7	–	–	–	–	–
	2,082	1,353	70	162	3,667	1,937	1,823	83	154	3,997

*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. **D Grant was appointed a director on 25th April 2012.

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 2012

AB* at 30th June 2012 £ p.a.	Increase in AB excluding inflation (A) £	Increase in AB including inflation £ p.a.	Transfer value of (A) less director's contribution £	Transfer value of AB at 30th June 2011 £	Transfer value of AB at 30th June 2012 £	Change in transfer value less director's contribution £
26,954	–	1,337	–	331,450	354,635	23,185

Year ended 30th June 2011

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

* AB = Accrued benefits.

8. Earnings per share

Basic and diluted earnings per share are calculated on earnings after tax of £69,555,000 (2011 £66,115,000) 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 item in 2011. The previous year has been amended to be based on the profit attributable to equity shareholders of the Company.

9. Property, plant and equipment

Year ended 30th June 2012	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 2011	**74,940**	**84,065**	**6,516**	**4,838**	**170,359**
Additions	**5,396**	**3,973**	**1,522**	**19,437**	**30,328**
Acquired through business combinations	**–**	**689**	**127**	**–**	**816**
Transfers	**7,961**	**12,318**	**–**	**(20,279)**	**–**
Disposals	**–**	**(2,456)**	**(749)**	**–**	**(3,205)**
Currency adjustment	**(2,443)**	**(1,974)**	**(360)**	**–**	**(4,777)**
At 30th June 2012	**85,854**	**96,615**	**7,056**	**3,996**	**193,521**
Depreciation					
At 1st July 2011	**17,736**	**66,143**	**4,136**	**–**	**88,015**
Charge for the year	**1,747**	**6,844**	**927**	**–**	**9,518**
Released on disposals	**–**	**(2,252)**	**(633)**	**–**	**(2,885)**
Currency adjustment	**(745)**	**(1,155)**	**(199)**	**–**	**(2,099)**
At 30th June 2012	**18,738**	**69,580**	**4,231**	**–**	**92,549**
Net book value					
At 30th June 2012	**67,116**	**27,035**	**2,825**	**3,996**	**100,972**
At 30th June 2011	57,204	17,922	2,380	4,838	82,344

At 30th June 2012, properties with a net book value of £22,148,000 (2011 £22,718,000) were subject to a registered charge to secure the UK defined benefit pension scheme liabilities.

Additions to assets in the course of construction of £19,437,000 (2011 £6,896,000) comprise £8,285,000 (2011 £2,420,000) for freehold land and buildings and £11,152,000 (2011 £4,476,000) for 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

Notes continued

10. Intangible assets

Year ended 30th June 2012	**Goodwill on consolidation £'000**	**Other intangible assets £'000**	**Internally generated development costs £'000**	**Software licences – In use £'000**	**Software licences – In the course of acquisition £'000**	**Total £'000**
Cost						
At 1st July 2011	**12,694**	**10,219**	**46,064**	**18,516**	**87**	**87,580**
Additions	**–**	**25**	**9,679**	**679**	**419**	**10,802**
Acquired through acquisitions	**7,069**	**43**	**–**	**–**	**–**	**7,112**
Transfers	**–**	**–**	**–**	**475**	**(475)**	**–**
Currency adjustment	**(349)**	**60**	**–**	**(18)**	**–**	**(307)**
At 30th June 2012	**19,414**	**10,347**	**55,743**	**19,652**	**31**	**105,187**
Amortisation						
At 1st July 2011	**–**	**4,149**	**27,721**	**8,615**	**–**	**40,485**
Charge for the year	**198**	**1,758**	**6,747**	**1,605**	**–**	**10,308**
Currency adjustment	**–**	**–**	**–**	**(13)**	**–**	**(13)**
At 30th June 2012	**198**	**5,907**	**34,468**	**10,207**	**–**	**50,780**
Net book value						
At 30th June 2012	**19,216**	**4,440**	**21,275**	**9,445**	**31**	**54,407**
At 30th June 2011	12,694	6,070	18,343	9,901	87	47,095

Additions to Goodwill on consolidation include £2,794,000 in respect of the accounting for deferred tax on the intangible assets acquired through business combinations in the year ended 30th June 2011, which was not previously accounted for when assessing the fair value of assets acquired at the time of the acquisitions.

During the year, goodwill of £198,000 relating to the acquisition of Renishaw PT Limited (formerly known as PulseTeq Limited) was written off following a review of the Group's healthcare strategy.

Year ended 30th June 2011	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences – In use £'000	Software licences – In the course of acquisition £'000	Total £'000
Cost						
At 1st July 2010	5,569	5,466	35,941	11,271	117	58,364
Additions	–	–	10,123	1,046	157	11,326
Acquired 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

10. Intangible assets continued

Goodwill acquired has arisen on the acquisition of a number of businesses and has an indeterminable useful life. Therefore it is not amortised but is tested for impairment annually and at any point during the year when an indicator of impairment exists. 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. In the table below, only the goodwill relating to the acquisition of R&R Sales LLC is expected to be subject to tax relief.

The analysis of acquired goodwill on consolidation is:

	2012 £'000	2011 £'000
itp GmbH	**2,886**	3,120
Renishaw Diagnostics Limited (92.4%)	**1,784**	1,784
Renishaw Mayfield S.A. (75%)	**1,559**	1,674
Measurement Devices Limited (66%)	**6,661**	5,713
Renishaw Software Limited	**1,559**	–
R&R Sales LLC	**4,275**	–
Other smaller acquisitions	**492**	403
Total acquired goodwill	**19,216**	12,694

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 (2011 same basis).

– Renishaw Diagnostics Limited, Renishaw Mayfield S.A. (both in the healthcare reportable segment), Measurement Devices Limited and R&R Sales LLC (both in the metrology reportable segment) – five-year business plans with a nil growth rate to perpetuity (2011 same basis where applicable).

These are considered prudent estimates based on management's view of the future and experience of past performance. The growth rates used in the business plans vary from 13% to 26%, except for Renishaw Diagnostics Limited, which is in its research and development phase and thus has negligible revenue to date.

A pre-tax discount rate of 12% has been used in discounting the projected cash flows of itp GmbH, Measurement Devices Limited and R&R Sales LLC (2011 12% where applicable). A pre-tax discount rate of 15% has been used for Renishaw Diagnostics Limited and Renishaw Mayfield S.A. (2011 15%). These have been set on the basis of them 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. For goodwill to be impaired in the CGU with the minimum headroom, the discount rate would have to increase to 21.5%.

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 2012 %**	Ownership 2011 %
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 2012 was £7.525 (2011 £4.55). The Company holds 1,543,032 shares (2011 1,543,032). Equity accounting has been applied in the Group's results based on the Company's management accounts to 30th June 2012.

Notes continued

11. Investments in associates continued

Movements during the year were:

	2012 £'000	2011 £'000
Balance at the beginning of the year	7,437	5,152
Investments made during the year	–	74
Dividends received	(108)	(84)
Share of profits of associates	1,030	803
Amortisation of intangibles	(340)	(340)
Other comprehensive income and expense	(1,229)	164
Reversal of impairment write-down	–	1,668
Balance at the end of the year	6,790	7,437

Summarised aggregated financial information for associates:

	2012 £'000	2011 £'000
Revenue	12,287	10,232
Share of profits for the year	1,030	803
Assets	10,771	10,015
Liabilities	6,161	5,049

12. Acquisitions

Thomas Engineering and Construction Limited

On 3rd February 2012 the Group acquired a 100% shareholding in Thomas Engineering and Construction Limited ("TEC") for the sum of £0.7m, of which £0.2m was paid at the date of acquisition and the balance is payable over the following two years. Prior to acquisition, the company had been a supplier in Canada of products manufactured by Measurement Devices Limited, a subsidiary undertaking of Renishaw plc. Further payments may be payable subject to the future profitability of the acquired company, although the amount is not material.

The fair values of assets acquired were £659,000.

Included in the fair value of assets are acquired intangible assets, which comprise customer relationships and customer list. Acquisition costs were £15,000 and are included in administrative expenses.

Of the total consideration, £211,000 was paid in cash and £448,000 has been accounted for as deferred contingent consideration and is shown within other payables (£203,000 within one year and £245,000 beyond one year).

R&R Sales LLC

On 26th April 2012 the Group acquired a 100% shareholding in R&R Sales LLC, ("R&R") for the sum of £2,609,000. There may be additional payments in respect of the shares acquired based on the earnings of R&R over the five year period to 31st December 2016. An estimate of the outstanding purchase price, based on R&R's five year forecast, but which will be between £nil and £5.9m, is provided for within the financial statements. R&R is a US-based supplier of fixtures for the global measurement and inspection market.

The fair values of assets acquired, which were considered to be not materially different from their book values, were:

	Fair value £'000
Tangible fixed assets	504
Inventories	119
Receivables and prepayments	227
Cash	77
Creditors	(504)
Fair value of assets acquired	423
Goodwill	4,275
Total consideration	4,698

12. Acquisitions continued

Of the total consideration, £2,609,000 was paid in cash and £2,089,000 has been accounted for as deferred contingent consideration and is shown within other payables (£151,000 within one year and £1,938,000 beyond one year).

Goodwill exists due to the potential future opportunities from combining this business with the Group's Equator product range. The Group's investment in R&R will enable R&R to expand further on a global basis and benefit from Renishaw's worldwide distribution network and manufacturing expertise. Acquisition costs were £64,000 and are included in administrative expenses.

TEC's and R&R's contribution to the consolidated profit before tax since acquisition and their historical trading results for their previous full year were:

	TEC		R&R	
	Period to 30th June 2012 £'000	Year to 29th February 2012 £'000	**Period to 30th June 2012 £'000**	Year to 31st December 2011 £'000
Revenue	**501**	1,407	**313**	1,701
Expenses	**(427)**	(1,296)	**(303)**	(1,188)
Profit before tax	**74**	111	**10**	513

If TEC and R&R had been within the Group for the full year, their contribution to the Group's revenue would have been £3,110,000 and their contribution to the Group's profit before tax would have been a profit of £536,000.

Year ended 30th June 2011

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. This gives a range for the cost of the remaining 51% shareholding of between £4,027,000 and £18,000,000. An estimate of the outstanding purchase price, based on MDL's three-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.

Notes continued

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. These costs are included in administrative expenses in the Consolidated income statement.

12. Acquisitions continued

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

	Measurement Devices Limited		Renishaw Advanced Materials Limited		MTT Investments Limited	
	Period to 30th June 2011 £'000	Year to 31st December 2010 £'000	Period to 30th June 2011 £'000	Year to 31st January 2011 £'000	Period to 30th June 2011 £'000	Year to 31st December 2010 £'000
Revenue	7,916	6,997	–	59	999	5,100
Expenses	(8,180)	(7,349)	(98)	(90)	(1,167)	(4,910)
Profit/(loss) before tax	(264)	(352)	(98)	(31)	(168)	190
Non-controlling interest	–	–	44	14	–	–
Group share of profit/(loss) before tax	(264)	(352)	(54)	(17)	(168)	190

If MDL, RAM and MTT had been within the Group for the full year, their contribution to the Group's profit before tax would have been a loss of £546,000. 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.

13. Deferred tax assets and liabilities

Balances at the end of the year were:

	2012			2011		
	Assets £'000	**Liabilities £'000**	**Net £'000**	Assets £'000	Liabilities £'000	Net £'000
Property, plant and equipment	**–**	**(4,561)**	**(4,561)**	–	(4,628)	(4,628)
Intangible assets	**–**	**(7,630)**	**(7,630)**	–	(5,329)	(5,329)
Intragroup trading (inventory)	**7,261**	**–**	**7,261**	8,690	–	8,690
Pension schemes	**9,519**	**–**	**9,519**	9,393	–	9,393
Other	**997**	**(7,301)**	**(6,304)**	5,667	(7,254)	(1,587)
Balance at the end of the year	**17,777**	**(19,492)**	**(1,715)**	23,750	(17,211)	6,539

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

	2012 £'000	2011 £'000
Balance at the beginning of the year	**6,539**	4,623
Movements in the Consolidated income statement	**(4,053)**	264
Intangibles assets acquired	**(2,804)**	–
Movement in relation to the cash flow hedging reserve	**(2,398)**	1,667
Movement in relation to the pension schemes	**1,001**	(15)
Total movement in the Consolidated statement of comprehensive income and expense	**(1,397)**	1,652
Balance at the end of the year	**(1,715)**	6,539

The deferred tax movement in the Consolidated income statement is analysed as:

	2012 £'000	2011 £'000
Property, plant and equipment	**67**	(868)
Intangible assets	**503**	(450)
Intragroup trading (inventory)	**(1,429)**	3,381
Pension schemes	**(875)**	(286)
Unused tax losses	**–**	(3,499)
Other	**(2,319)**	1,986
Total movement for the year	**(4,053)**	264

No deferred tax asset has been recognised in respect of tax losses carried forward of £8,104,000 (2011 £8,431,000) due to the uncertainty over their recoverability, as a significant proportion may only be carried forward for a limited period of time.

Notes continued

14. Derivatives

Derivatives comprising the fair value of outstanding forward contracts with positive fair values are shown within:

	2012 £'000	2011 £'000
Non-current assets	**3,532**	684
Current assets	**3,157**	886
Total of derivatives with positive fair values	**6,689**	1,570

Derivatives comprising the fair value of outstanding forward contracts with negative fair values are shown within:

	2012 £'000	2011 £'000
Non-current liabilities	**2,313**	2,496
Current liabilities	**1,052**	4,789
Total of derivatives with negative fair values	**3,365**	7,285

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 £9,674,000 (2011 £7,703,000), of which £162,000 (2011 £154,000) related to directors and £3,059,000 (2011 £2,267,000) 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 2012 by a qualified independent actuary.

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

	30th June 2012		30th June 2011		30th June 2010	
	UK scheme	**Irish scheme**	UK scheme	Irish scheme	UK scheme	Irish scheme
Rate of increase in pension payments	**2.7%**	**1.7%**	3.4%	2.4%	3.3%	2.4%
Discount rate	**4.3%**	**3.4%**	5.5%	4.9%	5.3%	4.4%
Inflation rate (RPI)	**2.7%**	**1.7%**	3.6%	2.4%	3.4%	2.4%
Inflation rate (CPI)	**1.7%**	**–**	2.9%	–	–	–
Expected return on equities	**6.7%**	**5.8%**	8.3%	7.5%	8.1%	7.1%
Retirement age	**64**	**65**	64	65	64	65

The mortality assumption used for 2012 is PCA00, year of birth, medium cohort, which reflects increasing life expectancy.

The assets and liabilities in the defined benefit schemes were:

	30th June 2012 £'000	% of total assets	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
Market value of assets:										
Equities	**93,827**	99	99,365	98	81,737	98	68,538	98	82,576	97
Bonds and cash	**1,409**	1	1,684	2	1,447	2	1,630	2	2,574	3
	95,236	100	101,049	100	83,184	100	70,168	100	85,150	100
Actuarial value of liabilities	**(137,224)**	–	(138,713)	–	(120,435)	–	(92,626)	–	(96,205)	–
Deficit in the schemes	**(41,988)**	–	(37,664)	–	(37,251)	–	(22,458)	–	(11,055)	–
Deferred tax thereon	**9,519**	–	9,393	–	9,694	–	5,701	–	2,996	–

15. Employee benefits continued

Note 35 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 £5,429,000 (2011 £5,746,000) and the actuarial value of liabilities was £10,278,000 (2011 £8,705,000). The expected rates of return are based on market conditions at 30th June 2012 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. It is expected that contributions to defined benefit schemes for the next financial year will be at a similar level to the current year.

The movements in the schemes' assets and liabilities were:

Year ended 30th June 2012	**Assets £'000**	**Liabilities £'000**	**Total £'000**
Balance at the beginning of the year	**101,049**	**(138,713)**	**(37,664)**
Contributions paid	**1,359**	**–**	**1,359**
Expected return on pension schemes' assets	**8,284**	**–**	**8,284**
Interest on pension schemes' liabilities	**–**	**(6,186)**	**(6,186)**
Actuarial gain/(loss)	**(13,868)**	**6,087**	**(7,781)**
Benefits received/(paid)	**(1,588)**	**1,588**	**–**
Balance at the end of the year	**95,236**	**(137,224)**	**(41,988)**

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)	12,188	(13,765)	(1,577)
Benefits received/(paid)	(1,726)	1,726	–
Balance at the end of the year	101,049	(138,713)	(37,664)

The income/(expense) recognised in the Consolidated income statement was:

	2012 £'000	2011 £'000
Expected return on pension schemes' assets	**8,284**	6,736
Interest on pension schemes' liabilities	**(6,186)**	(6,239)
Total income recognised in the Consolidated income statement	**2,098**	497

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:

	2012 £'000	2011 £'000
Actual return less expected return on scheme assets	**(13,266)**	11,773
Experience gain/(loss) arising on scheme liabilities	**–**	(1,521)
Changes in financial assumptions	**(8,515)**	11,871
Adjustment to liabilities for IFRIC 14	**14,000**	(23,700)
Total amount recognised in the Consolidated statement of comprehensive income and expense	**(7,781)**	(1,577)

Notes continued

15. Employee benefits continued

The history of experience gains and losses is:

	Year ended 30th June 2012	Year ended 30th June 2011	Year ended 30th June 2010	Year ended 30th June 2009	Year ended 30th June 2008
Difference between the expected and actual return on scheme assets					
amount (£'000)	**(13,266)**	11,773	9,920	(21,601)	(14,591)
percentage of scheme assets	**(14%)**	12%	12%	(31%)	(17%)
Experience gains and losses on scheme liabilities					
amount (£'000)	**–**	(1,521)	915	(3,954)	–
percentage of present value of scheme liabilities	**–**	(1%)	1%	(4%)	–
Total amount recognised in the Consolidated statement of comprehensive income and expense					
amount (£'000)	**(7,781)**	(1,577)	(14,867)	(13,032)	(20,541)
percentage of present value of scheme liabilities	**(6%)**	(1%)	(12%)	(14%)	(21%)

The cumulative amount of actuarial gains and losses recognised in the Consolidated statement of comprehensive income and expense was a loss of £76,731,000 (2011 loss of £68,950,000).

The assumptions used for mortality rates for members, medium cohort at the expected retirement age of 65 years are:

	2012 years	2011 years
Male currently aged 65	**21.8**	21.8
Female currently aged 65	**24.1**	24.1
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 in 2011 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 balance of this account was £11,523,000 at the end of the year (2011 £10,818,000).

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 £44,210,000 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 £44,210,000 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 £9,700,000, to represent the maximum discounted liability as at 30th June 2012 (30th June 2011 £23,700,000).

16. Inventories

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

	2012 £'000	2011 £'000
Raw materials	**25,758**	20,793
Work in progress	**11,511**	10,560
Finished goods	**16,714**	18,456
Balance at the end of the year	**53,983**	49,809

During the year, the amount of inventories recognised as an expense in the Consolidated income statement was £99,211,000 (2011 £82,320,000) and the amount of write-down of inventories recognised as an expense in the Consolidated income statement was £567,000 (2011 £289,000).

17. Cash and cash equivalents

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

	2012 £'000	2011 £'000
Bank balances and cash in hand	**10,118**	12,891
Short-term deposits	**11,009**	10,842
Balance at the end of the year	**21,127**	23,733

The pension fund cash escrow account is shown separately within current assets. In the previous year, this was shown within cash and cash equivalents.

18. Provisions

Warranty provision

Movements during the year were:

	2012 £'000	2011 £'000
Balance at the beginning of the year	**770**	539
Created during the year	**526**	513
Acquired through business combinations	**–**	99
Utilised in the year	**(126)**	(381)
	400	231
Balance at the end of the year	**1,170**	770

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

Balances at the end of the year were:

	2012 £'000	2011 £'000
Payroll taxes and social security	**3,965**	3,814
Other creditors and accruals	**21,631**	18,312
Total other payables	**25,596**	22,126

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 £7,484,000 (2011 £12,494,000) comprises:

– £5,301,000 (2011 £8,312,000) in respect of the investment in Measurement Devices Limited, which is payable over the next two years.

– £1,938,000 (2011 £nil) in respect of the investment in R&R Sales LLC, which is payable over the next five years.

– £245,000 (2011 £nil) in respect of the investment in Thomas Engineering and Construction Limited, which is payable over the next two years.

The previous year included £1,182,000 in respect of the investment in Renishaw Diagnostics Limited and £3,000,000 in respect of the investment in Renishaw Software Limited. Following a rights issue undertaken by Renishaw Diagnostics Limited during the year, the majority of their liability has been extinguished. The remaining liability to the non-controlling interest of £182,000 is shown within current liabilities. The liability in respect of Renishaw Software Limited is now classified as a current payable.

Notes continued

21. Capital and reserves

Share capital

	2012 £'000	2011 £'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 a loss of £1,779,000 (2011 gain £339,000) comprises a loss on the net assets of foreign currency operations of £3,829,000 (2011 gain £2,426,000) and a gain on foreign currency bank accounts of £2,050,000 (2011 loss £2,087,000).

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:

	2012 £'000	2011 £'000
Balance at the beginning of the year	**(4,115)**	172
Amounts transferred to the Consolidated income statement (within Revenue)	**3,835**	2,188
Revaluations during the year	**5,204**	(8,142)
Deferred tax movement	**(2,398)**	1,667
Balance at the end of the year	**2,526**	(4,115)

Dividends paid

Dividends paid comprised:

	2012 £'000	2011 £'000
2011 final dividend paid of 24.7p per share	**17,979**	9,899
Interim dividend paid of 10.3p per share (2011 10.3p)	**7,497**	7,497
Total dividends paid	**25,476**	17,396

A final dividend in respect of the current financial year of £20,526,369 (2011 £17,978,770), at the rate of 28.2p per share (2011 24.7p) is proposed, to be paid on 22nd October 2012 to shareholders on the register on 21st September 2012, with an ex-dividend date of 19th September 2012.

Non-controlling interest

Movements during the year were:

	2012 £'000	2011 £'000
Balance at the beginning of the year	**(490)**	(432)
Share of investments	**266**	324
Share of loss for the year	**(517)**	(382)
Balance at the end of the year	**(741)**	(490)

The non-controlling interest represents the minority shareholdings in Renishaw Diagnostics Limited – 7.6% (2011 15.2%), Renishaw Mayfield S.A. – 25% and Renishaw Advanced Materials Limited – 45%. The change in the ownership share in Renishaw Diagnostics Limited was the result of an issue of shares by that company during the year.

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:

	Trade receivables		Other receivables		Cash	
Currency	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Pound Sterling	**7,374**	7,455	**7,493**	7,272	**7,512**	8,343
US Dollar	**35,908**	22,771	**327**	268	**2,744**	1,357
Japanese Yen	**8,142**	7,922	**1,548**	438	**2,337**	3,152
Euro	**17,852**	17,558	**6,397**	1,202	**866**	2,688
Other	**14,131**	5,827	**1,514**	847	**7,668**	8,193
	83,407	61,533	**17,279**	10,027	**21,127**	23,733

The above trade receivables, other receivables and cash are predominately held in the functional currency of the relevant entity, with the exception of £2,500,000 of Euro-denominated trade receivables being held in the parent company, along with some foreign currency cash balances which are of a short-term nature.

The ageing of trade receivables past due, but not impaired, at the end of the year was:

	2012 £'000	2011 £'000
Past due 0–1 month	**14,654**	12,487
Past due 1–2 months	**5,808**	3,390
Past due more than 2 months	**1,219**	1,179
Balance at the end of the year	**21,681**	17,056

Movements in the provision for impairment of trade receivables during the year were:

	2012 £'000	2011 £'000
Balance at the beginning of the year	**4,007**	3,989
Changes in amounts provided	**40**	479
Amounts utilised	**(218)**	(461)
Balance at the end of the year	**3,829**	4,007

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 £250,000. The market value of forward exchange contracts is determined by reference to market data.

Notes continued

22. Financial instruments continued

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

Year ended 30th June 2012	**Carrying amount £'000**	**Up to 1 year £'000**	**1–2 years £'000**	**2–5 years £'000**
Trade payables	**22,900**	**22,900**	**–**	**–**
Other payables	**33,080**	**25,596**	**5,817**	**1,667**
Provisions	**1,170**	**1,170**	**–**	**–**
Forward exchange contracts	**3,365**	**1,052**	**835**	**1,478**
	60,515	**50,718**	**6,652**	**3,145**

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

For non-current other receivables of £3,532,000 (2011 £684,000), £1,563,000 (2011 £591,000) is receivable between 1 and 2 years and £1,969,000 (2011 £93,000) 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, except for the deferred consideration, which is categorised as Level 3.

All financial assets and liabilities are held at amortised cost, apart from the forward exchange contracts, which are held at fair value, with changes going through the Consolidated income statement unless subject to hedge accounting.

Market risk

As noted in the Business review under Principal 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 Group has hedged a significant proportion of its forecasted US Dollar, Japanese Yen and Euro cash flows and hence there is not expected to be a material impact on the Group's results resulting from fluctuations in their exchange rates 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, a one Japanese Yen change and a one Euro cent 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.

	2012		2011		
Currency	**Year end exchange rate**	**Average exchange rate**	Year end exchange rate	Average exchange rate	Increase in group profit for one cent or one yen movement £'000
US Dollar	**1.57**	**1.59**	1.61	1.60	450
Japanese Yen	**125**	**125**	129	132	70
Euro	**1.25**	**1.19**	1.11	1.16	60
Average US Dollar forward contract rates	**–**	**1.58**	–	1.45	–
Average Japanese Yen forward contract rates	**–**	**135**	–	139	–
Average Euro forward contract rates	**–**	**1.22**	–	1.30	–

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 profit carried forward of £2,526,000 (2011 loss £4,115,000) (see note 21). The nominal amounts of foreign currencies relating to these forward contracts are, in Sterling terms, £218,814,000 in US Dollars (2011 £44,195,000), £70,581,000 in Japanese Yen (2011 £28,890,000) and £103,573,000 in Euro (2011 £116,024,000).

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.

22. Financial instruments continued

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	38,957	30,730	0.25%
Japanese Yen	16,307	16,110	0.10%
Euro	29,160	27,245	0.75%

The currency borrowings are short term, with floating interest rates. In order to minimise the cost of these borrowings, short-term currency swaps are used on a rolling one-month cycle, 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 1% change in exchange rates will affect reserves by approximately £200,000.

Capital management

The Group defines capital as being the equity attributable to the owners of the Company, which is captioned on the Consolidated balance sheet.

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. The Group may adjust dividend payments due to changes in economic and market conditions which affect, or are anticipated to affect, group results.

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:

	2012 £'000	2011 £'000
Expiring within one year	**1,806**	1,842
Expiring between two and five years	**2,414**	2,724
Total future minimum lease payments	**4,220**	4,566

Lease payments recognised as an expense during the year were:

	2012 £'000	2011 £'000
Total lease payments for the financial year	**2,201**	1,792

24. Capital commitments

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

	2012 £'000	2011 £'000
Authorised and committed	**7,958**	13,047

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 £319,000 (2011 £276,000) and sold goods and services to the Group to the value of £4,328,000 (2011 £3,142,000). At 30th June 2012, associates owed £73,000 to the Group (2011 £100,000). Associates were owed £253,000 by the Group (2011 £229,000). Dividends of £108,000 were received from associates during the year (2011 £84,000). Loans to related parties from Renishaw plc at 30th June 2012 were £2,745,000 (2011 £1,498,000).

All transactions were on an arm's length basis. There were no bad debts written off during the year (2011 £nil).

Company balance sheet

at 30th June 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	28	**67,431**	49,816
Investments in subsidiaries	29	**316,476**	31,939
Investments in associates		**6,888**	6,888
		390,795	88,643
Current assets			
Stock	30	**31,581**	27,701
Debtors	31	**94,914**	190,294
Pension fund escrow bank account	15,17	**11,523**	10,818
Cash at bank		**6,456**	7,774
		144,474	236,587
Creditors			
Amounts falling due within one year	32	**(97,531)**	(69,548)
Net current assets			
Due within one year		**43,411**	94,128
Due after more than one year		**3,532**	72,911
		46,943	167,039
Total assets less current liabilities		**437,738**	255,682
Creditors			
Amounts falling due after more than one year	33	**(9,552)**	(16,598)
Provisions for liabilities	34	**(2,911)**	324
Net assets excluding pension liability		**425,275**	239,408
Pension liability	35	**(28,226)**	(25,682)
Net assets including pension liability		**397,049**	213,726
Capital and reserves			
Called up share capital	36	**14,558**	14,558
Share premium account		**42**	42
Currency reserve	37	**2,526**	(4,115)
Profit and loss account	38	**379,923**	203,241
Shareholders' funds – equity		**397,049**	213,726

These financial statements were approved by the Board of directors on 25th July 2012 and were signed on its behalf by:

Sir David R McMurtry   A C G Roberts
Directors

Reconciliation of movements in shareholders' funds

for the year ended 30th June 2012

	2012 £'000	2011 £'000
Profit for the financial year	**207,235**	47,928
Dividends paid	**(25,476)**	(17,396)
Effective portion of changes in fair value of cash flow hedges, net of recycling and deferred tax	**6,641**	(4,287)
Actuarial loss in the pension scheme, net of deferred tax	**(5,077)**	(2,579)
Increase in shareholders' funds	**183,323**	23,666
Shareholders' funds at 1st July 2011	**213,726**	190,060
Shareholders' funds at 30th June 2012	**397,049**	213,726

Notes to the Company financial statements

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.

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.

Notes to the Company financial statements continued

27. Accounting policies continued

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 12-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.

The Company uses forward exchange contracts to hedge its exposure to foreign exchange risk arising from operational and financing activities. 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 profit and loss account at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the profit and loss account immediately.

However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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.

28. Tangible fixed assets

Year ended 30th June 2012	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 2011	**37,272**	**77,498**	**2,570**	**4,925**	**122,265**
Additions	**2,110**	**2,053**	**561**	**19,856**	**24,580**
Transfers	**7,961**	**12,793**	**–**	**(20,754)**	**–**
Disposals	**–**	**(818)**	**(101)**	**–**	**(919)**
At 30th June 2012	**47,343**	**91,526**	**3,030**	**4,027**	**145,926**
Depreciation					
At 1st July 2011	**8,973**	**61,775**	**1,701**	**–**	**72,449**
Charge for the year	**852**	**5,628**	**395**	**–**	**6,875**
Released on disposals	**–**	**(728)**	**(101)**	**–**	**(829)**
At 30th June 2012	**9,825**	**66,675**	**1,995**	**–**	**78,495**
Net book value					
At 30th June 2012	**37,518**	**24,851**	**1,035**	**4,027**	**67,431**
At 30th June 2011	28,299	15,723	869	4,925	49,816

28. Tangible fixed assets continued

At 30th June 2012, properties with a net book value of £22,148,000 (2011 £22,718,000) 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 £44,210,000 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 £44,210,000 by midnight on 1st November 2016.

Additions to assets in the course of construction of £19,856,000 (2011 £7,053,000) comprise £8,285,000 (2011 £2,420,000) for freehold land and buildings and £11,571,000 (2011 £4,633,000) for plant and equipment.

29. Investments in subsidiaries

Movements during the year were:

	2012 £'000	2011 £'000
Balance at the beginning of the year	**31,939**	7,161
Investments made during the year	**284,537**	24,778
Balance at the end of the year	**316,476**	31,939

A list of subsidiary undertakings is shown in note 41. Investments made during the year include £280,774,000 in subsidiary undertakings following a reorganisation of the Group.

30. Stock

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

	2012 £'000	2011 £'000
Raw materials	**14,610**	12,286
Work in progress	**11,017**	9,605
Finished goods	**5,954**	5,810
Balance at the end of the year	**31,581**	27,701

31. Debtors

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

	2012 £'000	2011 £'000
Debtors due within one year		
Trade debtors	**10,659**	9,741
Amounts owed by group undertakings	**68,089**	97,578
Amounts owed by associated undertakings	**2,817**	1,593
Prepayments and other receivables	**6,660**	3,868
Fair value of forward exchange contracts	**3,157**	886
	91,382	113,666
Debtors due after more than one year		
Amounts owed by group undertakings	**–**	75,944
Fair value of forward exchange contracts	**3,532**	684
Balance at the end of the year	**94,914**	190,294

Notes to the Company financial statements continued

32. Creditors

Amounts falling due within one year

An analysis of creditors due within one year at the end of the year was:

	2012 £'000	2011 £'000
Trade creditors	16,297	8,281
Corporation tax	4,479	2,214
Amounts owed to group undertakings	63,950	43,348
Amounts owed to associated undertakings	108	87
Other taxes and social security	1,854	1,750
Other creditors	9,791	9,079
Fair value of forward exchange contracts	1,052	4,789
Balance at the end of the year	97,531	69,548

33. Creditors

Amounts falling due after more than one year

An analysis of creditors due after more than one year was:

	2012 £'000	2011 £'000
Deferred consideration	7,239	14,102
Fair value of forward exchange contracts	2,313	2,496
Total creditors due after more than one year	9,552	16,598

The deferred consideration of £7,239,000 (2011 £14,102,000) comprises £5,301,000 (2011 £8,312,000) in respect of the investment in Measurement Devices Limited, which is payable over the next two years and £1,938,000 (2011 £nil) in respect of the investment in R&R Sales LLC, which is payable over the next five years. 2011 also included £2,790,000 in respect of the investment in Renishaw Diagnostics Limited and £3,000,000 in respect of the investment in Renishaw Software Limited.

34. Provisions for liabilities and charges

An analysis of provisions for liabilities and charges was:

	2012 £'000	2011 £'000
Warranty provision	917	543
Deferred tax	1,994	(867)
Total provisions for liabilities and charges	2,911	(324)

Warranty provision

Movements during the year were:

	2012 £'000	2011 £'000
Balance at the beginning of the year	543	416
Created in the year	385	472
Utilised in the year	(11)	(345)
	374	127
Balance at the end of the year	917	543

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.

34. Provisions for liabilities and charges continued

Deferred tax

Movements during the year were:

	2012 £'000	2011 £'000
Balance at the beginning of the year	**(867)**	(3,118)
Movements during the year	**2,861**	2,251
Balance at the end of the year	**1,994**	(867)

The deferred tax asset is represented by:

	2012 £'000	2011 £'000
Difference between accumulated depreciation and capital allowances	**1,253**	790
Other timing differences	**741**	(1,657)
	1,994	(867)
Deferred tax on pension scheme liability	**(8,913)**	(9,023)
Balance at the end of the year	**(6,919)**	(9,890)

The movements in the deferred tax balance were:

	2012 £'000	2011 £'000
Balance at the beginning of the year	**(9,890)**	(12,404)
Amount charged to the Profit and loss account	**463**	3,918
Amount reflected through the Statement of total recognised gains and losses	**2,508**	(1,404)
Balance at the end of the year	**(6,919)**	(9,890)

35. 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 £6,202,000 (2011 £5,186,000), of which £162,000 (2011 £154,000) related to directors.

The latest full actuarial valuation of the scheme was carried out at September 2009 and updated to 30th June 2012 on an FRS 17 basis by a qualified independent actuary.

The major assumptions used by the actuary for the scheme were:

	30th June 2012	30th June 2011	30th June 2010
Rate of increase in pension payments	**2.7%**	3.4%	3.3%
Discount rate	**4.3%**	5.5%	5.3%
Inflation rate (RPI)	**2.7%**	3.6%	3.4%
Inflation rate (CPI)	**1.7%**	2.9%	–
Expected return on equities	**6.7%**	8.3%	8.1%
Retirement age	**64**	64	64

The mortality assumption adopted for 2012 is PCA00, year of birth, medium cohort (2011 medium cohort), which reflects the increasing life expectancy.

Notes to the Company financial statements continued

35. Pension scheme continued

The assets and liabilities in the scheme were:

	30th June 2012 £'000	% of total assets	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
Market value of assets:										
Equities	**89,653**	100	94,941	100	78,248	100	65,550	99	79,143	98
Bonds and cash	**154**	–	362	–	156	–	441	1	1,243	2
	89,807	100	95,303	100	78,404	100	65,991	100	80,386	100
Actuarial value of liabilities	**(126,946)**	–	(130,008)	–	(111,569)	–	(85,192)	–	(90,889)	–
Deficit in the scheme	**(37,139)**	–	(34,705)	–	(33,165)	–	(19,201)	–	(10,503)	–
Deferred tax thereon	**8,913**	–	9,023	–	9,286	–	5,376	–	2,941	–
Pension liability	**(28,226)**	–	(25,682)	–	(23,879)	–	(13,825)	–	(7,562)	–

The history of experience gains and losses is:

	Year ended 30th June 2012	Year ended 30th June 2011	Year ended 30th June 2010	Year ended 30th June 2009	Year ended 30th June 2008
Difference between the expected and actual return on scheme assets					
amount (£'000)	**(13,168)**	11,650	9,357	(20,244)	(12,651)
percentage of scheme assets	**(15%)**	12%	12%	(31%)	(16%)
Experience gains and losses on scheme liabilities					
amount (£'000)	**–**	(1,521)	–	(3,954)	–
percentage of present value of scheme liabilities	**–**	(1%)	–	(5%)	–
Total amount recognised in the Statement of total recognised gains and losses					
amount (£'000)	**(5,836)**	(2,588)	(14,135)	(10,279)	(19,842)
percentage of present value of scheme liabilities	**(5%)**	(2%)	(13%)	(12%)	(22%)

The movements in the scheme were:

Year ended 30th June 2012	**Assets £'000**	**Liabilities £'000**	**Total £'000**
Deficit in scheme at the beginning of the year	**95,303**	**(130,008)**	**(34,705)**
Contributions	**1,306**	**–**	**1,306**
Expected return on pension scheme assets	**7,901**	**–**	**7,901**
Interest on pension scheme liabilities	**–**	**(5,805)**	**(5,805)**
Actuarial gain/(loss)	**(13,168)**	**7,332**	**(5,836)**
Benefits received/(paid)	**(1,535)**	**1,535**	**–**
Deficit in scheme at the end of the year	**89,807**	**(126,946)**	**(37,139)**

Year ended 30th June 2011	Assets £'000	Liabilities £'000	Total £'000
Deficit in scheme at the beginning of the year	78,404	(111,569)	(33,165)
Contributions	609	–	609
Expected return on pension scheme assets	6,308	–	6,308
Interest on pension scheme liabilities	–	(5,869)	(5,869)
Actuarial gain/(loss)	11,650	(14,238)	(2,588)
Benefits received/(paid)	(1,668)	1,668	–
Deficit in scheme at the end of the year	95,303	(130,008)	(34,705)

35. Pension scheme continued

The income recognised in the Profit and loss account was:

	2012 £'000	2011 £'000
Expected return on pension scheme's assets	7,901	6,308
Interest on pension scheme's liabilities	(5,805)	(5,869)
Total income recognised in the Profit and loss account	2,096	439

The analysis of the amount recognised in the Statement of total recognised gains and losses was:

	2012 £'000	2011 £'000
Actual return less expected return on scheme assets	(13,168)	11,650
Experience loss arising on scheme liabilities	–	(1,521)
Changes in financial assumptions	(6,668)	10,983
Adjustment to liabilities for IFRIC 14	14,000	(23,700)
Total recognised in the Statement of total recognised gains and losses	(5,836)	(2,588)

36. Share capital

	2012 £'000	2011 £'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.

37. Currency reserve

The currency 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 Profit and loss account when the hedged item affects the Profit and loss account.

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

Movements during the year were:

	2012 £'000	2011 £'000
Balance at the beginning of the year	(4,115)	172
Amounts recycled into the Profit and loss account in the year	3,835	2,188
Revaluations during the year	5,204	(8,142)
Deferred tax movement	(2,398)	1,667
Balance at the end of the year	2,526	(4,115)

Notes to the Company financial statements continued

38. Profit and loss account

Movements in the Profit and loss account during the year were:

	2012 £'000	2011 £'000
Balance at the beginning of the year	**203,241**	175,288
Profit for the year	**207,235**	47,928
Dividends paid in the year	**(25,476)**	(17,396)
Actuarial loss in the pension scheme	**(5,836)**	(2,588)
Deferred tax thereon	**759**	9
	(5,077)	(2,579)
Balance at the end of the year	**379,923**	203,241

Profit for the year includes dividends received of £166,275,000 from a subsidiary undertaking.

39. 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 £574,000 (2011 £1,134,000) and sold goods and services to the Company to the value of £1,764,000 (2011 £1,516,000).

At 30th June 2012, related parties owed £130,000 (2011 £922,000) to the Company. Related parties were owed £119,000 (2011 £245,000) by the Company. Dividends of £108,000 were received from related parties during the year (2011 £84,000). Loans to related parties from Renishaw plc at 30th June 2012 were £8,211,000 (2011 £7,595,000).

All transactions were on an arm's length basis. There were no bad debts written off during the year (2011 £nil).

40. Capital commitments

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

	2012 £'000	2011 £'000
Authorised and committed	**7,727**	10,986

41. 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. The shareholdings in all the subsidiary undertakings are in the ordinary share capital of those undertakings.

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 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 (92.4%) (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.
Renishaw Metrology Systems Private Limited (India)* (31st March)	Manufacture and sale of advanced precision metrology and inspection equipment.
Measurement Devices Limited (66%) (31st December)	Manufacture and sale of laser scanning equipment.
Thomas Engineering and Construction Limited (Canada)* (28th February)	Distribution and service of laser scanning equipment.
MTT Investments Limited	Manufacture and sale of additive manufacturing and rapid prototyping systems.
Renishaw Advanced Materials Limited (55%)	Sale of diamond-like carbon coatings and shape memory alloys.
Renishaw Software Limited (31st December)	Development and sale of software solutions.
R&R Sales LLC (USA)* (31st December)	Manufacture and sales of fixturing products.

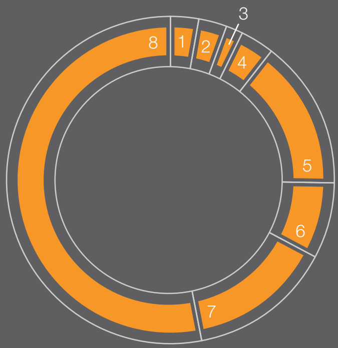
Company – principal activity is the service and distribution of group products

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)*	Renishaw México, S. de R.L. de C.V. (Mexico)*

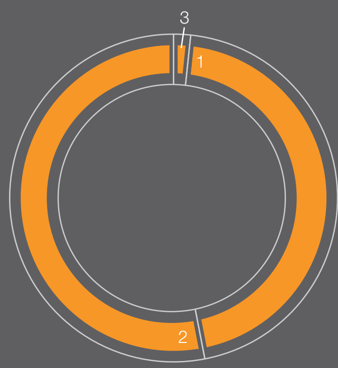
* Equity held by a subsidiary undertaking.

Shareholders' profile

Shareholdings		%
1	1 – 5,000	2.8
2	5,001 – 25,000	2.9
3	25,001 – 50,000	1.8
4	50,001 – 100,000	3.2
5	100,001 – 500,000	14.8
6	500,001 – 1,000,000	7.4
7	1,000,001 – 3,000,000	14.1
8	more than 3,000,000	53.0



Shareholdings		%
1	Institutions	45.0
2	Directors	53.1
3	Individuals	1.9



The above information was compiled from the register as at 11th July 2012.

10 year financial record

Results	2012 £'000	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
Overseas revenue	**313,007**	273,989	170,957	159,988	189,137	169,094	164,322	144,438	118,881	100,969
UK and Ireland revenue	**18,885**	14,761	10,650	11,259	12,020	11,789	11,513	10,361	8,820	9,671
Total revenue	**331,892**	288,750	181,607	171,247	201,157	180,883	175,835	154,799	127,701	110,640
Operating profit	**83,188**	79,286	28,095	5,991	37,335	29,729	35,468	29,307	18,053	15,644
Profit before tax	**86,046**	80,410	28,725	8,843	41,715	32,672	38,102	31,733	20,146	17,799
Taxation	**17,008**	16,345	5,745	2,105	8,309	6,532	7,621	6,297	4,023	3,454
Profit for the year	**69,038**	64,065	22,980	6,738	33,406	26,140	30,481	25,436	16,123	14,345

Capital employed	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'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	**227,799**	187,118	144,021	129,162	151,725	153,400	128,136	110,857	93,110	90,626
Total equity	**242,399**	201,718	158,621	143,762	166,325	168,000	142,736	125,457	107,710	105,226

Statistics	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Overseas sales as a percentage of total sales	**94.3%**	94.9%	94.1%	93.4%	94.0%	93.5%	93.5%	93.3%	93.1%	91.3%
Adjusted earnings per share	**95.6p**	88.5p	32.3p	9.6p	45.9p	35.9p	41.9p	34.9p	22.1p	19.7p
Proposed dividend per share	**38.5p**	35.0p	17.6p	7.76p	25.39p	22.87p	21.78p	19.80p	18.00p	16.70p

Notes

1. 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.
2. The results and adjusted 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).

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 39th annual general meeting ("AGM") of the Company will be held at its offices at Miskin Industrial Park, Miskin, Vale of Glamorgan, CF72 8XQ on Thursday 18th October 2012 at noon. You will be asked to consider and, if thought fit, pass the resolutions below. Resolution 13 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 2012;
2. To declare a final dividend for the year ended 30th June 2012;
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 David Grant, a director retiring voluntarily and who, being eligible, offers himself for re-election;
9. To re-elect as a director Bill Whiteley, a director retiring voluntarily and who, being eligible, offers himself for re-election;
10. To approve the Directors' remuneration report for the year ended 30th June 2012 contained in the Annual report 2012;
11. 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;
12. To authorise the directors to determine the remuneration of the auditors;

Special resolution

13. 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 five 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 2013 and 31st December 2013 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

N Tang
Company Secretary

24th August 2012

Registered office: New Mills Wotton-under-Edge Gloucestershire GL12 8JR
Registered in England and Wales under number: 1106260

Notice of meeting continued

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 6DA 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 16th October 2012 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/her 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 2012 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, 5th September 2012, being the date six 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 23rd August 2012 (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 23rd August 2012 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.

Notice of meeting continued

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 2012 to the shareholders at the AGM.

Resolution 2 – Final dividend
The directors recommend that a final dividend of 28.2p 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 9 inclusive – Re-election of directors
In accordance with the provisions of the UK Corporate Governance Code, all directors will retire and, as specified in the Notice and being eligible, offer themselves for re-election at the AGM. Short biographical details of the directors as at the date of the Annual report are shown on pages 12 and 13 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 10 – 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 pages 53 and 54.

Resolution 11 – 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 11 proposes its re-appointment as the Company's auditors.

Resolution 12 – Remuneration of auditors
This resolution seeks authority for the directors to decide the auditors' remuneration.

Resolution 13 – Market purchase of own shares by the Company
This resolution renews the previous authority granted on 13th October 2011 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.

Financial calendar

Annual general meeting
18th October 2012

Dividends

Final dividend
Ex-div date 19th September 2012

Record date 21st September 2012

Payment date 22nd October 2012

Interim dividend (provisional)
Ex-div date 6th March 2013

Record date 8th March 2013

Payment date 8th April 2013

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.

Contacts

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Website: **www.renishaw.com**

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Solicitors
Norton Rose LLP
Burges Salmon LLP

Stockbrokers
UBS

Principal bankers
Lloyds TSB Bank Plc

Registrars and transfer office
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West Sussex, UK. BN99 6DA

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+44 121 415 7047 (international callers)

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