



2009 Interim results

28th January 2009

Chairman's statement

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

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

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

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

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

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

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

Chairman's statement (continued)

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

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

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

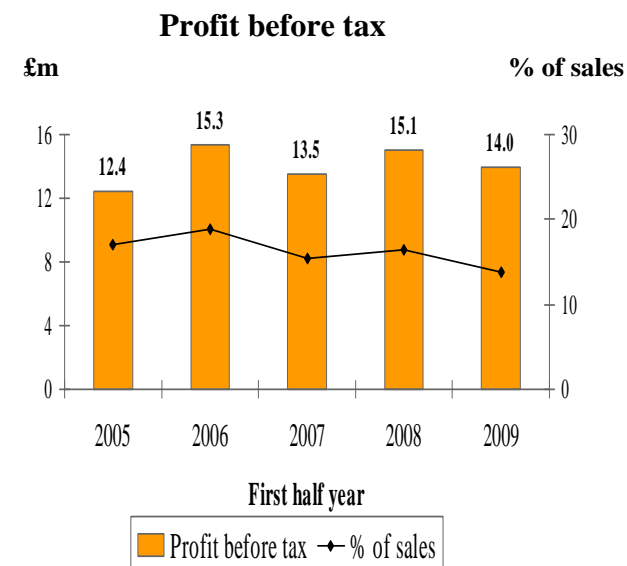
The global economic environment remains difficult and uncertain. The marked reduction in the demand for the Group's products has continued in the current month. Revenues and consequently profitability during the second half are expected to be adversely impacted by the current market conditions. The Board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

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

Sir David R McMurtry CBE RDI CEng FIMechE FREng
Chairman & Chief Executive
28th January 2009

Financial highlights

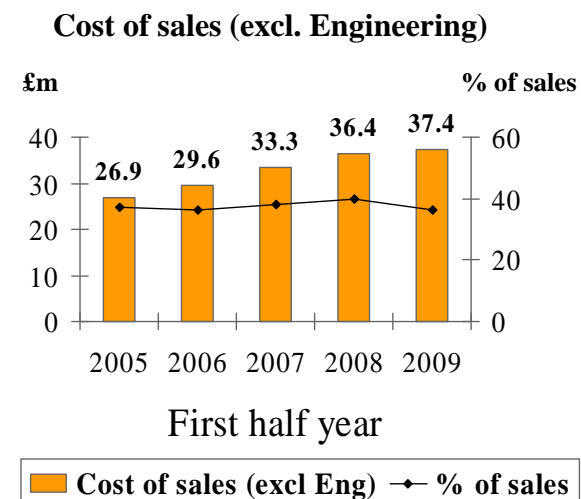
	2009 £m	2008 £m	change %
Sales			
At actual exchange rates	102.7	91.6	+12%
At previous year exchange rates	91.2	91.6	-0.5%
Operating profit			
At actual exchange rates	11.9	13.0	-8%
At previous year exchange rates	4.7	13.0	-64%
Profit before tax			
At actual exchange rates	14.0	15.1	-7%
At previous year exchange rates	6.8	15.1	-55%
Earnings per share	15.4p	16.6p	-7%
Dividend per share	7.76p	7.76p	same



Notes

Profit and loss account

	2009 £m	%	2008 £m	%	change %
Sales	102.7	100	91.6	100	+12%
Cost of sales	37.4	36	36.4	40	+3%
Engineering (incl R&D)	18.1	18	15.6	17	+17%
Gross profit	47.2	46	39.6	43	+19%
Distribution costs	22.7	22	16.5	18	+37%
Administration costs	12.6	12	10.1	11	+24%
Operating profit	11.9	12	13.0	14	-8%
Financial income (net)	1.7	2	1.9	2	-10%
Profit from associates	0.4	-	0.2	-	-
Profit before tax	14.0	14	15.1	16	-7%



Notes

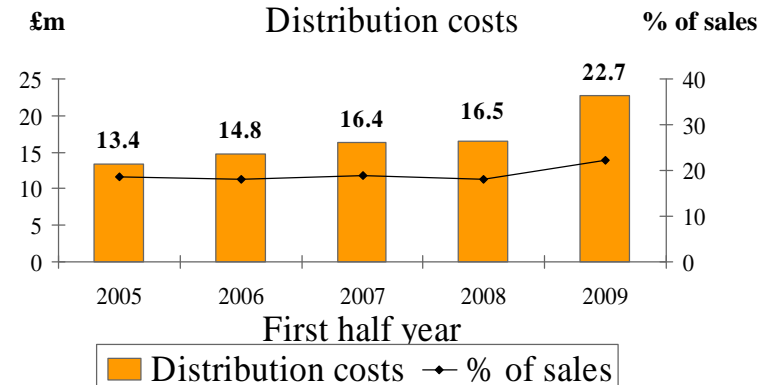
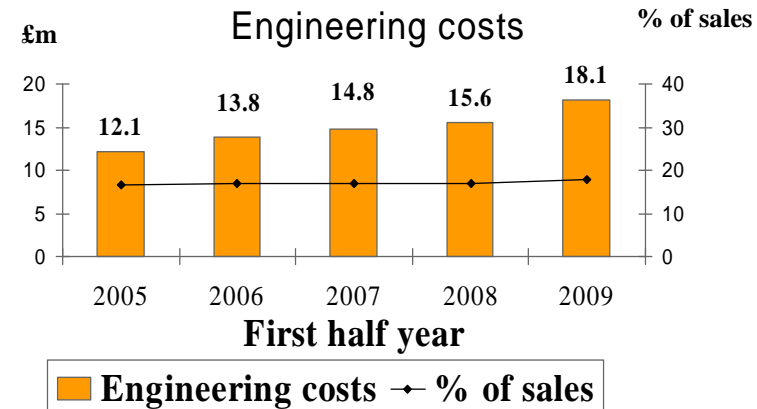
Profit and loss account

•Engineering costs (including R&D):

	2009	2008
•Total spend	£19.4m	£17.0m
•Less capitalised	£1.3m	£1.4m
•Remaining in P&L	£18.1m	£15.6m
•Gross increase	+15%	

•Distribution costs:

- Additional bad debt provision of £2.4m, in view of current global economic position
- Debtor days at December of 74 days compared with 65 at June 2008
- Costs increased by £2.7m due to different exchange rates relative to the previous year



Notes

Profit and loss account

•Administrative expenses:

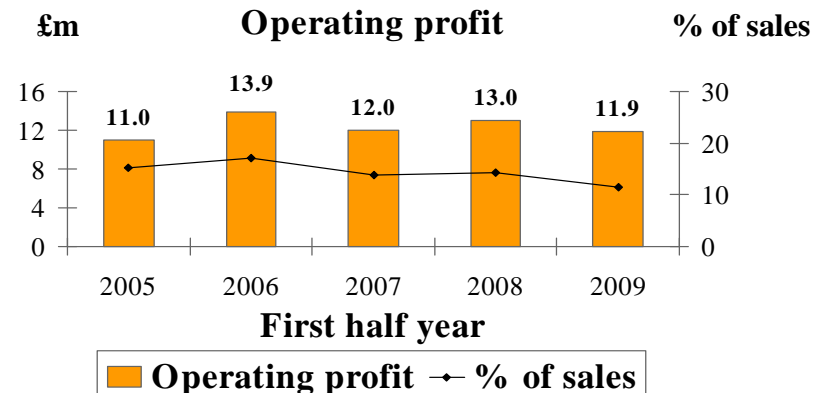
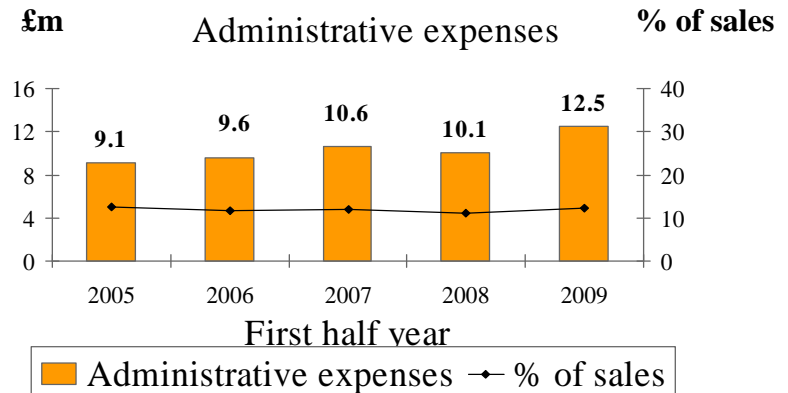
- Includes £1.4m legal costs relating to current patent infringement case in USA.
- Costs increased by £0.6m due to different exchange rates relative to the previous year

Currency effects on profit

Positive currency effect of £7.2m at the operating profit level, when comparing current year's results at previous year's exchange rates.

This year's operating profit at last year's exchange rates would have been £4.7m compared with £13.0m, a decrease of 64%.

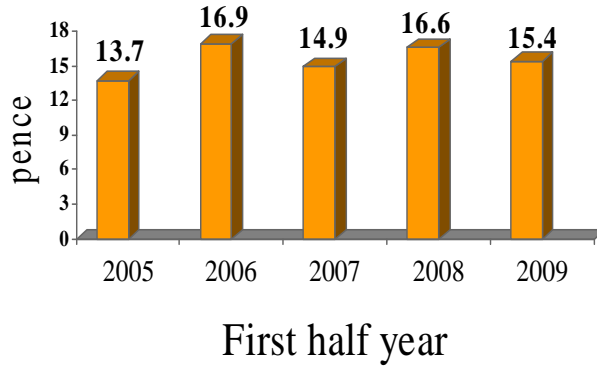
At previous year's exchange rates, profit before tax would have been £6.8m, compared with £15.1m last year.



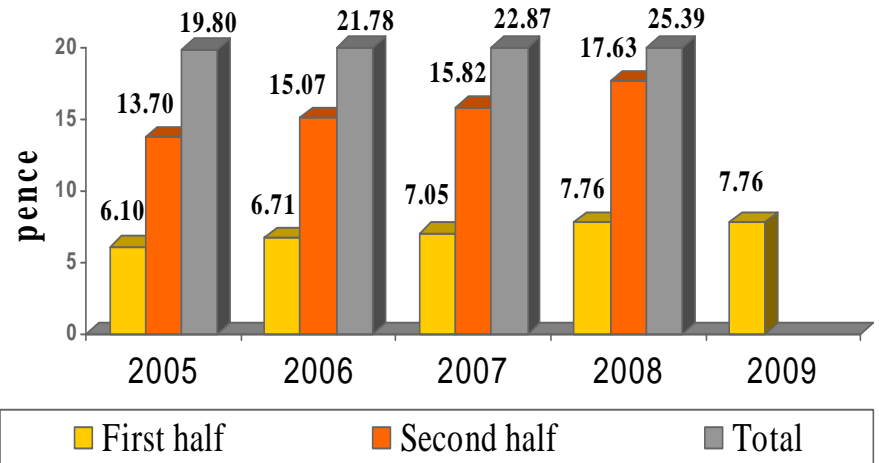
Notes

Profit and loss account

Earnings per share



Dividend per share



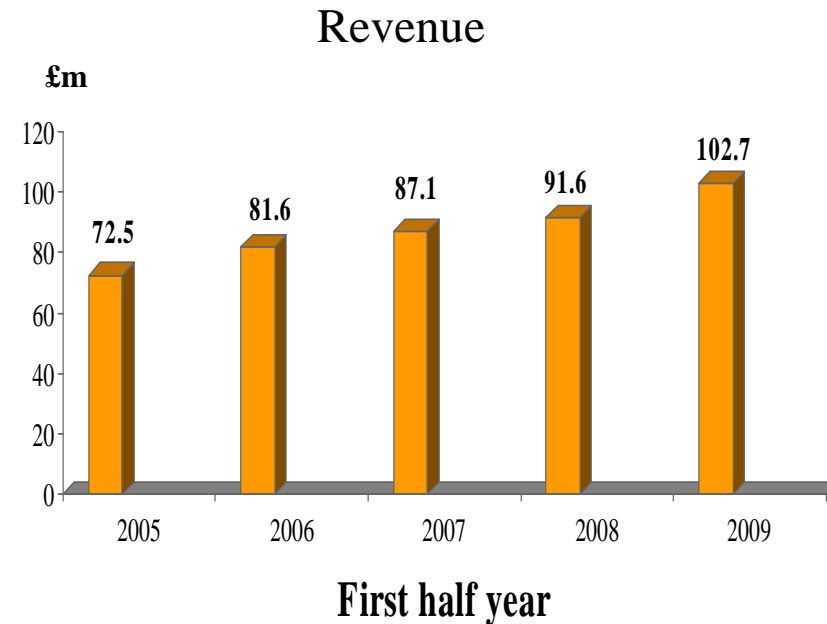
Increase	+10%	+10%	+5%	+11%	+0% (int)
cover	1.8	1.9	1.6	1.8	

Notes

Sales analysis

- Record first half year revenue
- Sales up 12% at actual exchange rates, but down 0.5% at previous year's exchange rates
- Sales favourably affected by exchange rates compared with the previous year, sales would have been £11.5m lower at previous year exchange rates
- Changes in geographic areas:

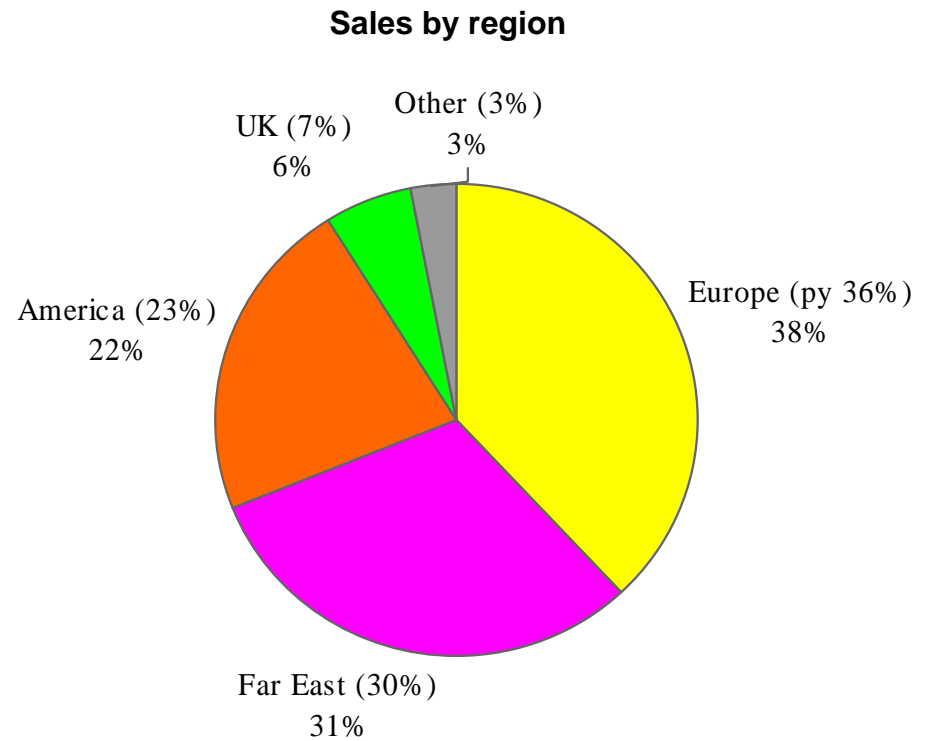
	At act fx	At p/y fx
• Europe	+17%	+9%
• Far East	+14%	-7%
• Americas	+7%	-5%
• UK & Ireland	-6%	-6%



Notes

Sales analysis

- Growth in all product lines, except CMM
- Above-average growth in the product lines:
 - Dental
 - Spectroscopy



Notes

Group sales

	2009 £m	2008 £m	change %	at p/y fx £m	change %	favourable fx (£m)	Average fx rates		
							2009	2008	
Continental Europe	38.7	33.1	+17%	36.1	+9%	2.6 EUR	USD	1.70	2.04
Far East	32.2	28.3	+14%	26.1	-7%	6.1 JPY/USD	JPY	173	233
America (North & South)	23.1	21.5	+7%	20.3	-5%	2.8 USD	EUR	1.22	1.43
UK & Ireland	5.9	6.2	-6%	5.9	-6%				
ROW	2.8	2.5	+14%	2.8	+14%				
Total	102.7	91.6	+12%	91.2	-0.5%	11.5	USD	1.71	n/a
							JPY	169	n/a
							EUR	1.33	1.36

Notes

Cash flow hedging

- **Cash flow hedging in first half year:**

- USD 60% of expected net receivables from October onwards
- JPY 60% of expected net receivables from October onwards
- EUR 100% of expected net receivables from July to December

- **Cash flow hedging going forward:**

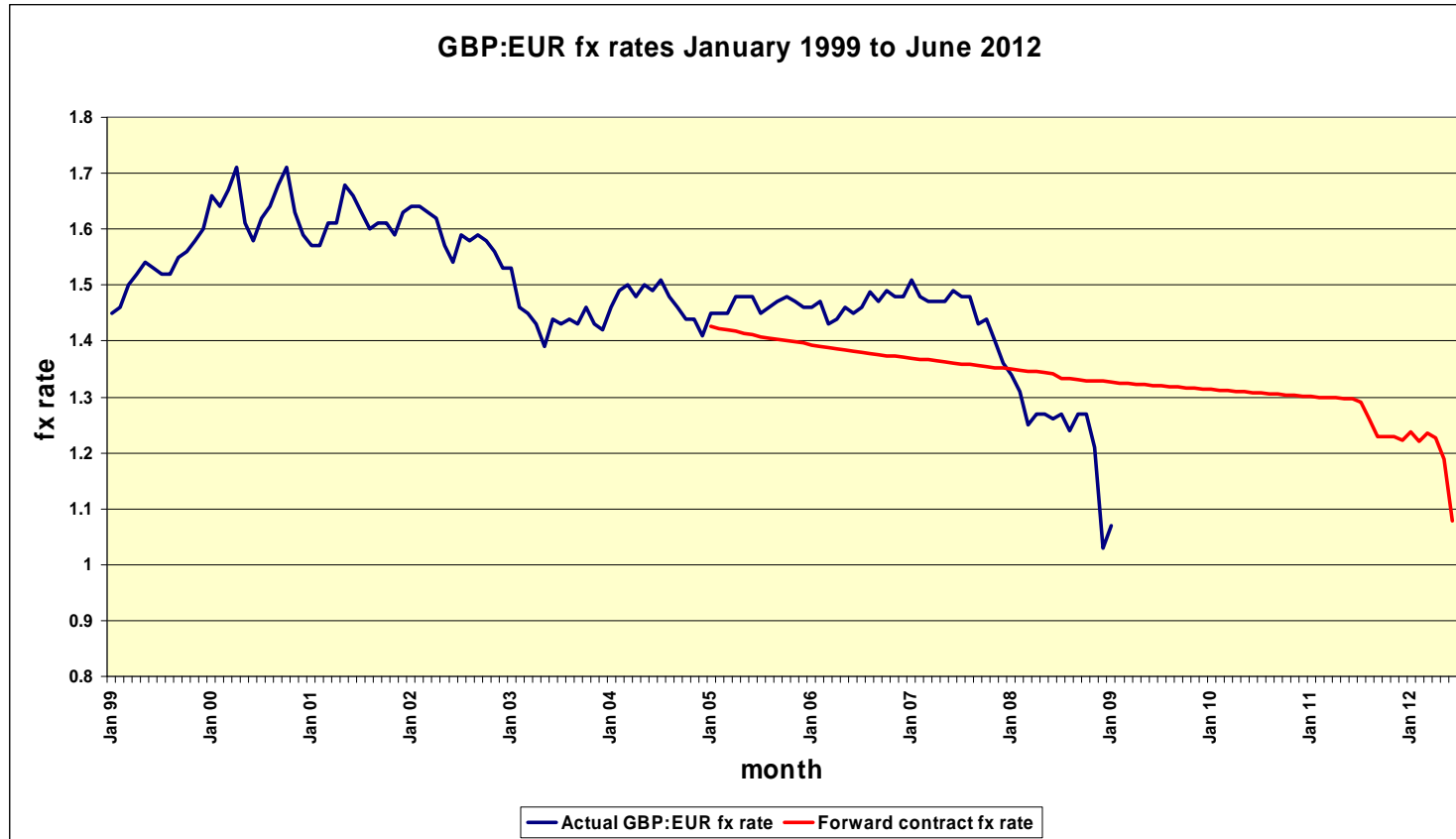
- USD 60% of expected net receivables up to June 2009, then 40% up to June 2010
- JPY 60% of expected net receivables up to June 2010, the 40% up to June 2012
- EUR 100% of expected net receivables up to June 2009, then 90% up to June 2010, then 80% up to June 2012

- **Accounting treatment of forward contracts yet to mature**

- Revalued at period-end forward rates (marked-to-market)
- Currency hedging reserve loss of £32m (£44m gross less £12m deferred tax)
 - Allocated to current liabilities (other payables) - £19m
 - Long-term liabilities (other payables) - £25m

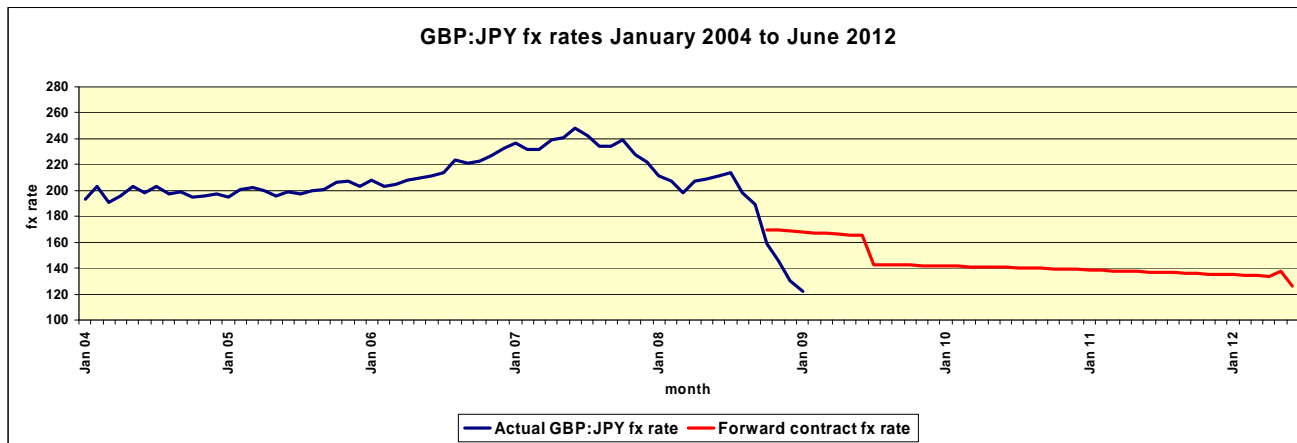
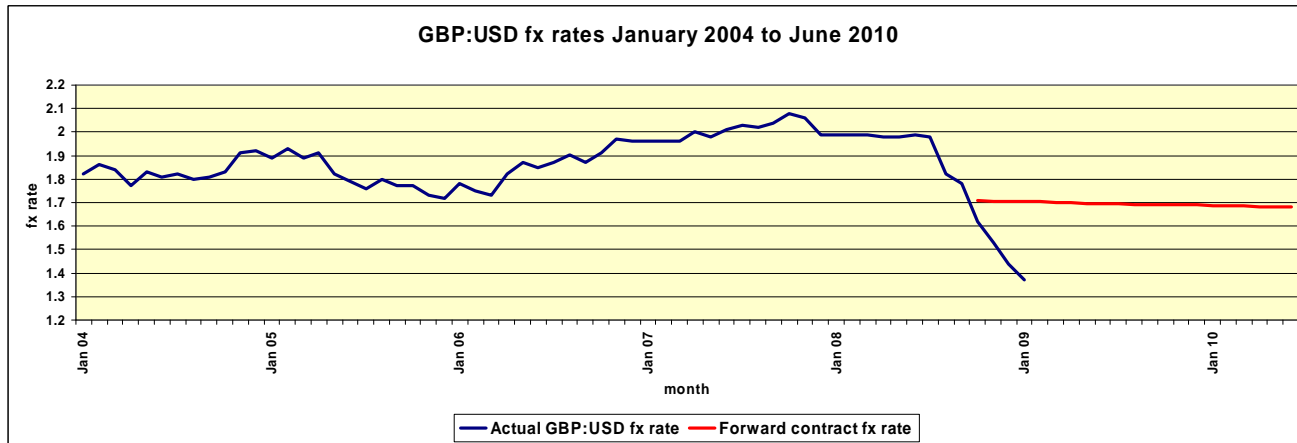
Notes

Cash flow hedging



Notes

Cash flow hedging

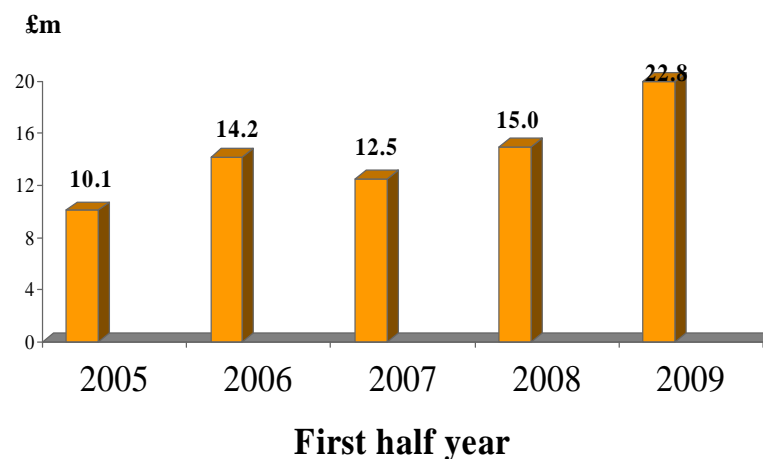


Notes

Cash flow from operating activities

	2009 £m	2008 £m
Profit before tax	14.0	15.1
Depreciation & amortisation	6.5	6.5
Financial income & expenses	(0.8)	(1.9)
Share of profits from associates	(0.4)	(0.2)
(Increase)/decrease in stock	(1.7)	1.1
Decrease in debtors	14.8	0.9
(Decrease) in creditors	(6.5)	(4.2)
Total movement in working capital	6.6	(2.2)
Income taxes paid	(3.1)	(2.3)
Cash from operating activities	22.8	15.0

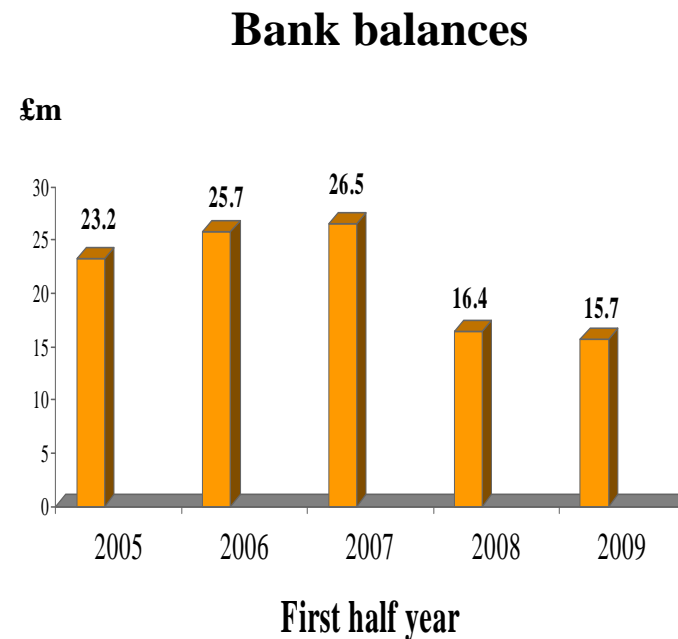
Cash from operating activities



Notes

Cash flow

	2009 £m	2008 £m
Cash from operating activities	22.8	15.0
Interest received less paid	0.9	0.7
Dividends paid	(12.8)	(11.5)
Fixed assets purchased (net)	(6.5)	(2.7)
Intangible assets acquired	(6.9)	(1.0)
Development costs capitalised	(2.6)	(3.0)
Investments in associates	(0.4)	-
Net cash flow	(5.5)	(2.5)
Cash at 1st July	38.2	20.8
Effect of exchange rate changes	(17.0)	(1.9)
Cash at 31st December	15.7	16.4



Notes

Balance sheet

	Dec 2008 £m	June 2008 £m	change %
Property, plant & equipment	78.4	68.8	+14%
Intangible assets & investments	33.7	25.9	+30%
Deferred tax assets	20.5	10.0	+104%
Total non-current assets	132.6	104.7	+27%
Inventory	35.9	34.2	+5%
Debtors	45.7	48.3	-5%
Cash	15.7	38.2	-59%
Creditors (current)	(45.7)	(31.3)	+46%
Current assets less current liabilities	51.6	89.4	-42%
Deferred tax liability	12.4	12.4	-
Pension liability	10.8	11.1	-3%
Other payables	25.1	4.0	-
Net assets	135.9	166.6	-18%

Notes

Future control considerations

- **Product development acceleration**

- **Cost management controls**

- **Headcount and labour**

- Voluntary redundancy/early retirement programme
 - Change from full-time to part-time employment
 - Unpaid leave or a sabbatical

- **Overhead cost control**

- **Working capital management**

- **Essential capital expenditure**

Headcount

Headcount now 2,285 (June 2008 2,151), an increase of 134 people

UK & Ire	1,640	+71
overseas	645	+63

Notes

Capital expenditure and Investments

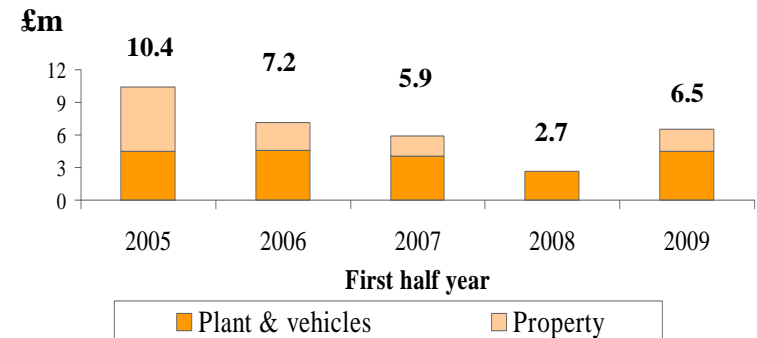
- Total capital spend £6.5m (2008 £2.7m), of which £2.0 on property, £3.7m on plant and £0.8m on vehicles

- Property additions –

- £1.5m nearby vacant property to New Mills in the UK, available for future expansion

- £0.5m at Castle Donington

Capital expenditure



Notes

Capital expenditure and Investments

•CMM retrofit business development

- Licence agreement for source code of Metris Camio software - MODUS
- Employment of software development engineers from Metris
- Purchase of a property at Castle Donington, for use as a UK demonstration and training centre
- Purchase of the business of Qualis, a German CMM service and calibration company
- Additional sales and technical engineers around Europe
- First major order for REVO™ retrofit at GE Oil and Gas, Italy



Retrofit installation

Property at Castle Donington



MODUS software

Notes

Capital expenditure and Investments

•Healthcare investments

- Purchase of Schaerer Mayfield Neuromate AG, a Swiss company. This company is a leading manufacturer of surgical robots for neurosurgery



Schaerer
Mayfield robot

- Further investment in PulseTeq Limited, which specialises in the development of coils for the enhancement of images from MRI scanners, bringing shareholding up to 75%



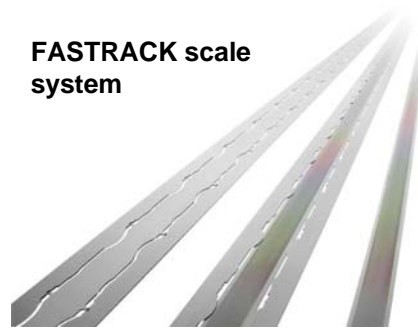
Head coil

Notes

New product releases



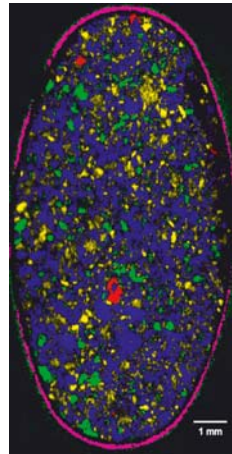
Raman-AFM combined system



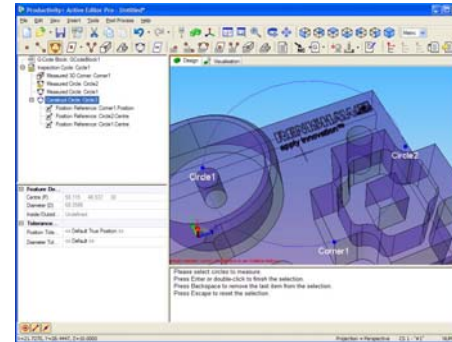
FASTRACK scale system



OTS (AA battery version)



Tablet image using StreamLine Plus



Productivity+™ v1.5 software

Notes