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Interim report 2011

Financial highlights

- **Record first half year revenue of £129.3m and profit before tax of £35.5m**
- **Revenue up 26% from previous highest first half year in 2009**
- **Profit before tax up 132% from previous highest first half year in 2006**
- **Record first half year earnings per share of 39.0p, compared with previous highest first half year of 16.9p in 2006**
- **Far East revenue of £54.1m, 42% of total revenue (2010 36%) and 103% ahead of the comparable period last year**
- **Continuing strong balance sheet with net cash balances of £28.9m**
- **Record order book of £28.4m at December 2010**
- **Interim dividend increased to 10.3p, 33% above previous highest interim dividend of 7.76p in 2008 and 2009**

	6 months to 31st December 2010 £'000	6 months to 31st December 2009 £'000	change %	Year ended 30th June 2010 £'000
Revenue	**129,336**	73,851	+75%	181,607
Adjusted operating profit	**35,040**	6,918	+407%	28,095
Adjusted profit before taxation	**35,506**	7,101	+400%	28,725
Adjusted earnings per share	**39.0p**	7.8p	+400%	31.6p
Statutory				
Operating profit	**35,040**	6,918	+407%	26,427
Profit before taxation	**35,506**	7,101	+400%	27,057
Earnings per share	**39.0p**	7.8p	+400%	29.3p
Proposed dividend per share	**10.3p**	4.0p	+157%	17.6p

Note on adjusted figures

The full year ended 30th June 2010 figures have been adjusted to exclude the exceptional impairment write-down that was made in the second half of that year.

Half year management report
Chairman's statement

I am delighted to announce record Group results in terms of both revenue and profit for the six months to 31st December 2010.

Total group revenue for the six months to 31st December 2010 was £129.3m, 75% ahead of the £73.9m for the corresponding period last year and, more significantly, 26% above the previous highest first half year revenue of £102.7m reported in 2009. All geographic areas saw good progress, with growth of 60% in Europe, 66% in the Americas and 103% in the Far East, in particular China which has become the Group's largest market.

Group profit before tax for the period was £35.5m, compared with £7.1m last year, and compared with £15.3m, being the previous highest first half year profit before tax, in 2006. Earnings per share were 39.0p, an increase of 400% over last year's earnings of 7.8p.

Segmental analysis

- **Metrology**

The performance of our Metrology business exceeded our expectations in the first half year, with revenue of £120.4m, compared with £65.9m in the corresponding period last year, an increase of 83%.

Demand for all product lines grew compared with last year, with machine tool and encoder products showing particularly high increases.

Further to the announcement in July 2010 regarding a new investment in Measurement Devices Limited, the Group acquired, in December 2010, a further 10% of the share capital for an amount of £0.8m. In January 2011, the shareholding was increased by another 10%, at a cost of £0.8m, to a total of 49%.

Operating profit for this segment was £39.3m, compared with £9.0m last year.

- **Healthcare**

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

Revenue from our Healthcare products rose 11% to £8.9m (December 2009 8.0m) but, given the significant set-up costs and continuing research and development costs, an operating loss of £4.2m was made (December 2009 loss £2.1m).

We continue to work with Biomet, with a facility for the production of dental crowns and bridge structures established in Palm Beach Gardens for the North America market, complementing the already established unit in our Stonehouse facility, servicing the European market.

During the period, the Group made its first sale of the enhanced Renishaw Mayfield surgical robot to Frenchay Hospital in the UK.

Balance sheet

Capital expenditure of £7.5m was incurred during the six months to 31st December 2010, to accommodate continued expansion of production, sales and research facilities.

The expansion and fit-out of our Pune facility in India has now been completed and the expanded facilities will be officially opened in February 2011.

Refurbishment of our Charfield premises, close to our New Mills site, is scheduled for completion at the end of March 2011 and will house our Healthcare operations currently located at New Mills.

At the end of December 2010 inventories were £40.0m compared with £30.9m at 30th June 2010.

The Group continues to have a strong balance sheet, with net cash balances of £28.9m, compared with £31.1m at 30th June 2010.

Half year management report
Chairman's statement (continued)

Pension Fund

The pension funds' deficit, £37.3m at the end of June 2010, reduced by £6.2m to £31.1m at 31st December 2010. Pension funds' assets increased by £16.6m, from £83.2m to £99.8m, whilst liabilities increased by £10.4m, from £120.4m to £130.8m.

The Company has given a guarantee, terminating in September 2016, of up to £39m, relating to the 2006 recovery plan for the UK scheme and the value of the guarantee is greater than the UK pension fund deficit at 31st December 2010. As such, in line with IFRIC 14, the UK pension fund's liabilities have been increased by £19.2m, to represent the maximum discounted liability as at 31st December 2010 (30th June 2010 £nil). Following the UK government ministerial announcement in July 2010 relating to the calculation of pension fund liabilities, future pension increases in deferment have been determined by reference to the CPI inflation metric. This has resulted in a one-off decrease in the pension deficit of £11.2m. Future pension increases in payment continue to be determined by reference to the RPI inflation metric.

Staff

The Group workforce has grown from 2,099 to 2,280 at the end of December 2010, as we seek to maximise our opportunities. There are currently 248 outstanding vacancies, of which 161 are in the UK and 87 overseas.

Your directors are grateful for the excellent performance and support of our staff during this exciting, but demanding period.

Prospects

The Group started the second half of this financial year with an increased order book (£28.4m compared to £23.3m at 30th June 2010), continuing strong worldwide demand for our expanding product range and a healthy balance sheet. There are, of course, potential uncertainties and challenges, but your directors view the future with great confidence.

Dividends

In line with our progressive dividend policy, an interim dividend of 10.3 pence per share will be paid on 11th April 2011, to shareholders on the register on 11th March 2011. This represents an increase of 33% over the 7.76p paid for 2008 and 2009, being the previous highest interim dividend payment.

Sir David R McMurtry CBE, RDI, FREng, CEng, FIMechE
Chairman & Chief Executive,
26th January 2011

Consolidated income statement

Unaudited

	Notes	**6 months to 31st December 2010 £'000**	6 months to 31st December 2009 £'000	Audited Year ended 30th June 2010 £'000
Revenue	2	**129,336**	73,851	181,607
Cost of sales		**(56,832)**	(41,319)	(93,832)
Gross profit		**72,504**	32,532	87,775
Distribution costs		**(23,325)**	(17,149)	(39,742)
Administrative expenses including exceptional item		**(14,139)**	(8,465)	(21,606)
Operating profit excluding exceptional item		**35,040**	6,918	28,095
Exceptional item - impairment write-down		**-**	-	(1,668)
Operating profit		**35,040**	6,918	26,427
Financial income	3	**3,529**	2,998	5,926
Financial expenses	3	**(3,248)**	(2,945)	(5,775)
Share of profits from associates		**185**	130	479
Profit before tax		**35,506**	7,101	27,057
Income tax expense	4	**(7,101)**	(1,420)	(5,745)
Profit for the period from continuing operations		**28,405**	5,681	21,312
Profit attributable to:				
Equity shareholders of the parent company		**28,675**	5,939	21,814
Non-controlling interest		**(270)**	(258)	(502)
Profit for the period from continuing operations		**28,405**	5,681	21,312
		pence	pence	pence
Dividend per share arising in respect of the period	9	**10.3**	4.0	17.6
Earnings per share (basic and diluted)	5	**39.0**	7.8	29.3

Consolidated statement of comprehensive income and expense

Unaudited

	6 months to 31st December 2010 £'000	6 months to 31st December 2009 £'000	Audited Year ended 30th June 2010 £'000
Profit for the period	**28,405**	5,681	21,312
Other items recognised directly in equity:			
Foreign exchange translation differences	**(101)**	788	2,201
Actuarial gain/(loss) in the pension schemes	**5,983**	(7,308)	(14,867)
Effective portion of changes in fair value of cash flow hedges, net of recycling	**(5,386)**	(4,147)	7,760
Comprehensive income and expense of associates	**-**	-	(324)
Deferred tax on income and expense recognised in equity	**106**	3,155	1,820
Expense recognised directly in equity	**602**	(7,512)	(3,410)
Total comprehensive income and expense for the period	**29,007**	(1,831)	17,902
Attributable to:			
Equity shareholders of the parent company	**29,277**	(1,573)	18,404
Non-controlling interest	**(270)**	(258)	(502)
Total comprehensive income and expense for the period	**29,007**	(1,831)	17,902

Consolidated balance sheet

Unaudited

	Notes	At 31st December 2010 £'000	At 31st December 2009 £'000	Audited At 30th June 2010 £'000
Assets				
Property, plant and equipment	6	**74,901**	72,021	70,532
Intangible assets	7	**29,598**	28,564	28,613
Investments in associates	8	**8,087**	7,024	5,152
Deferred tax assets		**20,095**	17,322	20,056
Derivatives	9	**1,490**	1,951	4,002
Total non-current assets		**134,171**	126,882	128,355
Current assets				
Inventories		**39,961**	24,972	30,884
Trade receivables		**49,590**	30,389	45,873
Current tax		**2,036**	3,107	1,848
Other receivables		**7,534**	3,529	4,725
Derivatives	9	**1,723**	618	1,158
Cash and cash equivalents		**28,922**	24,372	31,143
Total current assets		**129,766**	86,987	115,631
Current liabilities				
Trade payables		**9,941**	6,291	10,440
Current tax		**5,454**	841	532
Provisions		**562**	599	539
Derivatives	9	**5,399**	7,151	3,346
Other payables		**14,284**	9,451	15,027
Total current liabilities		**35,640**	24,333	29,884
Net current assets		**94,126**	62,654	85,747
Non-current liabilities				
Employee benefits	10	**31,085**	29,728	37,251
Deferred tax liabilities		**15,336**	10,624	15,433
Derivatives	9	**2,961**	7,086	1,575
Other payables		**1,222**	-	1,222
Total non-current liabilities		**50,604**	47,438	55,481
Total assets less total liabilities		**177,693**	142,098	158,621
Equity				
Share capital	9	**14,558**	14,558	14,558
Share premium	9	**42**	42	42
Currency translation reserve	9	**3,922**	2,610	4,023
Cash flow hedging reserve	9	**(3,706)**	(8,401)	172
Retained earnings	9	**163,816**	133,380	140,459
Other reserve	9	**(237)**	-	(201)
Non-controlling interest	9	**(702)**	(91)	(432)
Total equity		**177,693**	142,098	158,621

Consolidated statement of changes in equity

Unaudited

	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Other reserve £'000	Non-controlling interest £'000	Total £'000
Balance at 1st July 2009	14,558	42	1,822	(5,415)	132,755	-	18	143,780
Profit/(loss) for the period	-	-	-	-	5,939	-	(258)	5,681
Other comprehensive income and expense								
Actuarial loss in the pension schemes (net)	-	-	-	-	(5,314)	-	-	(5,314)
Foreign exchange translation differences	-	-	788	-	-	-	-	788
Changes in fair value of cash flow hedges (net)	-	-	-	(2,986)	-	-	-	(2,986)
Total other comprehensive income	-	-	788	(2,986)	(5,314)	-	-	(7,512)
Total comprehensive income	-	-	788	(2,986)	625	-	(258)	(1,831)
Acquisition of non-controlling interest	-	-	-	-	-	-	149	149
Dividends paid	-	-	-	-	-	-	-	-
Transactions with owners recorded in equity	-	-	-	-	-	-	149	149
Balance at 31st December 2009	14,558	42	2,610	(8,401)	133,380	-	(91)	142,098
Profit/(loss) for the period	-	-	-	-	15,875	-	(244)	15,631
Other comprehensive income and expense								
Actuarial loss in the pension schemes (net)	-	-	-	-	(5,560)	-	-	(5,560)
Foreign exchange translation differences	-	-	1,413	-	-	-	-	1,413
Changes in fair value of cash flow hedges (net)	-	-	-	8,573	-	-	-	8,573
Relating to associates	-	-	-	-	(324)	-	-	(324)
Total other comprehensive income	-	-	1,413	8,573	(5,884)	-	-	4,102
Total comprehensive income	-	-	1,413	8,573	9,991	-	(244)	19,733
Acquisition of non-controlling interest	-	-	-	-	-	(201)	(97)	(298)
Dividends paid	-	-	-	-	(2,912)	-	-	(2,912)
Transactions with owners recorded in equity	-	-	-	-	(2,912)	(201)	(97)	(3,210)
Balance at 30th June 2010	14,558	42	4,023	172	140,459	(201)	(432)	158,621
Profit/(loss) for the period	-	-	-	-	28,675	-	(270)	28,405
Other comprehensive income and expense								
Actuarial gain in the pension schemes (net)	-	-	-	-	4,581	-	-	4,581
Foreign exchange translation differences	-	-	(101)	-	-	-	-	(101)
Changes in fair value of cash flow hedges (net)	-	-	-	(3,878)	-	-	-	(3,878)
Total other comprehensive income	-	-	(101)	(3,878)	4,581	-	-	602
Total comprehensive income	-	-	(101)	(3,878)	33,256	-	(270)	29,007
Acquisition of non-controlling interest	-	-	-	-	-	(36)	-	(36)
Dividends paid	-	-	-	-	(9,899)	-	-	(9,899)
Transactions with owners recorded in equity	-	-	-	-	(9,899)	(36)	-	(9,935)
Balance at 31st December 2010	**14,558**	**42**	**3,922**	**(3,706)**	**163,816**	**(237)**	**(702)**	**177,693**

Consolidated statement of cash flows

Unaudited

	6 months to 31st December 2010 £'000	6 months to 31st December 2009 £'000	Audited Year ended 30th June 2010 £'000
Cash flows from operating activities			
Profit for the period	28,405	5,681	21,312
Amortisation of development costs	3,251	2,220	4,692
Amortisation of other intangibles	989	897	1,871
Depreciation	3,820	4,050	7,907
Profit on sale of property, plant and equipment	-	-	(31)
Share of profits from associates	(185)	(130)	(479)
Exceptional impairment write-down	-	-	1,668
Financial income	(3,529)	(2,998)	(5,926)
Financial expenses	3,248	2,945	5,775
Tax expense	7,101	1,420	5,745
	14,695	8,404	21,222
(Increase)/decrease in inventories	(9,075)	4,184	(1,728)
Increase in trade and other receivables	(6,516)	(5,456)	(21,252)
(Decrease)/increase in trade and other payables	(1,453)	102	10,711
Increase/(decrease) in provisions	23	(57)	(117)
	(17,021)	(1,227)	(12,386)
Income taxes paid	(2,321)	(2,947)	(5,615)
Cash flows from operating activities	23,758	9,911	24,533
Investing activities			
Purchase of property, plant and equipment	(7,354)	(1,103)	(2,868)
Development costs capitalised	(4,449)	(3,590)	(6,968)
Purchase of other intangibles	(491)	(235)	(184)
Investment in associates	(3,090)	-	(149)
Sale of property, plant and equipment	5	71	190
Interest received	200	132	255
Dividend received from associate	20	21	80
Cash flows from investing activities	(15,159)	(4,704)	(9,644)
Financing activities			
Interest paid	(102)	(117)	(178)
Dividends paid	(9,899)	-	(2,912)
Cash flows from financing activities	(10,001)	(117)	(3,090)
Net (decrease)/increase in cash and cash equivalents	(1,402)	5,090	11,799
Cash and cash equivalents at the beginning of the period	31,143	20,488	20,488
Effect of exchange rate fluctuations on cash held	(819)	(1,206)	(1,144)
Cash and cash equivalents at the end of the period	28,922	24,372	31,143

Responsibility statement

We confirm that to the best of our knowledge:

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

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

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

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

On behalf of the Board

A C G Roberts FCA
Group Finance Director
26th January 2011

Notes

1. Status of Interim report and accounting policies

The Interim report, which has not been audited, was approved by the directors on 26th January 2011.

General information

The Interim report has been prepared in accordance with the EU endorsed standard IAS 34, 'Interim financial reporting'. This interim financial information has been prepared on the basis of the accounting policies adopted in the most recent annual financial statements, these being for the year ended 30th June 2010, as revised for the implementation of specified new amended endorsed standards or interpretations.

Given the nature of some forward-looking information included in this report, which the directors have given in good faith, this information should be treated with due caution. The Interim report is available on our website www.renishaw.com.

The interim financial information for the six months to 31st December 2010 and the comparative figures for the six months to 31st December 2009 are unaudited. The comparative figures for the financial year ended 30th June 2010 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006, relating to the accounting records of the Company.

Going concern

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 Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Interim report.

Accounting policies

The accounting policies applied and significant estimates used by the Group in this Interim report are the same as those applied by the Group for the year ended 30th June 2010.

The following amendments to standards are mandatory for the first time for the financial year ending 30th June 2011 and have been adopted, but none have had a material impact on the results of the Group:

- IFRS 2 – Share-based payments. Where the parent company pays cash settled share-based payments direct to the subsidiary's employees, the subsidiary is required to recognise this share-based transaction in its separate financial statements.

- IFRS 3 – Business combinations. This requires that subsequent changes to the fair value of contingent consideration on acquisitions will affect the income statement and not goodwill. The amendment requires the acquirer to choose between measuring the non-controlling interest at fair value, or at its proportionate interest in the fair value, of the identifiable assets and liabilities. This choice is made on a transaction by transaction basis.

- IFRS 8 – Operating segments. This specifies minor amendments to the situations in which various segmental analysis metrics require disclosure.

- IAS 27 – Consolidated and separate financial statements. This details minor transition requirements for amendments made as a result of IAS 27 (as amended in 2008), to IAS 21, IAS 28 and IAS 31.

- IAS 32 – Financial instruments: Disclosure and presentation. This extends the scope of instruments that can be considered to constitute a rights issue, particularly in relation to instruments in currencies other than the functional currency.

2. Segmental information

Renishaw's business is metrology, the science of measurement. The Group manufactures a comprehensive range of high-precision probing systems and accessories, calibration and measuring systems and other innovative products which enable customers worldwide to carry out dimensional measurements to traceable standards.

In addition to developing the Group's traditional core metrology business, the Group has also been investing in the development of additional applications for new market sectors based upon its core metrology expertise. The additional investment has been focused on the healthcare sector and products for the dental and neurosurgical markets, together with our spectroscopy product offerings. The Group thus manages its business in two business segments, Metrology, being the traditional core business, and Healthcare.

2. Segmental information (continued)

The Group's main products within these segments comprise:

Metrology - Co-ordinate measuring machine ("CMM") probes and accessories, which are used for accurate post-process inspection of components on CMMs; Machine tool probes and tool setting systems, used for automated component identification, workpiece and tool setting and component inspection; Laser calibration systems and the QC20-W ballbar, used to determine the accuracy of CMMs, machine tools and other industrial and scientific equipment; Linear and angle encoder systems, for precise linear and rotary motion control; Versatile automated systems for part handling, inspection and material processing; and a broad range of styli for all probes.

Healthcare - Scanning and milling systems applied to the dental sector, offering a complete CAD/CAM system for crown and bridge frameworks; Spectroscopy products, including a Raman microscope, used to identify the composition and structure of materials (including medicinal tablet mapping, molecular diagnostics and DNA analysis); and neurosurgical products for use in neurosurgical procedures and for enhancing the images obtained from MRI scanners.

Revenue	Metrology £'000	Healthcare £'000	Total £'000
6 months to 31st December 2010	**120,472**	**8,864**	**129,336**
6 months to 31st December 2009	65,876	7,975	73,851
Year ended 30th June 2010	162,118	19,489	181,607

Depreciation and amortisation	Metrology £'000	Healthcare £'000	Total £'000
6 months to 31st December 2010	**6,789**	**1,271**	**8,060**
6 months to 31st December 2009	6,335	832	7,167
Year ended 30th June 2010	12,725	1,745	14,470

Operating profit	Metrology £'000	Healthcare £'000	Total £'000
6 months to 31st December 2010	**39,275**	**(4,235)**	**35,040**
Share of profits from associates	**185**	**-**	**185**
Net financial income			**281**
Profit before tax			**35,506**
6 months to 31st December 2009	9,029	(2,111)	6,918
Share of profits from associates	130	-	130
Net financial income			53
Profit before tax			7,101
Year ended 30th June 2010	31,537	(3,442)	28,095
Exceptional item - impairment write-down	(1,668)	-	(1,668)
Share of profits from associates	479	-	479
Net financial income			151
Profit before tax			27,057

There is no allocation of assets and liabilities to operating segments. Depreciation is included within certain other overhead expenditure which is allocated to segments on the basis of the level of activity.

2. Segmental information (continued)

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

	6 months to 31st December 2010 at actual exchange rates £'000	6 months to 31st December 2010 at previous year's exchange rates £'000	6 months to 31st December 2009 at actual exchange rates £'000
Far East	**54,073**	51,526	26,649
Continental Europe	**36,147**	36,367	22,565
North & South America	**28,735**	28,403	17,303
United Kingdom and Ireland	**6,610**	6,610	4,983
Other regions	**3,771**	3,737	2,351
Total group revenue	**129,336**	126,643	73,851

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:

	6 months to 31st December 2010 £'000	6 months to 31st December 2009 £'000	Year ended 30th June 2010 £'000
China	**27,861**	12,365	34,211
USA	**25,477**	14,684	35,381
Germany	**16,609**	10,700	23,042
Japan	**15,381**	7,248	19,552

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

The following table shows the analysis of non-current assets by geographical area:

	At 31st December 2010 £'000	At 31st December 2009 £'000	At 30th June 2010 £'000
United Kingdom	**73,948**	72,612	71,660
Overseas	**40,128**	36,948	36,639
	114,076	109,560	108,299

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

3. Financial income and expenses

Financial income	6 months to 31st December 2010 £'000	6 months to 31st December 2009 £'000	Year ended 30th June 2010 £'000
Expected return on assets in the pension schemes	**3,329**	2,866	5,671
Bank interest receivable	**200**	132	255
	3,529	2,998	5,926

3. Financial income and expenses (continued)

Financial expenses	6 months to 31st December 2010 £'000	6 months to 31st December 2009 £'000	Year ended 30th June 2010 £'000
Interest on pension scheme liabilities	3,146	2,828	5,597
Bank interest payable	102	117	178
	3,248	2,945	5,775

4. Income tax expense

The income tax expense has been estimated at a rate of 20% (December 2009 20%), the rate expected to be applicable for the full year.

5. Earnings per share

Earnings per share are calculated on earnings of £28,405,000 (December 2009 £5,681,000) and on 72,788,543 shares, being the number of shares in issue during the period.

Earnings per share for the year ended 30th June 2010 are calculated on earnings of £21,312,000 and on 72,788,543 shares, being the number of shares in issue during that year.

6. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1st July 2010	67,989	77,407	5,059	449	150,904
Additions	1,339	3,106	697	2,212	7,354
Transfers	-	387	-	(387)	-
Disposals	-	(72)	(302)	-	(374)
Currency adjustment	932	516	101	-	1,549
At 31st December 2010	70,260	81,344	5,555	2,274	159,433
Depreciation					
At 1st July 2010	15,291	61,460	3,621	-	80,372
Charge for the period	814	2,671	335	-	3,820
Released on disposals	-	(72)	(297)	-	(369)
Currency adjustment	371	269	69	-	709
At 31st December 2010	16,476	64,328	3,728	-	84,532
Net book value					
At 31st December 2010	53,784	17,016	1,827	2,274	74,901
At 30th June 2010	52,698	15,947	1,438	449	70,532

Additions to assets in the course of construction of £2,212,000 (December 2009 £47,000) comprise £343,000 (2009 £nil) for freehold land and buildings and £1,869,000 (December 2009 £47,000) for plant and equipment.

7. Intangible assets

	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences: In use £'000	Software licences: In the course of acquisition £'000	Total £'000
Cost						
At 1st July 2010	5,569	5,466	35,941	11,271	117	58,364
Additions	-	324	4,449	76	55	4,904
Transfers	-	-	-	119	(119)	-
Currency adjustment	-	-	-	7	-	7
At 31st December 2010	**5,569**	**5,790**	**40,390**	**11,473**	53	**63,275**
Amortisation						
At 1st July 2010	-	1,803	20,521	7,427	-	29,751
Charge for the period	-	234	3,251	435	-	3,920
Currency adjustment	-	-	-	6	-	6
At 31st December 2010	**-**	**2,037**	**23,772**	**7,868**	-	**33,677**
Net book value						
At 31st December 2010	**5,569**	**3,753**	**16,618**	**3,605**	**53**	**29,598**
At 30th June 2010	5,569	3,663	15,420	3,844	117	28,613

8. Investments in associates

Movements during the period were:	**6 months to 31st December 2010 £'000**	6 months to 31st December 2009 £'000	Year ended 30th June 2010 £'000
Balance at the beginning of the period	**5,152**	7,085	7,085
Investments made during the period	**3,090**	-	-
Dividends received	**(20)**	(21)	(80)
Share of profits of associates	**185**	130	479
Amortisation of intangibles	**(320)**	(170)	(340)
Other comprehensive income and expense	**-**	-	(324)
Impairment of investment in Delcam plc	**-**	-	(1,668)
Balance at the end of the period	**8,087**	7,024	5,152

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

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

Disclosure of the fair value of assets acquired will be provided within the year-end financial statements.

9. Capital and reserves

Share capital	At 31st December 2010 £'000	At 31st December 2009 £'000	At 30th June 2010 £'000
Allotted, called-up and fully paid			
72,788,543 ordinary shares of 20p each	**14,558**	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.

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 period were:	6 months to 31st December 2010 £'000	6 months to 31st December 2009 £'000	Year ended 30th June 2010 £'000
Balance at the beginning of the period	**172**	(5,415)	(5,415)
Amounts transferred to the Consolidated income statement	**1,154**	1,842	3,538
Revaluations during the period	**(5,032)**	(4,828)	2,049
Balance at the end of the period	**(3,706)**	(8,401)	172

The cash flow hedging reserve is analysed as:	At 31st December 2010 £'000	At 31st December 2009 £'000	At 30th June 2010 £'000
Included in other receivables in non-current assets	**1,490**	1,951	4,002
Included in other receivables in current assets	**1,723**	618	1,158
Included in other payables in current liabilities	**(5,399)**	(7,151)	(3,346)
Included in other payables in non-current liabilities	**(2,961)**	(7,086)	(1,575)
	(5,147)	(11,668)	239
Included in deferred tax assets/liabilities	**1,441**	3,267	(67)
Balance at the end of the period	**(3,706)**	(8,401)	172

9. Capital and reserves (continued)

Dividends	**6 months to**	6 months to	Year ended
	31st December	31st December	30th June
Dividends paid during the period were:	**2010**	2009	2010
	£'000	£'000	£'000
2010 final dividend of 13.6p per share (2009 nil)	**9,899**	-	-
2010 interim dividend of 4.0p	**-**	-	2,912
Total dividends paid during the period	**9,899**	-	2,912

No final dividend was paid in respect of the year ended 30th June 2009.

An interim dividend for 2011 of £7,497,220 (10.3p per share) will be paid on 11th April 2011, to shareholders on the register on 11th March 2011, with an ex-div date of 9th March 2011.

Other reserve

The other reserve is in relation to additional investments in subsidiary undertakings, these being Renishaw Diagnostics Limited and PulseTeq Limited.

Non-controlling interest	**6 months to**	6 months to	Year ended
	31st December	31st December	30th June
Movements during the period were:	**2010**	2009	2010
	£'000	£'000	£'000
Balance at the beginning of the period	**(432)**	18	18
Share of investments	**-**	149	52
Share of loss for the period	**(270)**	(258)	(502)
Balance at the end of the period	**(702)**	(91)	(432)

10. 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 April 2007, this scheme, along with the Irish defined benefit scheme, ceased any future accrual for current members and was closed to new members. UK and Irish employees are now covered by defined contribution schemes.

The latest full actuarial valuation of the UK defined benefit scheme was carried out at September 2006 and updated to 31st December 2010 by a qualified independent actuary. The major assumptions used by the actuary were:

	At	At	At
	31st December	31st December	30th June
	2010	2009	2010
	£'000	£'000	£'000
Discount rate	**5.4%**	5.7%	5.3%
Inflation rate - RPI	**3.6%**	3.8%	3.4%
Inflation rate - CPI	**2.9%**	n/a	n/a
Expected return on equities	**8.1%**	8.3%	8.1%
Retirement age	**64**	64	64

The assets and liabilities in the defined benefit schemes were:

	At	At	At
	31st December	31st December	30th June
	2010	2009	2010
	£'000	£'000	£'000
Market value of assets	**99,764**	86,246	83,184
Actuarial value of liabilities	**(130,849)**	(115,974)	(120,435)
Deficit in the schemes	**(31,085)**	(29,728)	(37,251)
Deferred tax thereon	**8,292**	7,697	9,694

10. Employee benefits (continued)

The movements in the schemes' assets and liabilities were:

	6 months to 31st December 2010 £'000	6 months to 31st December 2009 £'000	Year ended 30th June 2010 £'000
Balance at the beginning of the period	**(37,251)**	(22,458)	(22,458)
Expected return on pension schemes' assets	**3,329**	2,866	5,671
Interest on pension schemes' liabilities	**(3,146)**	(2,828)	(5,597)
Actuarial gain/(loss)	**5,983**	(7,308)	(14,867)
Balance at the end of the period	**(31,085)**	(29,728)	(37,251)

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 charges to secure the UK and Irish defined benefit pension schemes' deficits respectively. The Company has given a guarantee relating to a recovery plan for the UK scheme and the trustees have the right to enforce the charge to recover any deficit up to £39,000,000 if an insolvency event occurs in relation to the Company before 30th September 2016 or if the Company has not made good any deficit up to £39,000,000 by midnight on 30th September 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 £19,200,000, to represent the maximum discounted liability as at 31st December 2010 (30th June 2010 £nil). Following the UK government ministerial announcement in July 2010 relating to the calculation of pension fund liabilities, future UK pension increases in deferment have been determined by reference to the CPI inflation metric. This has resulted in a one-off decrease in the UK pension deficit of £11,200,000. Future pension increases in payment continue to be determined by reference to the RPI inflation metric.

11. Related party transactions

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

12. Risks and uncertainties

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

Current trading levels and order book

The Group has seen a rapid upturn in its global business over the last year and a half, partly due to businesses re-stocking following the recent recession, along with their new investments in production facilities, which were no doubt originally postponed during the recession. The continuation of this growth into the second half of the year is uncertain, especially as orders from customers generally involve short lead-times with the outstanding order book at any time being around one month's worth of revenue value. This limited forward order visibility leaves the annual revenue forecasts uncertain.

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

Research and development

The Group invests heavily in research and development, to develop new products and processes to maintain the long-term growth of the Group. This research and development encompasses new innovative products within the core metrology and emerging healthcare businesses.

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

These risks are minimised by operating strictly managed research and development programmes with regular reviews against milestones achieved and against forecast business plans. Research and development also involves beta testing at customers to ensure that new products will meet the needs of the market at the right price.

12. Risks and uncertainties (continued)

Defined benefit pension schemes

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

Treasury

With the concentration of manufacturing in the UK, Ireland and India, but with over 90% of revenue to countries elsewhere around the world, there is an exposure to fluctuating currencies on this export revenue, mainly in respect of the US Dollar, Euro and Japanese Yen.

The Group has mitigated the risks associated with fluctuating exchange rates by the use of forward contracts to hedge a proportion of US Dollar revenue and the majority of forecast Euro and Japanese Yen revenue for the current year. It also has forward contracts in place going forward a further three years in respect of significant proportions of forecast Euro and Japanese Yen revenue, and a further seven months in respect of a proportion of forecast US Dollar revenue.

Tax

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

Financial calendar

Record date for 2011 interim dividend	11th March 2011
2011 interim dividend payment	11th April 2011
Announcement of 2011 full year results	27th July 2011
Mailing of 2011 Annual report	Late August 2011
Annual general meeting	13th October 2011
2011 final dividend payment	17th October 2011

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