RENISHAW

apply innovation™

Fit for **the future**

Annual Report 2020

Renishaw is a global, high-precision metrology and healthcare technology group. Our purpose is to design, develop and deliver solutions and systems that provide unparalleled precision, control and reliability. By pursuing our purpose, we can continue to be a worldwide leader in precision technology: an insatiable innovator, a trusted partner, an inspiring employer and a responsible business.

Financial highlights

Revenue

£510.2m

(2019: £574.0m)

Adjusted* profit before tax

£48.6m

(2019: £103.9m)

Statutory profit before tax

£3.2m

(2019: £109.9m)

Total dividend for the year

0p

(2019: 60.0p)

Adjusted* earnings per share

51.0p

(2019: 119.9p)

Statutory earnings per share

0.4p

(2019: 126.7p)

* Note 25, Alternative performance measures, defines how Adjusted profit before tax and Adjusted earnings per share are calculated.

We use a number of abbreviations and trade marks within this document. For brevity, we do not define or identify these every time that they are used; please refer to the glossary on page 154 for this information. Dates within this document refer to financial years unless otherwise stated.

Contents

For more information visit:

www.renishaw.com

Renishaw at a glance

What we do

We work closely with our customers to solve complex challenges and improve products and processes. Our unique blend of pioneering science and product innovation helps them push the boundaries of what is possible, transforming product performance and touching billions of lives around the world.

We underpin this with long-term investments in people, innovation and infrastructure. These nurture a powerful pipeline of measurement technology and manufacturing techniques that advance the development of diverse products and address pressing real-world problems.

Our people bring fresh thinking, relentless rigour and an obsession with quality to every aspect of their work. Their thirst for innovation and commitment to continuous improvement informs the drive, determination and energy that mean we keep moving forward, every day.

Countries

37

Locations

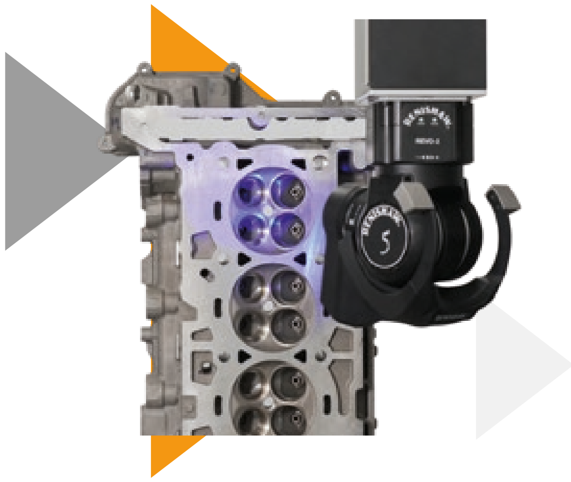
79

Number of employees at 30 June 2020

4,463

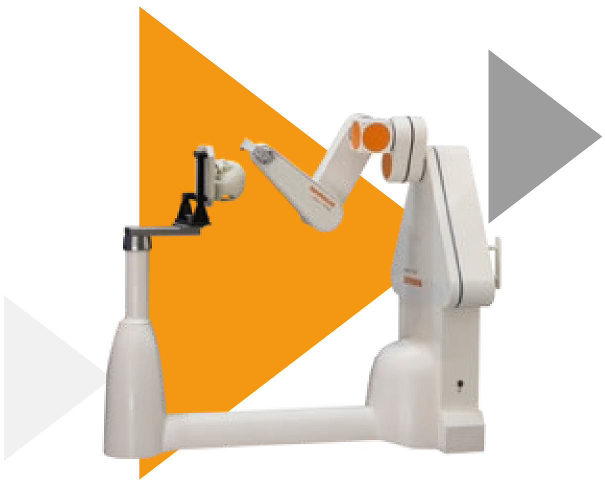
Patents – continual innovation in new technologies

1,896



Metrology products

Our technology solutions 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 position measurement and calibration systems allow machine builders to manufacture highly accurate and reliable products. We are a world leader in the field of metal additive manufacturing (3D printing) with machines that produce parts from metal powder.



Healthcare products

Our technologies are used within applications such as craniomaxillofacial surgery, dentistry, neurosurgery, and tissue and biofluid analysis. These include engineering solutions for stereotactic neurosurgery, analytical systems that identify and assess biochemical changes associated with disease formation and progression, the supply of specially configured metal additive manufacturing systems for medical and dental applications, the supply of implants to hospitals and specialist design centres for craniomaxillofacial surgery, and products and services that allow dental laboratories to manufacture high-quality dental restorations.

Where we operate

APAC

Locations

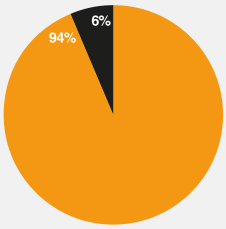
32

Metrology revenue ■

£213.6m

Healthcare revenue ■

£14.1m



EMEA

Locations

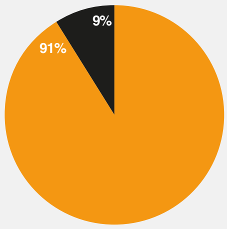
38

Metrology revenue ■

£152.5m

Healthcare revenue ■

£14.8m



Americas

Locations

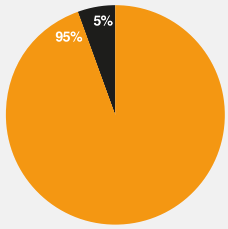
9

Metrology revenue ■

£109.1m

Healthcare revenue ■

£6.1m



Our principal markets

Aerospace

Significant short-term impacts on civil aircraft production due to the pandemic

New fuel-efficient engines with complex parts requiring faster measurement

Improvements to fuel efficiency by minimising airframe weight.

Agriculture

Increasing global demand for food products due to growing population and rising incomes

Greater investment in machinery for intensive farming capabilities and new technology to increase yields and reduce input and environmental costs

Smart farming techniques and greater automation.

Automotive

Increasing investment in hybrid and electric vehicles with reduced investment in internal combustion engines

Improved fuel efficiency requires tighter tolerances on powertrain components

Cost efficiencies and automated processes required throughout the supply chain.

Construction

Major infrastructure projects increase heavy equipment sales

Drive to improve efficiency of large diesel engines used for vehicles in the sector

Skills shortages and need to minimise labour costs requires more automation by equipment manufacturers.

Consumer products

Shorter product life cycles require flexible manufacturing systems

New generations of electronic devices and household appliances demand precision manufacturing systems for form and function

Complex integrated circuits and new designs required for 5G mobile products.

Healthcare

An increase in life expectancy means greater demand for healthcare products and procedures

Neurological disorders require faster and highly precise surgical therapies

Growing demand for cosmetic dentistry with superior aesthetics

Growing demand for orthopaedic implants and patient-specific implants.

Power generation

Civil nuclear, wind and solar energy require manufacture of precision components

Increasing focus on maximising output from machinery used in power generation

Increasing research into energy storage.

Resource exploration

Global population growth and urbanisation drive long-term demand for fossil fuels

Non-renewable resources require exploration in demanding terrains or more research into optimal extraction from existing sites

Equipment manufactured to stringent safety requirements requires accurate, cost-effective and traceable processes.

▶ **See pages 12 and 13, Our markets, for further details.**

Chairman's statement

It has been a particularly challenging year for the Group due to the global macroeconomic conditions and the COVID-19 pandemic. I am extremely proud of the commitment our employees have shown during these exceptional times. I look forward to continuing to work on exciting new products that will help drive long-term profitable growth.

Sir David McMurtry
Executive Chairman

Introduction

I am pleased to report our 2020 results. Revenue for the year was £510.2m, 11% lower than the 2019 revenue of £574.0m (13% lower at constant exchange rates), against a backdrop of very challenging economic conditions. Adjusted* profit before tax amounted to £48.6m (2019: £103.9m), a decrease of 53%.

We have taken some difficult decisions to preserve cash and protect the longer-term health of the business. These measures included cancelling the interim dividend, as well as deciding not to pay a final dividend. We also undertook a resizing programme, which has regrettably led to a number of redundancies across the Group.

In my role as Executive Chairman, I continue to focus on Group innovation and product strategy, supporting our talented engineering teams. The pandemic has required us all to develop new approaches and learn new skills. Since March I have enjoyed collaborating with our engineers and with other Board members via digital platforms.

During the year, we continued to invest in developing future technologies, with gross engineering costs of £82.4m amounting to 16% of total revenue.

* Note 25, Alternative performance measures, defines how Adjusted profit before tax, Adjusted earnings per share, Adjusted operating profit and Revenue at constant exchange rates are calculated.

Board changes

On 29 January 2020, John Deer, Deputy Chairman, informed the Board that he wished to step back from his executive responsibilities with immediate effect. He remains on the Board as Non-executive Deputy Chairman on the same or similar terms as the other Non-executive Directors. Although John is spending less time on day-to-day operational matters, I am delighted that, as the co-founder of Renishaw, he is continuing to help set the strategic direction of the Group and provide support and guidance for Will Lee and his leadership team, and I look forward to continuing to work with John to achieve further success for Renishaw. With this change, the Board now comprises two Executive and five Non-executive Directors in addition to my role as Executive Chairman.

People, culture and values

In such a challenging environment, our collaborative team of people has been key to helping the business remain resilient. The way that our employees around the world have risen to the challenge of maintaining supply and support to our customers despite the huge challenges faced has made me immensely proud. On behalf of the Board, I would like to thank them all for their professionalism, dedication and understanding during this most challenging year.

We have created a culture that aims to allow our employees to maximise their potential. We work hard to encourage open communication and innovative thinking, and believe everyone in our business should feel valued and be able to grow.

During the year we have reviewed our values and we are in the process of consulting with various stakeholders on a proposal to add to our existing core values of innovation and integrity. Integrity is key to the relationships that we have with our people, customers, suppliers, communities and other stakeholders. We strive at all times to be open, honest and consistent, and this has been especially important this year due to the number of changes that we have been required to make within the business and our response to the pandemic.

Innovation remains at the heart of everything that we do and has been fundamental to our success over the last 47 years. We believe our people are fundamental to our disruptive thinking and manufacturing excellence which helps our customers to increase their own innovation, improve quality, expand output and enhance efficiency.

“The way that our employees around the world have risen to the challenge of maintaining supply and support to our customers despite the huge challenges faced has made me immensely proud.

We are committed to equality and diversity initiatives at all levels of the company. During the year, we established a Diversity and Inclusion Group to help drive improvements within our business. Our educational outreach programmes continue to focus on encouraging more young people from diverse gender, ethnic and economic backgrounds into the sector (see pages 40 and 45 for more information).

Corporate governance

The Board is committed to high standards of corporate governance. It has further considered the UK Corporate Governance Code 2018, which it started to implement last year, and has put in place a number of governance enhancements aimed at contributing to the Group's long-term sustainable success. Further details are provided in the Directors' corporate governance report on pages 50 to 61.

Investor communications

Due to the pandemic, our annual investor day, scheduled for 12 May 2020, was postponed until later in the year. We expect this to be an online event because of the ongoing requirement for social distancing, and the date will be communicated once confirmed. The event is one of four key touchpoints across the year where the investment community can learn more about Renishaw's business and strategy, along with the Annual General Meeting (AGM), normally held in October, plus live half-year and full-year webcasts.

Dividend

In view of the ongoing macroeconomic uncertainty, the Board has decided that there will be no final dividend declared in respect of the year ending 30 June 2020. The Board will review its position on dividends during the 2021 fiscal year, with the intention of reinstating the dividend as soon as it is appropriate to do so. This means that there was no dividend paid for the year (2019: 60.0p).

Sir David McMurtry
Executive Chairman

18 August 2020

Chief Executive's review

"Despite the significant challenges currently faced, there are many exciting new opportunities to grow our business and deliver on our purpose, due to a strong pipeline of future product developments, excellent manufacturing and commercial operations, and highly skilled people.

Will Lee
Chief Executive

Introduction

This has been a year unlike any that most of us will ever have encountered. We were facing challenging trading conditions prior to the pandemic and had already taken actions to improve productivity and reduce the Group's cost base. These included not replacing staff who had left the business, reductions in direct manufacturing staff in the UK, Ireland and India, the restructuring of our additive manufacturing (AM) business, and a business resizing that required the difficult decision to instigate redundancy programmes. The overall impact was a total headcount reduction of 578 during the year.

Since the pandemic started, our number one priority has been the health and welfare of our employees, their families and the wider communities in which we operate. It has also been critical to support our customers and manage the business impacts to ensure that we can survive this exceptional period and be well placed to benefit when global markets recover.

COVID-19 pandemic

From January onwards, we implemented a wide range of measures to protect against the spread of COVID-19 at our sites around the world and we continue to monitor the impact of the pandemic, with our response and mitigation committee meeting most days since February.

All our manufacturing facilities around the world are open, although most are operating at lower capacity due to reductions in staff numbers caused by a combination of COVID-secure working practices, school closures, shielding due to health conditions and local operating restrictions. At many of our other sites we have limited operations, with many employees continuing to work productively from home. At all sites we have implemented robust measures to protect the welfare of our employees and mitigate against business risk. We have been able to maintain supply to customers during this challenging period, but this is a constantly evolving situation and we continue to closely monitor all aspects of our supply chain and are taking mitigating actions where necessary.

To closely manage costs and to mitigate against the risk of redundancies, the majority of our non-manufacturing staff across the Group have worked reduced hours (in some cases supported by local Government support schemes). We have also utilised the UK Government's Coronavirus Job Retention Scheme. The members of the Renishaw Board and many staff across the Group also agreed to have their salaries reduced during the period that employees were working reduced hours.

Performance overview

As already outlined by Sir David (see page 4), this was a very challenging year with reduced revenue and Adjusted* operating profit for the Group. However, while all regions experienced a reduction in revenue, our position encoder product line did achieve good growth due to a recovery in the semiconductor market. Despite the challenges, we remain focused on the long term with a key priority being the development of technologies that provide patented products to support the strategies for our metrology and healthcare segments.

Revenue

We achieved revenue for the year ended 30 June 2020 of £510.2m, compared with £574.0m last year, against a backdrop of very challenging macroeconomic conditions including the COVID-19 pandemic, the ongoing uncertainty caused by the trade tensions between the USA and China, and weaker demand in the machine tool sector. We experienced revenue reductions in all regions as set out below. We continue to work closely with key customers to ensure we are in position to meet their requirements when economic conditions improve.

	2020 £m	2019 £m	Change %	Constant fx change %
APAC	**227.7**	240.1	-5	-7
EMEA	**167.3**	201.3	-17	-17
Americas	**115.2**	132.6	-13	-14
Total Group revenue	**510.2**	574.0	-11	-13

Profit and earnings per share

The Group's Adjusted* profit before tax for the year was £48.6m compared with £103.9m last year. Adjusted* earnings per share was 51.0p compared with 119.9p last year.

Statutory profit before tax for the year was £3.2m compared with £109.9m last year. Statutory earnings per share was 0.4p compared with 126.7p last year.

This year's tax charge amounts to £2.9m (2019: £17.7m) representing a tax rate of 91.0% (2019: 16.1%). For further details on the tax rate see page 20.

Metrology

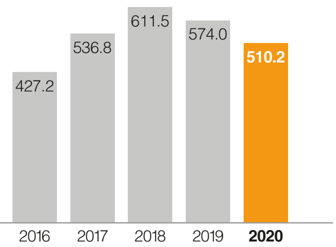
Revenue from our metrology business for the year was £475.2m compared with £532.9m last year. It was a difficult trading year for most of our metrology lines. The important machine tool market was impacted by reduced global demand for new machines, particularly from China, with weakness in key sectors including aerospace, automotive, consumer electronics, and oil and gas. This affected many of our metrology product lines, including our machine tool probe systems that are primarily installed on new machines and our calibration products, which saw reduced demand due to lower sales and utilisation of production machinery.

The AM line continued to benefit from the adoption of our RenAM 500Q multi-laser system, but demand was impacted by the global macroeconomic environment. During the year we undertook a restructure of the AM business including the closure of our Staffordshire site, a rationalisation of the product range to focus on the successful RenAM 500Q platform and a restructure of our AM teams across the Group, including the simplification of reporting structures. As previously mentioned, there was, however, good growth in our position encoder product line, with sales of our optical and laser encoder products benefiting from a recovery in the semiconductor market.

Revenue

£510.2m

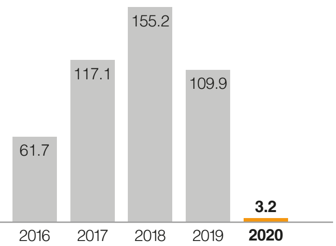
(2019: £574.0m)



Statutory profit before tax

£3.2m

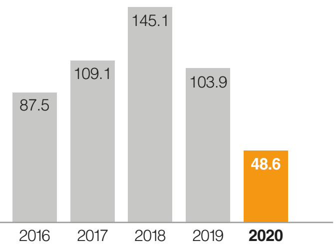
(2019: £109.9m)



Adjusted* profit before tax

£48.6m

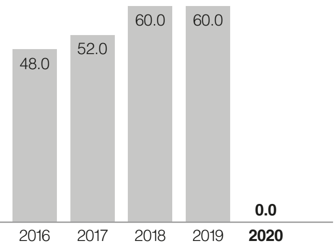
(2019: £103.9m)



Dividend per share

0p

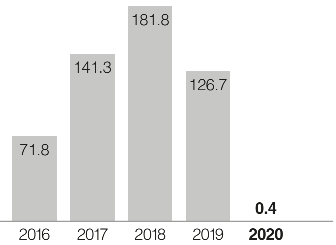
(2019: 60.0p)



Statutory earnings per share

0.4p

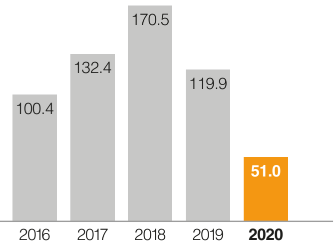
(2019: 126.7p)



Adjusted* earnings per share

51.0p

(2019: 119.9p)



Chief Executive's review continued

The geographical analysis of metrology revenue is set out below:

	2020 £m	2019 £m	Change %
APAC	**213.6**	223.7	-5
EMEA	**152.5**	182.6	-16
Americas	**109.1**	126.6	-14
Total metrology revenue	**475.2**	532.9	-11

Adjusted* operating profit for our metrology business was £50.3m (2019: £90.6m).

We continued to invest in R&D, with total gross engineering costs of £75.9m compared with £90.7m in 2019.

We launched a range of new products during the year. The RFP fringe probe for our REVO measuring head allows the inspection of freeform surfaces and complex geometry on co-ordinate measuring machines (CMMs), including delicate surfaces. Our machine tool product line introduced the NC4+ Blue system, which features industry-first, blue laser technology to deliver significant improvements in tool measurement accuracy, including for very small tools.

It was a busy year for new launches within our position encoder line, including the addition of new Functional Safety (FS) certified encoders for use in safety-critical applications, including medical robots and collaborative robots (cobots). We also added ATOM DX, our smallest all-in-one digital incremental encoder which eliminates the need for bulky interfaces, new robust RKLC and RKLA stainless steel tape scales for linear and partial arc applications, and diagnostics tools (interfaces and software) to optimise set-up and analysis of position encoders.

Healthcare

Revenue from our healthcare business for the year was £35.0m, a decrease of 15% over the £41.0m last year. There were reductions in all our healthcare product lines – medical dental, neurological and spectroscopy.

The pandemic had a marked impact on our healthcare lines including the postponement of non-essential operations, which impacted orders for additively manufactured medical implants and dental structures. The neurological product line was most impacted, with orders for the neuromate stereotactic robot delayed and consumable sales reduced due to elective surgeries being put on hold. The spectroscopy product line saw some impact from the pandemic due to delayed shipments, primarily in China.

There was an Adjusted* operating profit of £1.4m, compared with a profit of £3.1m last year, with three years of continuous profit now achieved.

Healthcare also saw continued investment in R&D, with total gross engineering costs in this business segment of £6.5m compared with £7.2m in 2019.

New Raman spectroscopy products launched during the year include: the Virsa Raman Analyser, a versatile, fibre-optic-coupled system designed for reliable, detailed analysis away from the confines of the laboratory; and the inVia InSpect system, which is specifically targeted at the forensic crime laboratory.

In February, the initial results were published of a joint Phase 1-2 clinical study with Herantis Pharma plc, for the investigation of cerebral dopamine neurotrophic factor (CDNF) as a treatment for Parkinson's disease. The initial results indicate predictable and accurate placement of our drug delivery device as well as its positive performance and safety, allowing us to build towards its CE marking.

Strategy and markets

Our strategy is fundamentally based on long-term investments in patented and innovative products and processes, and high-quality manufacturing in all markets around the globe (which has been a real strength during the pandemic). This strategy is consistent across all the product lines and market sectors in which we operate to deliver our purpose (see page 14 for more information).

Renishaw has moved from primarily being a supplier of products to capital equipment manufacturers, to working closely with end users to solve their complex challenges and deliver solutions and systems that transform their manufacturing capabilities. This is helping to deepen brand loyalty and open up new revenue opportunities (see pages 12 and 13 for more information).

Despite the current challenges resulting from the macroeconomic environment and the pandemic, we continue to see external market growth drivers – including global skills shortages, digitisation, requirements for more capable products, near-shoring and reshoring, a focus on reducing emissions and waste, population growth and increasing life expectancy – that are creating positive opportunities for our business.

We continue to reduce risk through the diversification of applications for our products, our customer base and our routes to market.

Focused investment for long-term growth

The Group firmly believes in its long-term strategy of investing appropriately for the future, expanding our global marketing and distribution infrastructure, along with increasing manufacturing capacity and R&D activities. However, with the current global economic uncertainties, our focus for the short term is on maximising the benefits of the investments we have made over the past few years and clearly prioritising those projects that will either bring faster revenue benefits or are strategically important to the business.

We continue to invest in the global roll-out of a new human resources (HR) system and development programmes for our people, which we believe will ultimately boost our productivity.

Capital expenditure on property, plant and equipment and vehicles for the year was £38.7m (2019: £56.8m), of which £24.6m (2019: £25.4m) was spent on property and £14.1m (2019: £31.4m) on plant and equipment and vehicles.

This year we completed the 94,000 sq ft extension to the Innovation Centre at our New Mills site (although full occupation has been delayed to save costs), purchased land in Pune to provide for future expansion of our Indian operations, and completed the build of a new design, manufacturing and demonstration facility in Michigan, USA, for Renishaw Fixturing Solutions.

Working capital

Group inventory reduced from £129.0m at the start of the year to £105.5m, primarily reflecting the reduced demand we experienced during the year. We continue to focus on working capital management while remaining committed to our policy of holding sufficient finished inventory to ensure customer delivery performance, given our short order book. Trade receivables decreased from £116.9m to £105.1m, with debtor days at the end of the current year of 76 days (2019: 67 days).

Net cash balances and bank deposits at 30 June 2020 were £120.4m, compared with £106.8m at 30 June 2019. Additionally, there is an escrow account of £10.6m (2019: £10.5m) relating to the provision of security to the UK defined benefit pension scheme.

Corporate responsibility

As a socially responsible business, we recognise the importance of operating in a way that delivers long-term sustainable value for all stakeholders. This year we have: assisted local organisations through charitable donations; invested in developing the skills of our employees; recruited apprentices and graduates on our training schemes; reduced our absolute total greenhouse gas (GHG) emissions by 22%; and reduced our accident frequency rate[1] to 15.55. We reached more than 20,000 children with our educational outreach programmes, as well as donating more than 10,000 hours of paid time to educational organisations during the 2018/19 academic year. Further information on our key performance indicators (KPIs) and GHG performance can be found on pages 16 and 17 and 46 and 47.

Our people

Our workforce at the end of June 2020 was 4,463 (2019: 5,041), a decrease of 11.5%. During the year, 96 apprentices and graduates were taken on as part of our ongoing commitment to train and develop skilled resource for the Group in the future. We also took on 74 industrial and summer placements in the year.

This year we faced exceptional challenges, including tough trading conditions, the first pandemic for 100 years, a Group-wide redundancy programme, plus reduced working hours and many UK employees being furloughed. It is, therefore, testament to the skill, resilience and compassion of our employees that they still continue to introduce innovative new products, support our customers in very trying circumstances, and assist our communities at a time of crisis. We recognise the potential impacts of the pandemic on the health of our people and we have developed a COVID-19 Wellbeing Programme to add to our existing Employee Assistance Programme.

I am truly grateful for the understanding and commitment of our people during this exceptionally challenging year.

Brexit

The Board continues to oversee the work of the Brexit Steering Group in identifying the key risks and mitigation plans arising from a possible no-deal Brexit at the end of the transition period. This includes the following actions already taken in 2019: a new distribution warehouse in Ireland which will significantly reduce the number of direct shipments between the UK and the EU post Brexit (we are currently supplying a number of EU customers from this warehouse and this will increase during the remainder of this current year); and a general increase in inventory of certain components and finished goods held at our various sites within the EU and the UK, which is being maintained dynamically in line with required demand.

The Steering Group will continue to carefully monitor ongoing developments in the Brexit process and consider their impact against our current plans as the situation becomes clearer through the remainder of this calendar year.

Outlook

As a result of the timely actions detailed above, despite a very challenging year, the Group is in a strong financial position. We continue to invest in the development of new products and applications, along with targeted investment in production, and sales and marketing facilities around the world. Given the uncertain macroeconomic backdrop, including the pandemic and the risks posed by reduced freedom of global trade, we expect very challenging market conditions, particularly in the automotive and aerospace sectors.

Your Directors remain confident in the long-term prospects for the Group due to the high quality of our people, our innovative product pipeline, extensive global sales and marketing presence and relevance to high-value manufacturing.

Will Lee
Chief Executive

18 August 2020

* Note 25, Alternative performance measures, defines how Adjusted profit before tax, Adjusted earnings per share, Adjusted operating profit and Revenue at constant exchange rates are calculated.

[1] Accident frequency rate per million hours worked.

Our business model

We identify customer needs and then apply innovative engineering to deliver successful solutions. Our purpose supports our business model which is driven through our strategy.

We have a simple business model…

Customer needs

All areas of our organisation seek to work in partnership with customers to understand and solve their current and anticipated real-life problems.

We aim to provide solutions that help customers increase innovation, improve quality, expand output and enhance efficiency.

For more about customers see pages 12, 13, 15 and 43

Innovative engineering

Our strategy of investment in R&D and engineering skills enables us to take a longer-term view of the viability of new technologies.

We are actively expanding our significant portfolio of innovative and patented products.

For more about innovation see pages 14 and 22 to 25

Successful solutions

We are a highly vertically-integrated company, which helps us to deliver for our customers.
We not only undertake design of innovative products, we also make and sell them through our manufacturing and sales organisations.

For more about solutions see pages 15 and 22 to 25

Our KPIs are shown on pages 16 and 17

Information on the risks associated with our business and how we manage them is on pages 26 to 37

…generating value for a wide range of stakeholders

What the stakeholder needs	How we considered them	What we delivered
Our people		
• Our 2019 UK engagement survey showed that a key requirement is for career development and progression opportunities.	• We are implementing a new global learning management system, which will allow all employees to complete and track training, and take more responsibility for their own learning. • We build and grow internal talent pipelines through our early career development programmes to meet our future business needs.	**Investment in global training and development** **£1.6m** **Number of people in further education, graduate and industrial programmes** **433**
Our customers		
• Security of supply is always important to our customers but especially during the pandemic. Many identify us as a critical supplier within their supply chains. • Our customers require innovative products that will enable them to improve quality, output and process efficiency.	• We worked hard to ensure COVID-secure manufacturing and distribution facilities around the world could continue to operate even at the height of the pandemic. • We aim to build long-term relationships to enable us to understand our customers' true needs and use this knowledge to inform future technology innovations.	**Number of offices** **79** **New product R&D spend** **£66.6m**
Our suppliers		
• Many of our suppliers are SMEs and value long-term ethical relationships, clear communications and prompt payments.	• We have supply chain staff located in key markets around the world to ensure regular communication with suppliers in their own language. • We actively engage with suppliers to share best practice and ensure ongoing improvement programmes are in place.	**Average UK payment days** **45** **Number of key UK suppliers** **c.400**
Our communities		
• As a substantial employer and facility owner around the world, our communities desire Renishaw to be a responsible business that is aware of its social, economic and environmental impacts.	• We have regular engagement with groups from across our communities, including business, education, the third sector, elected political representatives and environmental campaigners, to understand and respond to their issues.	**Charitable donations** **£198,000+** **Paid UK hours donated within the 2018/19 academic year** **10,000+**
Our shareholders		
• Many of our investors have held Renishaw shares for decades and are looking for a long-term return on their investment. • They require the Board to take a similar approach, with a commitment to the long-term, whether making investments in people, products or property.	• We believe that our shareholders want us to have a strong focus on cash management, especially in periods of economic uncertainty, and therefore would support our decision to cancel the interim dividend and not propose a final dividend.	**TSR over the past five years** **90%** **Dividend paid in the year** **No payment**

For more about how we engage with our stakeholders see pages 38 to 49

Our markets

At Renishaw, we have spent nearly 50 years engineering change. We work closely with our customers across multiple markets to solve complex challenges and improve products and processes. We design, develop and deliver solutions and systems that provide unparalleled precision, control and reliability. Our disruptive thinking and manufacturing excellence help customers increase innovation, improve quality, expand output and enhance efficiency.

Our unique blend of pioneering science and product innovation produces a powerful pipeline of measurement technology and manufacturing techniques that helps our customers in diverse markets push the boundaries of what is possible. From transport to agriculture, electronics to healthcare, our breakthrough technology transforms product performance and touches billions of lives around the world.

We therefore contribute to the development of a wide range of products (from smartphones to solar panels, jet engines to dental implants) and help address pressing real-world problems (such as food security, energy generation and degenerative diseases).

Our technology solutions help manufacturers to maximise production output, to significantly reduce the time taken to produce and inspect components, to keep their machines running reliably, and allow machine builders to manufacture highly accurate and reliable products. Within the healthcare sector our products are designed to improve medical research and surgical procedures.

With businesses increasingly focused on their environmental impact and the need to reduce costs, our products also help customers to reduce energy consumption and minimise waste, for example by reducing unproductive machine time, eliminating scrap components and reducing the total energy consumption required to produce the same level of machined components.

We help customers make the most of our technology through expert sales and service support in 37 countries and 79 locations.

We have listed our principal markets and the specific key drivers of demand within those markets for our products on page 13.

There are also more generic market economic drivers that impact our business. These include:

- **energy costs –** rising energy prices mean energy consumers require products that help maximise output; lower energy prices reduce investments by energy providers;
- **focus on reducing emissions and waste –** increased demand for high-performance products with ever tighter manufacturing tolerances and products that help minimise waste and rework;
- **global competitiveness –** increased focus on costs demands increased speed of operation and reduced scrap/rework;
- **global economic growth –** growth in key geographic markets and global trade impact demand in key sectors that we supply;
- **global pandemic –** reduced consumer spending on vehicles and restrictions on travel impact global demand for civil aircraft;
- **global skills shortages and rising labour costs –** increased investments in automation, robotics and user-friendly technology;
- **industry 4.0/smart factories –** demand for more digitisation and data to inform manufacturing processes;
- **life expectancy increasing globally –** increased demand for healthcare products and continuing demand for consumer products;
- **near-shoring and reshoring –** global politics and trade tensions are driving investment in new localised manufacturing facilities; in high-labour cost markets this requires automation and robotics to be competitive;
- **population growth and rising incomes –** increased consumption in our principal markets; and
- **requirements for more capable products –** increased investments in research and development and manufacturing capabilities.

We continue to reduce risk through the diversification of applications for our products, our customer base and our routes to market.

Our business has transitioned over time from primarily being a supplier of products to capital equipment manufacturers, to becoming much more focused on delivering a full solution directly to end users. The experience gained from dealing directly with the users of our products on a global basis and gaining a deeper understanding of their problems is helping to inform the development of new products and services.

Today, many of our product lines including additive manufacturing, calibration, measurement and automation, and healthcare lines are primarily sold direct to the end user. This helps to deepen brand loyalty and develop new revenue opportunities, including hardware and software upgrades, the cross-selling of complementary products and maintenance contracts.

Aerospace

Aircraft are highly complex structures and their key assemblies rely on our products throughout the supply chain, including maintenance, repair and overhaul (MRO), for process control and post-process inspection during their manufacture. Key drivers include more fuel-efficient engines, lighter components and cost-down pressures. Despite the short-term impacts of the COVID-19 pandemic, we still expect long-term growth in the civil aviation market, especially from Asia.

Agriculture

Many key components on high-end agricultural equipment are subject to process control using Renishaw products, while automation benefits our encoder line. There is increasing demand for food products due to a growing global population with rising disposable incomes, against a backdrop of climate change. This requires greater investment in machinery for intensive farming capabilities and new technology, including Smart Farming techniques and automation, to increase yields and reduce input and environmental costs.

Automotive

Many key components on domestic and commercial internal combustion engine (ICE) based vehicles are subject to process control using our products. Although there is reduced capital investment in ICEs, there are multiple opportunities for our products in the research and manufacture of hybrid and electric vehicle types, which will still require precision parts, cost efficiencies and automated processes throughout the supply chain. Vehicle design life cycles are also reducing, driving more flexible manufacturing and measurement requirements.

Construction

From heavy earthmoving equipment to mineral analysis, Renishaw's products are used in a diverse range of construction industry applications. These include the manufacture of large high-value components such as chassis, the production of power plants to deliver improved reliability and reduced emissions, and materials identification of geological samples using Raman spectroscopy. Key market drivers include the investment environment for infrastructure projects and skills shortages within the sector requiring more automation within equipment manufacturers.

Consumer products

This fast-paced market demands flexible manufacturing systems that can adapt to shorter life cycles, yet still deliver high-quality, high-volume components. These are necessary for the high standard of fit and finish increasingly required for home appliances and enclosures on products such as mobile devices, where we see a trend away from metal to glass and ceramic which aids 5G signal reception. Rising labour costs are driving the increased use of automation, while 5G products require more complex integrated circuits.

Healthcare

Our technologies are being applied to an ever-increasing number of applications within healthcare, including brain surgery, reconstructive surgery and dentistry. Life expectancy is increasing in both developed and developing markets, leading to an increase in neurological disorders which require fast and precise surgical therapies to reduce waiting times. There is also a drive for more economical treatments, more patient-specific treatments, and safer procedures with reduced human error, increasing the demand for medical robots for precision positioning.

Power generation

Whether fossil fuels, civil nuclear or renewable energy, our products are used to control the production of key componentry including power transmission systems, bearings, generators and pumps. Key drivers include the manufacture of components for wind turbines and solar panels, an increasing focus on maximising the efficiency of machinery used in power generation and increasing research into energy storage, especially in relation to electric vehicles.

Resource exploration

Equipment for oil and gas exploration must be manufactured to stringent safety standards, requiring accurate, cost-effective and traceable processes. The growth in the global population and increased urbanisation are driving the long-term demand for fossil fuels and the exploration of new sources, or more research into optimal extraction from existing sites. There is also a focus on improving the efficiency of large diesel engines used in transport and resource exploration and extraction, requiring greater component accuracy.

Our strategy

Our strategy focuses on key elements that keep our business model running.

1 People and culture

Delivering success through the strength of our talented and committed employees.

Our success is a result of the commitment, skills and ingenuity of our people. They bring fresh thinking and customer focus to every aspect of their work.

Our core values of innovation and integrity shape our strong culture. They provide the foundation for us to work successfully towards our strategy, fulfil our purpose and continue to build a sustainable and successful Group.

We are focused on delivering an internal communications strategy to ensure effective information sharing, engagement and feedback across the Group. Our focus on learning and development, and leadership and management training, is complemented by a new performance review process.

- 470 UK managers completed mental health awareness workshops and we implemented a UK network of mental health first aiders
- We implemented Workday as our global HR system, providing immediate access to business-critical information with high levels of data accuracy, integrity and security
- We created a Diversity and Inclusion Group focused on establishing a more inclusive culture and diverse workforce.

2 Continuous R&D

Creating strong market positions with innovative products.

For Renishaw, research and development has always been at the heart of our business, typically investing between 13% and 18% of revenue annually in R&D and engineering to maintain leadership in our various technologies. Patent and intellectual property generation is core to new product developments and our six in-house patent attorneys are key members of our development teams.

'apply innovation' is deeply embedded in our culture. We are prepared to take a long-term view with R&D and continue to protect our core businesses with exciting new patented technology and process developments, while also diversifying into new product and market areas. We also work with key universities to supplement our core specialties.

- 17 new patent applications filed and 89 previously filed patents granted during the year
- The new RFP fringe probe for the REVO measurement system allows the inspection of freeform surfaces and complex geometry, including delicate surfaces
- Featuring industry-first, blue laser technology, the new NC4+ Blue system delivers significant improvements in tool measurement accuracy including for very small tools.

3 High-quality manufacturing

Delivering robust and reliable products tested to our exacting standards.

We are a highly vertically-integrated organisation with significant in-house manufacturing capabilities. With high-quality manufacturing plants located in the UK, Ireland, India, Germany, the USA and France, we are able to deliver exceptionally robust and reliable products to our customers, which have been tested to our exacting standards.

As a manufacturer operating in a high-mix/low-volume situation, with a strategy of delivering exceptional customer service, our approach has been to maintain as much control as possible of our supply chains. This has been achieved through a combination of in-house manufacturing (using in-house automation and our own products), duplication of critical processes, dual sourcing and strategic long-term relationships with our third-party suppliers. We also have supply chain management teams based in China, India and Ireland.

- Despite huge challenges associated with the pandemic, including our global supply chain and the necessity to rapidly implement social distancing, hygiene measures and remote working, we were able to maintain supply to customers throughout the period
- New investments in electronics manufacturing capability and a significant upgrade of IT infrastructure to support our operational challenges.

4 Global customer support

Ensuring our customers recognise Renishaw as a critical part of their value chain.

We are passionate in our belief that excellent customer support delivers success. Our customers can be global, with an order being placed in one country and the product shipped to the eventual end user, who could be located on a different continent. By having 'local' global support through our wholly-owned subsidiary network and long-term distributors, we are able to assure customers that whatever their needs, we are able to support and assist them, resulting in a positive return on their investment.

We are very focused on having a long-term relationship with our customers. It is not just about a sale but also about supporting and helping them to develop their processes, and improving the quality of their product output.

- New 52,000 sq ft facility for Renishaw Fixturing Solutions in Michigan, USA, expanding the design and manufacturing capability for metrology fixturing and including customer demonstration facilities
- Warehouse established in Ireland to allow direct shipments to EU customers ensuring no disruption due to Brexit
- Largest ever exhibition stands at EMO Hannover enabled customers from around the world to see our full range of metrology and additive manufacturing solutions.

5 Delivering solutions

Understanding our customers' needs to offer cost-effective, efficient and easy-to-use solutions.

Our business has transitioned over time from primarily being a supplier of products to capital equipment manufacturers, to becoming much more focused on delivering a full solution directly to end users. We aim to truly understand our customers' needs, allowing us to offer cost-effective, efficient and easy-to-use solutions.

This requires our sales force and technical support teams to be ever more knowledgeable, not just about what our products do, but also how they can be applied to benefit our customers' processes and practices.

We are focused on the levels of integration that we can bring to our customers' manufacturing environments, especially those looking to bring connectivity and the intelligent use of data within their manufacturing processes.

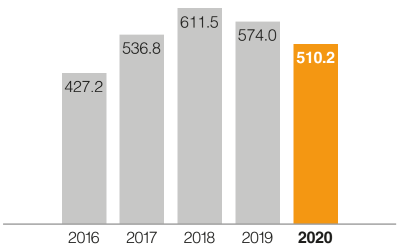
- Memorandum of Understanding with BAE Systems (UK) to work together on the development of additive manufacturing capability for the aerospace and defence sector
- Retrofitting a REVO 5-axis measurement system to a flood-damaged CMM reduced cycle time by up to 55% for Precision Machine & Auto Components (India)
- Automating workpiece set-up using machine tool probing systems and software, Tigercat Industries Inc (Canada) achieved a 75% reduction in set-up times in the manufacture of forestry equipment components.

Key performance indicators

The main performance measures monitored by the Board are:

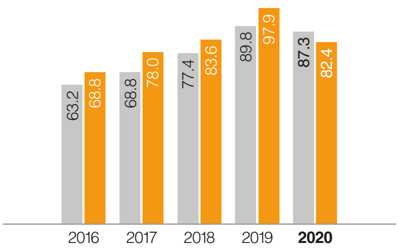
Financial

Revenue £m



We are focused on long-term growth in revenue, through increasing our market and geographic penetration and continually introducing new products, and supporting revenue growth by using the Group's worldwide marketing and distribution infrastructure. Revenue in 2020 was adversely affected by challenging global trading conditions, including the COVID-19 pandemic.

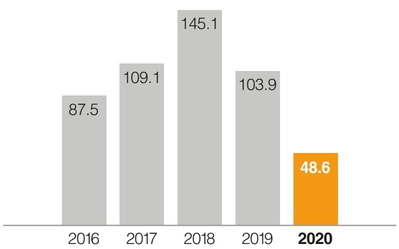
Total engineering costs including R&D £m



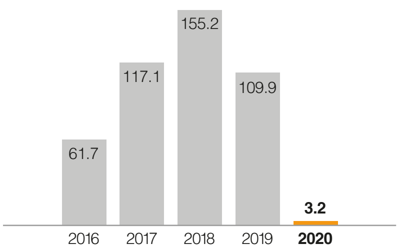
The growth of the business is fundamentally dependent on continuing investment in engineering for the development of new products and processes. The Group continues to make significant investment in future products, with engineering costs typically in the range of 13–18% of Group revenue, and has also been accelerating new product development in certain areas.

- Included in the Consolidated income statement
- Gross expenditure

Adjusted profit before tax £m

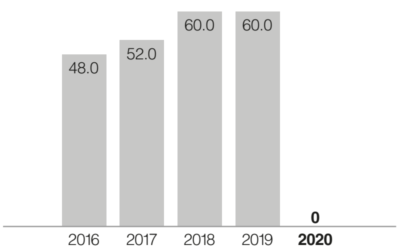


Statutory profit before tax £m



We aim to achieve growth in both statutory profit before tax and adjusted profit before tax, with the adjusted measure being used by the Board to better review the underlying trading profits of the Group, as explained in note 25, Alternative performance measures. The past two years have shown a year-on-year reduction in both measures due to ongoing challenging global trading conditions, with 2020 further impacted by the COVID-19 pandemic.

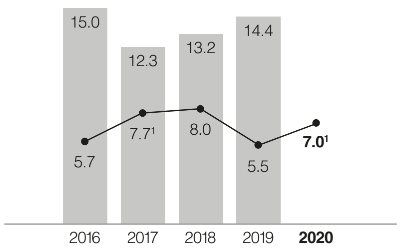
Dividend per share in respect of the year pence



We aim to achieve significant long-term returns to shareholders by maintaining a progressive dividend policy, while maintaining a solid capital base with sufficient working capital to support growth. In exceptional circumstances the Board may deem it appropriate not to issue a dividend, which was the case for 2020, with cash preservation being a key focus.

Non-financial

UK employee turnover %



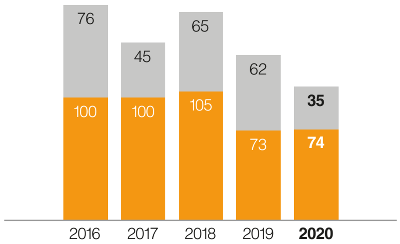
Our people are central to our success, so it is important that we retain skilled and effective teams. Our aim is to maintain our employee turnover rate below the UK average for the manufacturing and production sector.

UK average data source EEF/makeuk labour turnover reports.

[1] excludes leavers through discontinued operations in 2017, site closures, redundancy programmes and completion of fixed-term contracts

- Renishaw
- UK average (not published for 2020)

Number of new placements and graduates

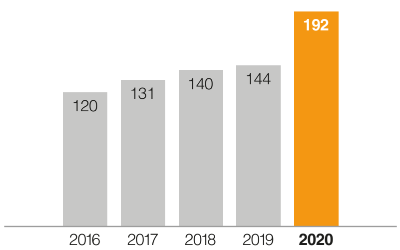


Our early careers programme is an integral part of ensuring we have the talent pipeline for the future.

We aim to maintain a sustainable intake of graduates and placement students each year.

- Graduates
- Placements

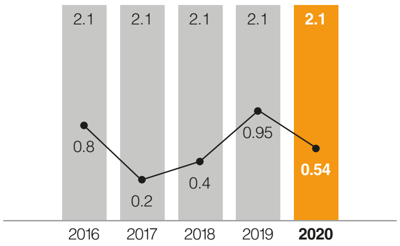
Number of apprentices in training



Apprentices play an essential role within our business and help tackle the STEM skills gap.

We are committed to continuing our apprenticeship programme at a sustainable level.

Total lost working time injuries
per million hours worked



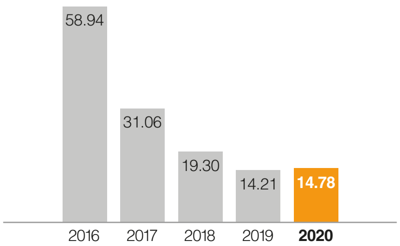
In a manufacturing environment, it is crucial that we maintain high standards of health and safety.

We have had no fatalities this year. A breakdown of reportable accidents is given on page 42.

Our aim is to have zero fatalities and zero lost working time injuries.

Renishaw UK average

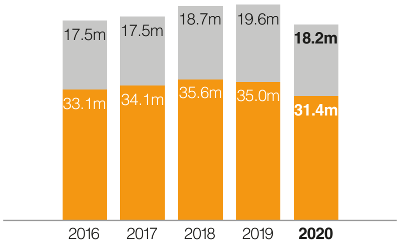
Statutory GHG emissions
tCO_2e per £m turnover



Minimising our GHG emissions is an important way in which we can lower our environmental impact.

Our aim is to have a year-on-year 3% reduction of our normalised GHG emissions (tCO_2e/£m).

Group energy consumption
kWh



Non-UK
UK

Energy consumption

Target
reduce our reliance on fossil-fuel derived energy through onsite generation and the purchasing of renewable electricity.

Progress

59%

of operational energy (78% of electricity) across the Group was from renewable sources (2019: energy: 59%; electricity: 79%).

3,674,381 kWh

of electricity across the Group was from on site generation (2019: 2,595,527).

For more information see page 46

GHG emissions

Target
3% reduction in statutory GHG emissions (tCO_2e) per £m turnover compared with 2019.

Progress

4%

increase in market-based statutory GHG emissions (tCO_2e) per £m turnover compared with 2019 (65% decrease compared with 2015, our base year).

8%

decrease in statutory GHG emissions compared with 2019 (63% decrease compared with 2015).

For more information see page 46

Financial review

"

During a very challenging year, the Board has heightened its focus on preserving cash balances and reducing operating costs. We remain confident in the long-term prospects of the Group, and continue to focus on productivity improvements.

Allen Roberts
Group Finance Director

Overview

Revenue for the year amounted to £510.2m with Adjusted profit before tax of £48.6m and statutory profit before tax of £3.2m. Adjusted profit before tax is a key alternative performance measure by which the Board evaluates the Group's performance as it better represents the underlying trading of the Group, with restructuring costs and fair value gains and losses on financial instruments not eligible for hedge accounting excluded from this measure. Further details of alternative performance measures are provided in note 25. Cash preservation has always been a key focus for the Board, particularly this year due to the high level of uncertainty caused by the COVID-19 pandemic, with net cash and bank deposit balances at the year end of £120.4m (2019: £106.8m). The balance sheet remains strong with total equity of £546.9m (2019: £583.3m).

Revenue

Revenue for the year amounted to £510.2m, compared with £574.0m last year. It has been a very challenging trading year for the Group due to the global macroeconomic environment, initially due to the ongoing uncertainty caused by the trade tensions between the USA and China and weaker demand in the machine tool sector, compounded in the second half of the year by the impact of the COVID-19 pandemic. The previous year also benefited from a number of large orders from end-user manufacturers of consumer electronic products in the APAC region which have not been repeated to the same extent this year.

In our metrology business segment, revenue was £475.2m, compared with £532.9m last year. Revenue in our healthcare business segment was £35.0m, compared with £41.0m last year.

Revenue analysis by region

	2020 revenue at actual exchange rates £m	Change from 2019 %	2019 revenue at actual exchange rates £m	Underlying change at constant exchange rates %
APAC	**227.7**	-5	240.1	-7
EMEA	**167.3**	-17	201.3	-17
Americas	**115.2**	-13	132.6	-14
Total Group revenue	**510.2**	-11	574.0	-13

A geographical analysis of our metrology and healthcare businesses is shown on page 3.

Operating costs

During the year we have taken a number of actions to improve productivity and reduce the Group's cost base in response to the challenging trading conditions we were facing, which were compounded in the second half of the year by the pandemic. Group headcount has decreased from 5,041 at 30 June 2019 to 4,463 at 30 June 2020, with the average for the year of 4,797 compared with 4,968 last year. Headcount reductions were mostly attributable to the activities described in the restructuring costs section of this review and the non-replacement of staff who left the business. Labour costs were also mitigated by reduced working hours and many employees being furloughed.

The resultant labour costs for the year were down 7% to £221.3m (2019: £237.4m), including global job retention grant income totalling £4.5m this year (2019: £nil).

The ongoing macroeconomic conditions have resulted in a higher level of uncertainty around the recoverability of certain assets including capitalised development costs and trade receivables. Excluding amounts included in restructuring costs, impairments of capitalised development costs totalled £9.9m (2019: £nil) relating primarily to metrology products of a capital nature and where the high-volume growth previously anticipated is now less predictable. Movements in the provision for trade receivables resulted in a charge to the Consolidated income statement of £2.9m, mainly as a result of an increase in the expected credit loss allowance, and this year also included a £1.6m charge from the impairment of other intangible assets.

Actions were also put in place to significantly reduce discretionary spend such as travel and exhibitions, which have also contributed to the decrease in operating costs.

Restructuring

The Board's *Fit for the future* strategy was implemented this year. This involved the reorganisation and rationalisation of certain operating activities, particularly related to our AM business including the closure of our Staffordshire site and a rationalisation of the AM product range to focus on our successful multi-laser platform.

The AM restructuring costs, including write-downs of tangible fixed assets, inventories and capitalised development costs, totalled £17.5m.

Also included in restructuring costs are redundancy costs of £6.3m, mostly relating to the UK redundancy programme introduced as part of the business resizing.

Total restructuring costs for the year were £23.8m and have been reported separately in the Consolidated income statement. Further details are provided in note 26. The comparatives for each of these items in 2019 was £nil.

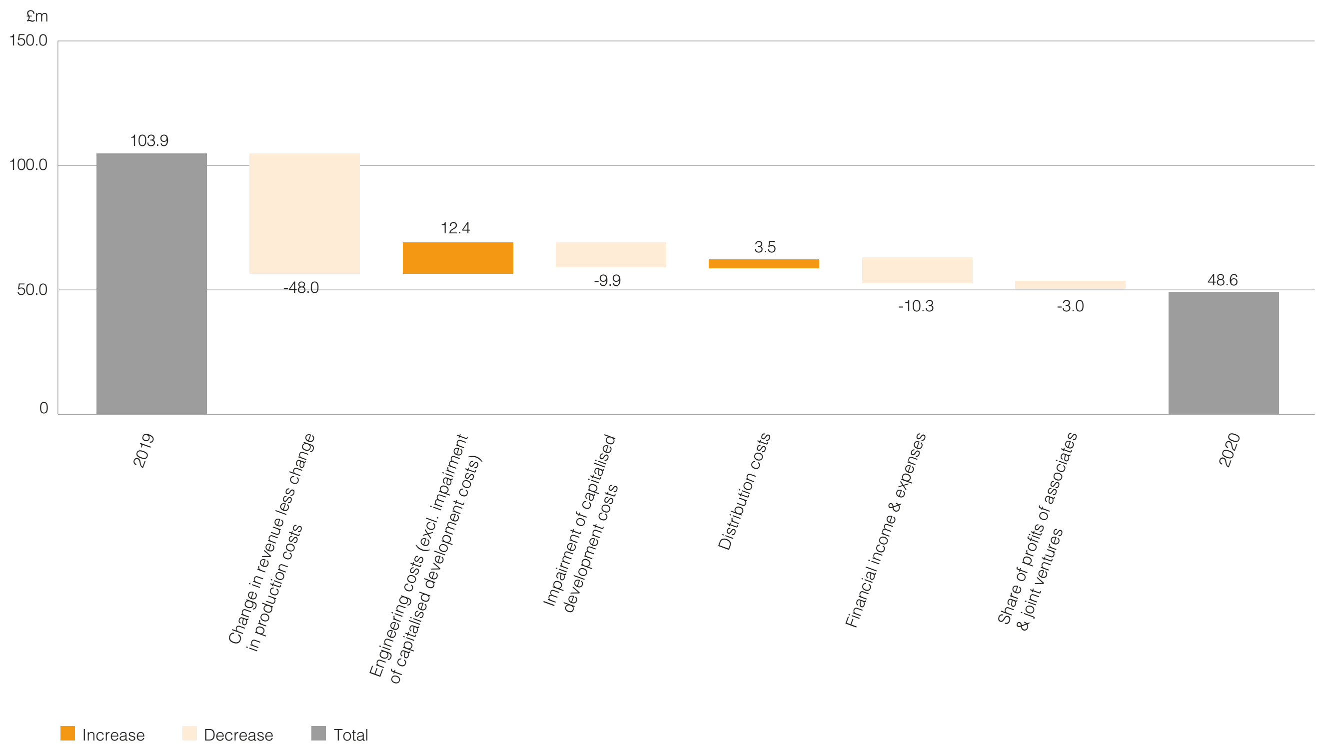
Research and development

Gross expenditure on engineering costs, including R&D on new products, was £82.4m (2019: £97.9m). The gross charge amounts to 16% of Group revenue (2019: 17%). The R&D tax credit in 2020 amounted to £4.4m compared with £5.1m in 2019. Further details are provided in note 4.

Gross expenditure on engineering costs was £75.9m (2019: £90.7m) in our metrology segment and £6.5m (2019: £7.2m) in our healthcare segment.

New product R&D expenditure amounted to £66.6m, which compares with £75.0m spent last year. There have been a number of new product releases in both our metrology and healthcare business segments, as detailed in our business segment performance reviews, and a number of new product introductions are anticipated during the 2021 financial year.

Adjusted profit before tax bridge



Financial review continued

Profit and tax

Adjusted profit before tax amounted to £48.6m compared with £103.9m in 2019. Statutory profit before tax was £3.2m compared with £109.9m in the previous year.

Last year benefited from a £6.0m currency gain, primarily in respect of intra-group balances, compared with a loss of £2.6m this year. This year also included a net gain of £2.3m arising from the fair value adjustment of a convertible loan, a partial disposal of shares and a subsequent partial impairment of the investment and loans, all relating to our associate company.

In our metrology business, Adjusted operating profit was £50.3m compared with £90.6m last year, while in our healthcare business, Adjusted operating profit was £1.4m compared with £3.1m last year.

The overall effective rate of tax was 91.0% (2019: 16.1%). The Group operates in many countries around the world and the overall effective tax rate is a result of the combination of the varying tax rates applicable throughout these countries. The year-on-year rate increase primarily arises from an increase in the deferred tax rate in the UK from 17% to 19% resulting in a charge of £1.1m, UK losses resulting in no patent box benefit this year (2019: £1.8m credit) and the partial derecognition of deferred tax assets for US tax losses and excess interest totalling £3.0m. Note 8 provides further analysis of the effective tax rate.

Consolidated balance sheet

Total equity at the end of the year was £546.9m, compared with £583.3m at 30 June 2019, primarily as a result of dividends paid of £33.5m and an increase in pension liabilities due to changes in the discount rate and inflation assumptions.

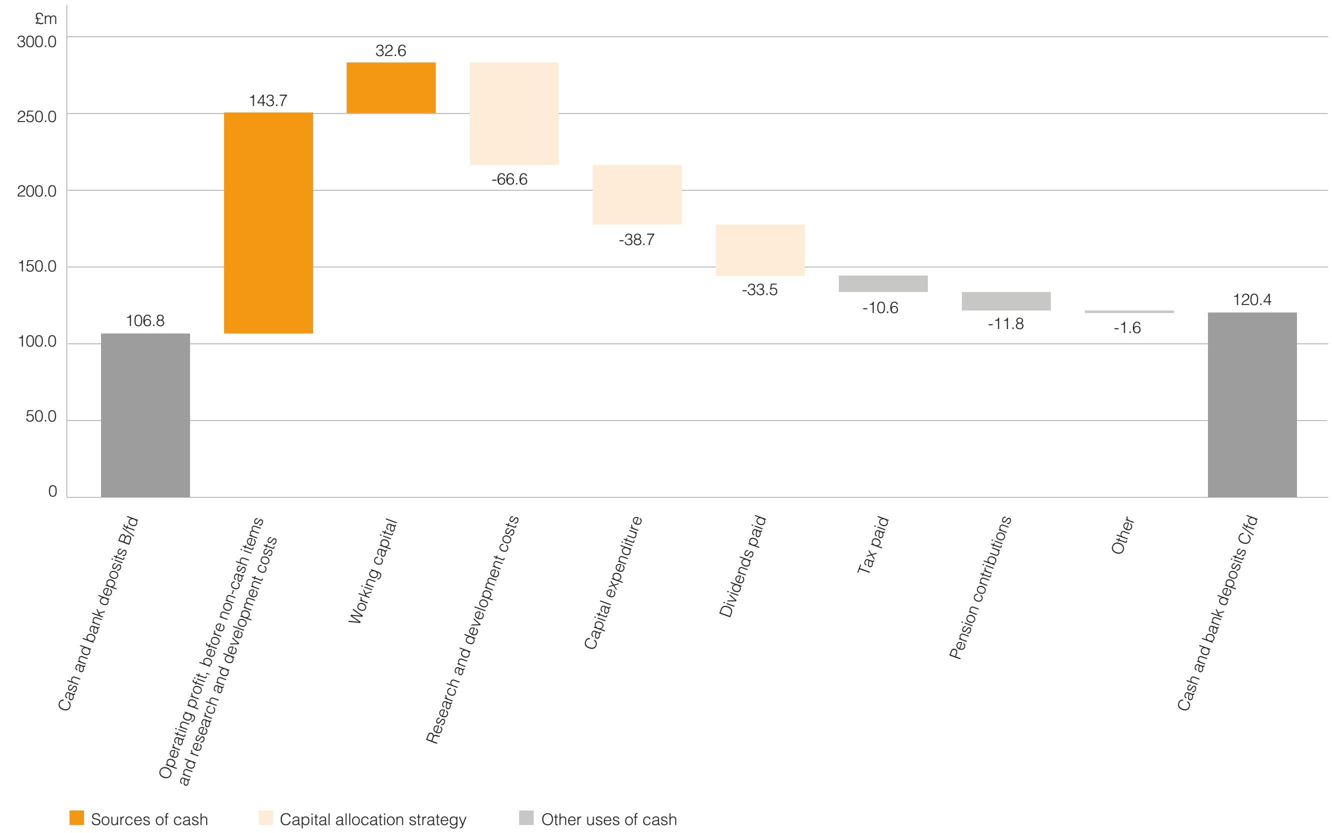
As a result of the high levels of uncertainty arising from the COVID-19 pandemic, the Board has focused on cash preservation, with capital expenditure significantly lower in the second half of the financial year, reduced inventory levels compared with December 2019 and the cancellation of the interim dividend.

Net cash and bank deposit balances at 30 June 2020 were £120.4m (2019: £106.8m). In line with our capital allocation strategy (see following page), the chart below summarises our sources and uses of cash for the year, reconciling opening to closing cash and bank deposit balances.

Additions to property, plant and equipment and vehicles totalled £38.7m, of which £24.6m was spent on property and £14.1m on plant and machinery, IT equipment and infrastructure, and vehicles.

£28.4m of the additions were incurred in the first half of the year, with spend in the second half significantly lower at £10.3m.

Sources and uses of cash



The main additions were:

- in the UK, completion of the 94,000 sq ft extension to our Renishaw Innovation Centre;
- acquisition of property in Pune, India to provide capacity for future growth;
- refurbishment of the building purchased in Nagoya, Japan last year; and
- completion of the new facility for Renishaw Fixturing Solutions in Michigan, USA.

Within working capital, inventories decreased to £105.5m from £129.0m at the beginning of the year, primarily as a result of the lower trading levels. We continue to focus on inventory management while remaining committed to our policy of holding sufficient finished goods to ensure customer delivery performance, given our short order book.

Trade receivables decreased from £116.9m to £105.1m, while debtor days were 76 at the end of the year, compared with 67 at the end of last year.

Pensions

At the end of the year, the Group's defined benefit pension schemes, now closed for future accrual, showed a deficit of £64.9m, compared with a deficit of £51.9m at 30 June 2019. Defined benefit pension schemes' assets at 30 June 2020 increased to £188.6m from £181.6m at 30 June 2019, primarily reflecting funding of £11.8m less benefits paid of £6.9m.

Pension scheme liabilities increased from £233.5m to £253.5m, primarily reflecting the net impact of decreases in the discount rate, RPI and CPI for the UK defined benefit scheme since 30 June 2019. According to the terms of the deficit funding plan agreed with The Pensions Regulator, the Company will pay £8.7m per annum into the scheme for five years, effective from 1 October 2018. In line with the previous agreement, the new agreement will continue until 30 June 2031 and any outstanding deficit will be paid at that time. The agreement will end sooner if the actuarial deficit (calculated on a self-sufficiency basis) is eliminated in the meantime.

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, to maximise interest income on cash deposits and to ensure appropriate funding arrangements are available for each Group company.

The Group uses forward exchange contracts to hedge a proportion of anticipated foreign currency cash inflows and the translation of foreign currency denominated intercompany balances. There are forward contracts in place to hedge against the Group's Euro, US Dollar and Japanese Yen cash inflows and to offset movements on Renishaw plc's Euro, US Dollar and Japanese Yen intercompany balances. The Group does not speculate with derivative financial instruments.

Most of these forward contracts are subject to hedge accounting under IFRS 9 'Financial Instruments'. The hedged item in these contracts is the revenue forecasts of Renishaw plc and Renishaw UK Sales Limited, and during the year these forecasts were reduced due to the global macroeconomic uncertainty. This has resulted in proportions of forward contracts failing hedge effectiveness testing according to IFRS 9.

Gains and losses which recycle through the Consolidated income statement as a result of ineffectiveness are excluded from adjusted profit measures. See note 20 for further details on financial instruments and note 25 on alternative performance measures.

Earnings per share and dividend

Adjusted earnings per share is 51.0p compared with 119.9p last year.

Statutory earnings per share is 0.4p compared with 126.7p last year.

In light of the increased global macroeconomic uncertainty experienced in the first half of the year, and with redundancy programmes in progress, the Directors elected to waive their right to the interim dividend. Following the outbreak of the COVID-19 pandemic, and according to the Board's priority of conserving cash and managing the Group in a prudent manner through this period of uncertainty, the interim dividend for the year was then cancelled, and no final dividend is declared in respect of the year.

The Board will review its position on dividends during the next financial year with the intention of reinstating its long-term progressive dividend policy as soon as it is appropriate to do so. While we have confirmed eligibility to participate in the Coronavirus Corporate Finance Facility (CCFF), we do not anticipate issuing commercial paper under the scheme. If commercial paper were to be issued with a maturity date on or after 19 May 2021, no dividends could be declared until all related financing was repaid.

Capital allocation strategy

The Board regularly reviews the capital requirements of the Group, in order to maintain a strong financial position to protect the business and provide flexibility to fund future growth.

Our capital allocation approach has been consistently applied for many years. We are committed to investment in the R&D of new products, manufacturing processes and global support infrastructure in order to generate growth in future returns, and to improve productivity, while managing expenditure appropriate to trading conditions. This is evidenced in the year with investments in capital and R&D (see chart on previous page). Actual and forecast returns, along with our strong financial position, then support our progressive dividend policy, which aims to increase the dividend per share, while maintaining a prudent level of dividend cover. In exceptional circumstances the Board may deem it appropriate to not issue a dividend.

Allen Roberts
Group Finance Director

18 August 2020

Metrology

Our key markets include aerospace, automotive, consumer products and power generation.

Aerospace

We offer expertise in controlling the manufacture of specialist components. We specialise in performance, MRO, safety and innovative materials.

For further information, visit www.renishaw.com/aerospace

Automotive

We have decades of experience in helping manufacturers improve their efficiency and performance, bringing new components to market faster than ever before. We specialise in new processes, automation, efficiency and performance.

For further information, visit www.renishaw.com/automotive

Consumer products

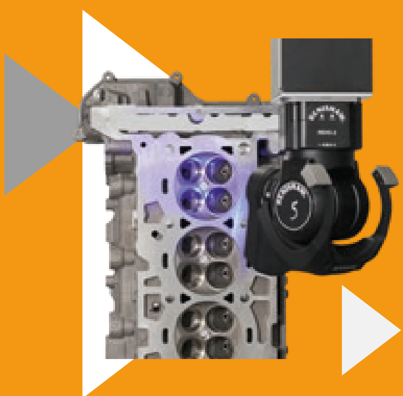
From consumer electronic devices to high-precision components, we support improvements in manufacturing capabilities that cater to the demands of more sophisticated hardware, sleeker physical design and the requirement for ever-shorter life cycles.

For further information, visit www.renishaw.com/electronics

Power generation

We work across the entire energy sector.

For further information, visit www.renishaw.com/energy



Performance

It was a challenging year for our metrology business. Even before the pandemic, we were facing trading challenges including the ongoing uncertainty caused by the trade tensions between the USA and China and weaker demand in the machine tool sector. There was, however, good growth in our position encoder product line, with sales of our optical and laser encoder products benefiting from a recovery in the semiconductor market.

We initially experienced reduced demand in China due to the Chinese Government's actions to deal with the COVID-19 outbreak, but we have since seen a good recovery as factories have reopened. In our EMEA and Americas markets we did not experience a significant change in demand during the year as a result of the pandemic, but we believe that the effects will begin to be felt during the first half of the 2021 financial year.

The position encoder line benefited from a number of positive market drivers during the year including the ongoing investment in new flat panel display technologies, commercialisation of new 7 nm semiconductor processes (and the preparation of 5 nm processes for mass production from the end of 2020), and the rollout of 5G programmes, including both infrastructure and new mobile devices. The latter requires more complex integrated circuits and significant investment in manufacturing plants to be produced in volume. As a result of the pandemic, and the requirement for increased remote working and home entertainment during lockdowns, the encoder line is also benefiting from the global demand for telecommunications equipment and data centres for streaming and cloud storage. Similarly, the demand for video gaming has increased sales of graphics processors, gaming consoles and desktop PC components. There has been a resurgence in demand for cryptocurrencies.

All of the position encoders supplied by the Group, including magnetic encoders from our joint venture, RLS, also continue to benefit from the ongoing global drive towards industrial automation, including semiconductor processing and materials handling, which aims to increase capacity and flexibility, while reducing manufacturing lead times and costs.

Market conditions

It was a difficult year for most of our metrology lines. The important machine tool market was impacted by reduced global demand for new machines, particularly from China, with weakness in key sectors including aerospace, automotive, consumer electronics, and oil and gas. This affected many of our metrology product lines, including our machine tool probe systems that are primarily installed on new machines, and our calibration products which saw reduced demand due to lower sales and less utilisation of production machinery.

Although the AM line continued to benefit from the adoption of our RenAM 500Q multi-laser system for high-quality, productive metal part production, demand was impacted by the global macroeconomic environment. We are focused on those customers who are committed to the integration of AM for volume production and require multiple system installations. We are working closely with Sandvik in Sweden, which is using our systems to develop process parameters for a range of metal powders, with a focus on qualifying in-house developed alloys for industrial and medical applications. In December we signed a Memorandum of Understanding with BAE Systems (UK) to work together on the development of AM capability for the aerospace and defence sector, designed to help improve performance, reduce costs and speed up manufacturing processes on combat aircraft of the future.

There has been a pronounced impact on the aerospace and automotive sectors due to the pandemic, but there remain opportunities for our metrology products due to the drive to reduce costs, shorten lead times, meet the need for increased complexity and closer tolerances in product design, shorter vehicle life cycles, and the global trend towards e-mobility (see page 13). This will benefit our measurement and automation line with its flexible gauges, and we are also seeing the continued adoption of our multi-sensor REVO CMM technology for evaluating products both during early-stage development and during production. In Spain, we are collaborating with ITP Aero (a Rolls-Royce subsidiary) on various projects that aim to utilise AM for the production of new generation aeroengine turbine components, and qualify those parts using our REVO measurement technologies. During the year we launched the RFP fringe probe which allows the inspection of freeform surfaces and complex geometry, including delicate surfaces, aerospace blades and automotive cylinder head combustion chambers.

Strategy for growth

We are focused on the long term and a key focus is on developing technologies that provide patented products and methods which support our product strategies. We therefore continued to invest in R&D, with total gross engineering costs of £75.9m during the year. The current technology focus continues to be on products that help our customers to improve measurement performance, enhance the performance and efficiency of their products, increase speed of operation, increase measurement capability, are easier to use and help them bring connectivity and the intelligent use of data within their manufacturing processes.

These include: miniaturised high-resolution position feedback systems that support the manufacture of high-precision electronics; multi-sensor capability for CMMs; integrated process control solutions for automated manufacturing processes; the development of AM systems with faster processing capability and improved process control for large-scale manufacturing; and simplified software, including apps, for machine tool and CMM probing, calibration and gauging.

Metrology in numbers 2020

Revenue

£475.2m

-10.8% (2019: £532.9m)

Adjusted operating profit

£50.3m

-44.5% (2019: £90.6m)

Percentage of Group revenue

93%

(2019: 93%)

Key developments

During the year we introduced new products for our machine tool product line including the NC4+ Blue system, which features industry-first, blue laser technology to deliver significant improvements in tool measurement accuracy, including for very small tools. New within our calibration line is Compensate software, which works with the XM-60 multi-axis calibrator to allow volumetric compensation to be automatically applied to correct a machine tool's positioning errors in multiple degrees of freedom that vary throughout its working volume.

It was a busy year for new launches within our position encoder line, including the addition of new functional safety (FS) certified encoders for use in safety critical applications, including medical robots and collaborative robots (cobots). We also added ATOM DX, our smallest all-in-one digital incremental encoder which eliminates the need for bulky interfaces, new robust RKLC and RKLA stainless steel tape scales for linear and partial arc applications, and diagnostics tools (interfaces and software) to optimise set-up and analysis of position encoders.

Outlook

A detailed analysis of the key markets for our metrology products can be seen in Our markets (page 12). Given the uncertain macroeconomic backdrop, including the pandemic and the risks posed by reduced freedom of global trade, we expect very challenging market conditions, particularly in the automotive and aerospace sectors. However, we remain confident that underlying market drivers will continue to benefit the long-term growth of our business. Rising global incomes and population will drive demand in our key markets including civil aviation, agriculture, consumer electronics and power generation (including renewables), all of which will require products that help drive efficiencies to maximise valuable resources and minimise waste.

Healthcare

Our healthcare products are designed to improve medical research and surgical procedures.

Life expectancy

Life expectancy is increasing in both developed and developing markets, meaning key drivers include the requirement for faster procedures to reduce waiting times, more economical treatments, more patient-specific treatments (e.g. implants) and safer, more automated procedures with reduced human error. All our healthcare product lines are well placed to deliver on these requirements.

Applications

Our technologies are being applied to an ever-increasing number of applications within healthcare, including brain surgery, reconstructive surgery and dentistry.

Key markets

Our key markets are dental, neurological and craniomaxillofacial products as well as Raman spectroscopy.

For further information, visit www.renishaw.com/healthcare

Performance

It was also a challenging year for our healthcare business. The medical dental, neurological and spectroscopy product lines all experienced a decline in sales, seeing an impact from the pandemic and the global macroeconomic environment.

The medical dental product line experienced a significant impact from the pandemic. Shipments and installations of healthcare-configured AM machines were delayed by business closures and travel restrictions, and the postponement of non-essential operations impacted orders for additively manufactured medical implants and dental structures.

The spectroscopy product line saw some impact from the pandemic due to delayed shipments, primarily in China, where we are now seeing a return to normal levels of business. However, the line has continued to expand its range of applications and instrumentation. Environmental applications continued to grow, with equipment being used for the detection of microplastics: airborne, in water courses and the food chain. In addition, the requirement for energy storage due to less predictable renewable sources, the demand for faster charging and longer battery life and the trend to e-mobility, have all seen increased interest in the use of Raman spectroscopy for battery research.

Industrial applications of Raman spectroscopy and imaging are being driven by increasingly complex chemical formulations in everyday products including polymer laminates in household products and complex medical products.

There has been increasing use of Raman spectroscopy in research into disease detection. Raman could provide a useful tool for early-stage cancer detection, with a number of research institutes and companies developing technologies using Renishaw equipment for early stage screening in both tissue and blood. This liquid biopsy has potential to be used as a universal screening technique for many diseases. In addition, Raman can be used in the detection of other infections including bacterial and viral, and we have seen an interest in this area as a response to recent government funding initiatives aimed at developing rapid virus testing methods. This includes researchers from the Czech Academy of Sciences who have been testing a novel way to identify Staphylococcal bacteria, paving the way for faster diagnosis and treatment of infectious diseases.

The neurological product line was most impacted by the COVID-19 crisis. Orders for the neuromate stereotactic robot were delayed and consumable sales reduced due to non-essential surgeries being put on hold. However, there remains underlying demand for robots in neurosurgery, which is still an emerging market, with installations of neuromate commissioned globally including Finland, France, Saudi Arabia, Spain and North America, primarily for stereoelectroencephalography (SEEG) procedures used in the treatment of epilepsy. This included the world-renowned neurosurgery and epilepsy centre at the Toronto Western Hospital, Canada, where surgeons Dr Taufik Valiante and Dr Suneil Kalia talking about the acquisition of a neuromate robot said, “This allows us to provide cutting edge care for our patients and embark on the research and development of technologies for the next generation of neuromodulation applications.”

During the year, it was reported that the world's youngest patient to receive deep brain stimulation (DBS) underwent surgery at Evelina London Children's Hospital, UK, aimed at helping the two-year-old patient to manage her symptoms of dystonia. The surgery was particularly challenging given that the space within the skull of such a young child is small and difficult to navigate. Neurosurgeons Mr Richard Selway and Mr Haru Hasegawa, who performed the surgery, commented, "The Renishaw neuromate robot, with the 3D neurolocate technology, enabled reliable and accurate placement of the electrodes into the target deep inside the patient's brain."

Market conditions

The pandemic has significantly reduced the number of elective surgeries, which is impacting our medical dental business and consumable sales for our neurosurgical business. However, life expectancy is increasing in both developed and developing markets, meaning that key drivers include: the requirement for faster procedures to reduce waiting times, more economical treatments and more patient-specific treatments (e.g. implants). All our healthcare product lines are well placed to deliver on these requirements.

Academic funding has been reduced due to economic conditions in some markets. The pandemic has caused a slowdown in the mechanisms of procurement, equipment demonstration and testing on customer samples within the university research sector. However, much of this funding is already allocated and will be released as universities return to work; we have adapted to perform virtual product demonstrations. We have seen a nervousness to invest from some industrial customers, however the spectroscopy product line is often used for troubleshooting and critical development, and we are well placed once these customers return to operations.

Strategy for growth

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 also increasingly addressing the requirement for personalised healthcare treatments.

As a key focus is to develop technologies that provide patented products and methods, we continued to invest in R&D, with total gross engineering costs in this business segment of £6.5m during the year. The regulatory requirements for healthcare products demand significant investment but make barriers to entry high for competitive products.

We employ our core metrology technologies and manufacturing expertise to minimise technology risks and we actively seek out collaborations that will assist research and our routes to market.

Key developments

In February 2020, the initial results were published of a joint Phase 1-2 clinical study with Herantis Pharma plc, for the investigation of cerebral dopamine neurotrophic factor (CDNF) as a treatment for Parkinson's disease.

Healthcare in numbers 2020

Revenue

£35.0m

-14.6% (2019: £41.0m)

Adjusted operating profit

£1.4m

-54.8% (2019: £3.1m)

Percentage of Group revenue

7%

(2019: 7%)

Our intraparenchymal drug delivery device had a critical role in the study and the initial results indicate predictable and accurate placement of the device as well as its positive performance and safety, allowing us to build towards its CE marking, so that further neurodegenerative and neuro-oncological conditions can benefit from our technology.

During the year there have been several new spectroscopy product innovations. A major launch was the Virsa Raman Analyser, a versatile, fibre-optic-coupled Raman spectroscopy system designed for reliable, detailed remote analysis. This high-performance transportable Raman spectroscopy system allows spectroscopic analysis away from the confines of the laboratory microscope, opening up diverse new markets and environments, including process development, art and heritage, geology and forensics.

With its microscopic chemical specificity, Raman spectroscopy has a unique place in forensic crime laboratories and the new purpose-built inVia InSpect system helps to target our solutions at a known market. An additional development during the year was software to correlate and combine images from other microscopy systems, including SEM and AFM, with Renishaw Raman images.

Outlook

The market for Raman spectroscopy continues to grow in many areas and with an increased range of products we are well placed to exploit new and growing applications including medical, advanced materials and environmental.

In developing markets, levels of wealth have been increasing at a national and individual level, which is driving demand for higher-quality medical treatments, often requiring more technologically advanced products. Increased life expectancy on a global basis means greater incidences of degenerative neurological diseases, which will require surgical therapies. With appropriate regulatory approvals and increasing numbers of reference sites, we are well placed to supply neurosurgeons with the products and techniques to support such procedures.

Risk and risk management

Effective risk management is critical to helping our business achieve its strategic objectives and remaining a company led by innovation.

Overview of risk management

The Board has overall responsibility for risk management and the system of internal controls. In particular, the Board is focused on determining the extent of risk the Company is willing to take in order to achieve its strategic objectives and which risks pose the greatest threats and opportunities, having regard to the internal and external environments in which we operate.

The Board is supported by the Audit Committee, which has responsibility for overseeing the effectiveness of risk management and the internal control systems. It advises the Board on principal risks that may threaten solvency or liquidity.

The Executive Committee, which is responsible for delivering the strategy set by the Board, helps to evaluate those strategies against our risk appetite.

The risk committee, comprising a number of Executive Committee members (including the Group Finance Director) and senior management from across the business, helps to create the risk management framework, which includes all aspects of risk management such as governance and identification of risks, as well as the management and reporting of those risks.

Effective day-to-day risk management is embedded within our operational business units. This is where the controls are designed and implemented, and risks are identified at an early stage and mitigated or escalated, as appropriate. This bottom-up approach then feeds into the risk committee, which manages the central repository of risk data from across the business divisions and the regions in terms of their respective principal risks.

Independent oversight

The internal audit team operates independently, reporting to the Audit Committee. Scheduled visits to Group companies were held in person, prior to the outbreak of COVID-19, and were conducted via video conference facilities during the travel restrictions as a result of the pandemic. These were documented, with executive summaries provided to Audit Committee meetings and any significant shortcomings discussed and acted upon promptly. Process enhancements are facilitated by this team. All operating companies are required annually to complete self-certification questionnaires regarding compliance with Group policies, procedures and requirements.

Governance	Top down	**Board**	• Overarching responsibility for risk management
		Executive Committee	• Reviews principal risks • Evaluates proposed strategies against risk appetite
Operational risk management	Bottom up	**Risk committee**	• Creates the risk framework • Aggregates risk information • Assists senior management with the identification and management of principal and emerging risks
		Operational managers	• Design and implement key controls • Embed risk management • Monitor risks and respond to manage those risks

Independent oversight

Audit Committee	• Reviews effectiveness of the Group's risk management and internal control processes • Supports the Board in monitoring risk exposure
Internal Audit	• Provides input on the effectiveness of the risk programme • Assesses the effectiveness of controls for key risks, particularly financial risks

Activities during the year

The risk committee undertook a comprehensive review of the Group's approach to risk management at the end of 2019. This has resulted in a number of changes which affect the whole life cycle of risk management, namely:

- **Governance** – the terms of reference and composition of the risk committee have been reviewed and amended;
- **Identification** – a new 'top down' approach has been implemented whereby more than 20 senior executives across the business are interviewed on a one-to-one basis annually to help formulate the Group's principal risks. As from FY 2021, the output from this exercise will be combined with the results from a 'bottom up' exercise in which the key risks from the subsidiaries and the divisions are aggregated;
- **Accountability** – risk owners are now clearly identified for all of the Group's principal risks and will be invited to present on the management of their risk at the risk committee and/or the Executive Committee, Audit Committee or Board; and
- **Reporting** – the way in which we report and communicate on our principal risks is improving. It is based on the rationale that greater transparency and clarity leads to an improved understanding of key areas for improvement and allows both the Internal Audit function and management to understand where to focus resources and attention.

COVID-19

As mentioned earlier in this Strategic report, trading conditions in the first half of this financial year were already challenging due to the macroeconomic climate being affected by increasing trade tensions between the US and China. This was further compounded by the spread of COVID-19 in the second half of the year.

The Organisation for Economic Development considers this pandemic to be the greatest danger to the global economy since the 2008 financial crisis. Although its full effects on the macroeconomic environment are not yet known, it has certainly had a wide ranging impact on a variety of risks within the Company, including operational and financial risks, such as those involving supply chain, people, industry fluctuations, economic and political uncertainty, and exchange rates. Rather than include a separate standalone risk for COVID-19, the Company has reported on the impact of the pandemic on each of its principal risks, as set out in the table below see pages 29 to 36.

Priorities for the year ahead

- Increased focus on emerging risks
- Conducting deep dives on all our principal risks across one or more of our governance bodies
- Improved reporting on action plans to address and mitigate the principal risks
- Improved assessment, in a meaningful and relevant way, of risk appetite and risk tolerance
- Ongoing focus on Brexit and trade-related disputes.

Brexit

Brexit is not considered to be one of the Company's principal risks, however it is factored into some of our principal risks, notably supply chain dependencies, industry fluctuations, and economic and political uncertainty.

In terms of our responses to the risk of Brexit, in 2018 we formally established a Brexit steering group to evaluate the potential impact of the UK's departure from the EU on the Group and make recommendations where required and implement agreed actions. The UK left the European Union (EU) on 31 January 2020 and there is now a transition period until 31 December 2020. During this transition period, the UK will effectively remain within the EU's Customs Union and Single Market, allowing trading to continue under existing arrangements.

The Board continues to oversee the work of the Brexit steering group in identifying the key risks and mitigation plans arising from a possible 'no deal' Brexit at the end of the transition period. This includes the following actions taken in 2019:

1. The establishment of a new distribution warehouse in Ireland which will significantly reduce the number of direct shipments between the UK and EU post Brexit. We are currently supplying a number of EU customers from this new warehouse and this will increase further during the remainder of 2020.
2. A general increase in inventory of certain components and finished goods held at our various sites within the EU and UK which is being maintained dynamically in line with the required demand.

The steering group will continue to carefully monitor ongoing developments in the Brexit process and consider the impact of these against our current plans as the situation becomes clearer through the remainder of 2020.

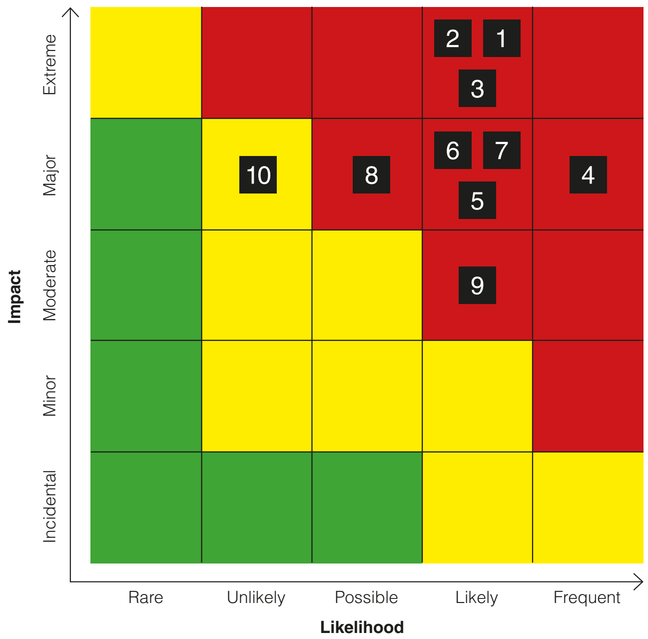
Data protection

Renishaw remains committed to achieving high standards of compliance with the General Data Protection Regulation (GDPR) and other existing and emerging data protection laws in the countries in which we operate. Integral to our compliance programme is a focus on implementing the relevant standards across the business, continuing to roll out awareness training and providing access to tools which will help to automate some of the key requirements.

Cyber security

Renishaw continues to be vigilant in addressing the ongoing cyber security threat. The spread of COVID-19 and the introduction of a lockdown in many countries across the business meant that there was an immediate and extensive requirement for remote working which was delivered with minimal disruption. The Company continues to adopt industry best practices and invest in technologies (including extensive monitoring capabilities) to deal with this dynamic risk, and to ensure the information security team is trained in how to detect and respond to emerging threats.

Risk and risk management continued



Risk likelihood and impact before mitigation

1 **Supply chain dependencies** – failure of a critical supplier, failure of supply from a key market like India or China

2 **Industry fluctuations** – cyclical nature of demand in aerospace, automotive and consumer electronics

3 **Capital allocation** – failure to properly allocate budget between core and emerging activities

4 **People** – loss of key talent and succession planning; failure to attract future leaders and/or skillsets which are in demand

5 **Innovation strategy** – failure to innovate to create new, cutting-edge, high-quality products

6 **Economic and political uncertainty** – includes trade wars, increased protectionism, Brexit, global economic downturn

7 **Route to market/customer satisfaction model** – inherent complexity in the move to systems integration and sale of capital goods

8 **Competitive activity** – failure to adapt to market and/or technological changes

9 **Exchange rate fluctuations** – volatility in foreign exchange markets could impact on reported results

10 ***Fit for the future* strategy** – failure to successfully deliver on the new business strategy

The heatmap sets out the impact and likelihood scores for the Company's top 10 principal risks. Details of the top 15 principal risks are set out in the following table.

Principal risks and uncertainties

Our performance is subject to a number of risks – the principal risks and factors impacting on them are ranked in the table below. The Board has conducted a robust assessment of the principal risks facing the business.

Supply chain dependencies

Movement ↑

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
We are exposed to the risk that some components we source are provided by a single-source supplier and we are vulnerable to an interruption in supply. We also manufacture components at some sites (such as cables) for use in a wide range of our products, so our ability to supply products to customers could be impacted by a significant disruption at any of these sites.	1	Group Manufacturing Directors	• Inability to fulfil customer orders leading to a reduction in sales. • Failure to meet contractual requirements. • Increased costs of alternative sourcing. • Loss of market share. • Damage to reputation.	Manufacture of cables in India was adversely impacted by the shutdown in that market. Contingency plans were implemented in Ireland and with a third-party supplier to ensure ongoing supply. Longer term, dual sourcing will be fully implemented.	• Continued focus on, and review of, sourcing of key components. • Maintenance of buffer inventory. • Cost-effective alternative sources of supply actively sought to reduce dependency on single-source suppliers. • Specifications may need to be reviewed and updated to facilitate alternative sourcing.

Industry fluctuations

New risk

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
We are exposed to the cyclical nature of demand from aerospace, automotive and consumer electronics industries, which may be more severe if the downcycles of these key industries coincide.	2	Chief Executive	• Volatility in profitability. • Reduced sales and cash flow. • Loss of market share. • Increased competition on prices.	COVID-19 has had a severe impact on many industries, but particularly the aerospace and automotive industries. It is not yet clear whether this impact will be short or long term.	• Closely monitoring market developments. • Expanding and diversifying the Group's product range in order to meet the demands of a number of different industry sectors. • Identifying and meeting the needs of emerging markets, for example in robotic automation. • Maintaining a strong balance sheet with the ability to flex manufacturing resource levels.

Key Increased ↑ Decreased ↓ No change ↔ New risk ○

Principal risks and uncertainties continued

Capital allocation

New risk

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
Failure to properly allocate budget between core and emerging activities.	3	Group Finance Director	• Investing in declining or less profitable areas at the expense of more profitable and strategically important areas. • Reduced profits and increased operating costs. • Loss of market share.	COVID-19 has meant that we have continued to ensure all capital expenditure across the Group is kept to a minimum.	• Defining and prioritising core and emerging areas of the business. • Identifying the return on investment across core and emerging areas of the business. • Developing strategies for all core and emerging areas, including whether to increase, decrease or maintain the previous levels of investment in these areas. • Greater scrutiny of all capital expenditure.

People

Movement ↑

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
Our people drive the success of our business. Inability to attract, retain and develop key talent at all levels of the organisation could mean we fail to successfully deliver on our strategic goals.	4	Group Head of HR	• Loss of expertise, skills and specialist talent could impact our ability to deliver on objectives. • Poor retention and engagement could slow the delivery of our strategic objectives, product delivery and our change agenda. • Failure to develop future leaders through insufficient talent progression. • Loss of market share, reduced sales, poor customer service and reduced profitability.	• The pandemic is one of the most significant external risks currently facing the business and has a material impact on our people. • Lockdown, and furloughing specifically, has affected employee availability, attendance and engagement. Sometimes this has had an adverse impact, including where significant time was spent away from the business. In other cases it has had a positive impact with an opportunity to engage and interact in new and different ways. • Increased visibility of senior leaders actively being seen to manage a crisis. • Given employees greater confidence in the ability of our systems and processes to support home working.	• Continued communication with our employees and taking steps to safeguard their wellbeing during the COVID-19 pandemic. • Robustness of our business continuity plans to enable rapid adaptation to changing circumstances. • Ensure that robust talent planning and people development processes are established across the Group. • Investment in direct employee engagement; exit interviews, feedback mechanisms and adherence to our inclusion strategy, to ensure we provide equal opportunities for growth and development of all our people. • Continued investment in our graduate and apprentice programmes. • Commitment to executive-level succession planning. • Attracting, rewarding and retaining people with the right skills globally in a planned and targeted way. • Developing and enhancing organisational, leadership, technical and functional capability to deliver global programmes.

Key Increased ↑ Decreased ↓ No change ↔ New risk

Innovation strategy

Movement

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
Failure to innovate to create new cutting-edge, high-quality products, or failing to protect the intellectual property that underpins these products, which allows us to differentiate ourselves from our competitors. As a business driven by leading-edge innovation, there is a higher risk with new ventures outside of our traditional field of expertise where the science and engineering is less proven.	5	Executive Chairman/Director of Group Technology	• Failing to meet customer needs for high-quality and complex products – leading to a loss of market share. • Reduced profitability and cash flow. • Failing to recover investment in R&D.	The furloughing of some staff and reduction in hours for other employees has meant that some flagship projects have been slightly delayed.	• R&D projects are better prioritised and rationalised and regularly reviewed against milestones. Flagship projects are now receiving greater focus from management and the Board. • Medium to long-term R&D strategies are monitored regularly by the Board and the Executive Committee to ensure they remain aligned with the Company's strategy. • Developing products based on input from customers to ensure we develop solutions to meet their needs. • New products involve beta testing with customers to ensure as far as possible that they meet the needs of the market. • Market developments are closely monitored. • Patent and intellectual property protection are core to new product development. • Recruiting, training and developing talented engineers with the appropriate skills.

Economic and political uncertainty

New risk

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
As a global business, we may be affected by political, economic or regulatory developments in one or more countries in which we operate. This could include a global recession, Brexit and US/China trade relations.	6	Chief Executive	• Reduced sales, profitability and cash balances. • Increased competition on prices. • Loss of assets in a region.	As a pandemic, COVID-19 has had severe health and economic consequences, and is potentially the driver for a global recession.	• Monitoring external economic and commercial environments and identifying relevant headwinds. • Maintaining sufficient headroom in our cash flow.

Principal risks and uncertainties continued

Route to market/customer satisfaction model

New risk

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
Inherent complexity in the move to systems integration and the sale of capital goods.	7	Chief Executive	• Low capital efficiency. • High people costs and low productivity. • High R&D and distribution costs. • Lower return on capital employed than proposed target. • Adversely affects customer satisfaction levels, sales and profitability.	COVID-19 has provided an opportunity for the Group to review and refine our business model for how we are vertically integrated regarding the sale of capital goods.	• Closely monitoring customer feedback. • Reviewing our business model and global strategy for this area of the business. • Analysing our return on capital employed figures.

Competitive activity

New risk

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
Failure to adapt to market and/or technological changes.	8	Chief Executive	• Reduced sales, profitability and cash flow. • Loss of market share. • Erosion of prices.	The impact of COVID-19 will accelerate business change in many areas and therefore technology requirements are likely to develop more quickly.	• The Group is diversified across a number of core products, industries and geographies. • Closely monitoring market developments, particularly across our core product areas. • Having local sales and engineering support which can quickly respond to a crisis and cope with changing local needs. • Strong historic and ongoing commitment to R&D investment to continue to build our product portfolio see page 11 for details of R&D expenditure.

Key Increased ↑ Decreased ↓ No change ↔ New risk

Exchange rate fluctuations

Movement

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
Due to the global nature of our operations, in which over 90% of the revenue is generated outside of the UK, we are exposed to volatility in exchange rates which could have a significant impact on the reported results of the Group. The Group is exposed to a number of exchange rate risks, including currency cash flow, currency translation risk and the currency risk on intercompany balances.	9	Group Finance Director	• Significant variations in the Group's income statement and balance sheet. • Reduced cash flow and profitability.	Impacts are likely to increase during periods of market uncertainty, such as during the pandemic, in which some countries will be more affected by exchange rate fluctuations than others.	• Rolling forward contracts for cash flow hedges. • We only enter contracts if the rate is below the Board approved caps. • Currency pricing reviews with some large customers. • Tracking of overseas net assets value compared to the market capitalisation. • One month forward contracts to manage currency risks on inter-company balances.

Fit for the future strategy

New risk

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
Failure to deliver on our new *Fit for the future* strategy may mean that our operating costs are not aligned with our trading levels, potentially inhibiting our growth and investment in key strategic areas.	10	Chief Executive/ Group Finance Director	• Cost savings not realised, leading to reduced profits. • Reduced capacity to invest in strategic areas. • Inefficient and inflexible operating model.	Additional cost-saving measures have been implemented in response to the pandemic, such as furloughing staff and reducing working hours and salaries for some staff.	• Regular tracking and reporting of cost-control measures across the Group. • Greater focus on managing the highest spend areas, such as labour and capital expenditure. • Identifying the return on investment across a number of areas of the business. • Reducing overheads such as travel and exhibition costs.

Principal risks and uncertainties continued

IT transformation failure

New risk

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
The upgrade to our IT systems to Dynamic 365, to remove legacy systems and ensure our business is better integrated, could impact our business if there are major technical issues, or it is poorly integrated, or there are significant delays to the programme, or it runs significantly over budget.	11	Group Business Systems Manager	• Major disruption to our systems (including our financial and HR systems) causing delay to our operations such as our ability to process or issue invoices and customer orders, or to procure goods and services. • Increased costs, including to fix technical issues and restore or upgrade other impacted systems.	Having to progress the transformation programme remotely, without physical access to the central site, made it more difficult to meet milestones and undertake appropriate testing.	• Risk assessments undertaken of all key systems likely to be impacted by the upgrade. • A clear roadmap with measurable milestones. • Assigning project managers who have clear oversight of the project and any potential or actual issues. • Promptly identifying and dealing with any red flags.

Cyber security

Movement ↔

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
External and internal threat which could result in a loss of data including intellectual property, or our ability to operate our systems which could severely impact our business.	12	Group Business Systems Manager	• Loss of intellectual property/ commercially sensitive data leading to reputational damage, claims or fines. • Inability to access, or disruption to, our systems leading to reduced service to customers and therefore financial and reputational damage. • Delay or impact on decision-making due to lack of availability of sound data or disruption in the denial of service.	Increased vigilance and awareness of the risks associated with remote working were required to help manage this risk during the pandemic.	• Substantial resilience and back-up built into the Group's systems. • Cyber risk and security is regularly discussed at Board meetings. • External penetration testing is conducted as appropriate. • Operating systems are continuously updated and refreshed in line with current threats. • A number of physical, logical and control measures are deployed to protect our information and systems. • Regular security awareness training is conducted, including in relation to the specific risks associated with remote working.

Key Increased ↑ Decreased ↓ No change ↔ New risk ○

Pensions

Movement ↓

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
Investment returns and actuarial variations of the Group's defined benefit scheme are subject to economic and social factors outside the Group's control.	13	Group Finance Director	• Any deficit may require additional funding or security.	Reduced returns on investment assets.	• Recovery plan implemented in June 2019 with the aim of funding to self-sufficiency. • Active engagement with the Trustees. • The Trustees operate in line with a statement of investment principles and take appropriate independent professional advice when necessary.

Non-compliance with laws and regulations

New risk

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
We operate in a large number of territories, and in some highly regulated sectors. We are subject to a wide variety of laws and regulations, including those relating to anti-bribery, anti-money laundering, sanctions, competition law, privacy, health and safety, product safety and medical devices. There is a risk that somewhere in the Group we may not be fully compliant with these laws and regulations.	14	General Counsel & Company Secretary/Director of Renishaw Neuro Solutions	• Damage to reputation. • Potential penalties and fines. • Cost of investigations. • Management time and attention in dealing with reports of non-compliance. • Inability to attract and retain talent.	No specific impact due to COVID-19.	• Whistleblowing hotline – available for use by all employees, with a new global provider appointed in 2020. • Regular compliance training for all employees. • Controls in place to mitigate some of the risks, and audits conducted to review some of these controls. • Implementation of a global GDPR programme (and its equivalent in non-EU countries). • Insurance cover for some of the risks.

Principal risks and uncertainties continued

Loss of manufacturing output

New risk

Risk description	Risk ranking	Risk owner	Potential impact	COVID-19 impact	Mitigation
Manufacturing output can be adversely affected by a number of factors including environmental hazards, technical delays or outages, plant or equipment failure, inadequate resourcing levels, or factors affecting the workforce such as a pandemic.	15	Group Manufacturing Directors	• Inability to fulfil customer orders leading to a reduction in sales. • Failure to meet contractual requirements. • Increased costs of alternative sourcing. • Maintenance of buffer inventory. • Loss of market share. • Damage to reputation.	Manufacture of cables in India was adversely impacted by the shutdown in that market. Contingency plans were implemented in Ireland and with a third-party supplier to ensure ongoing supply. Longer term, dual sourcing will be fully implemented.	• Duplication of high-dependency processes such as component manufacturing and finishing, electronic PCB assembly, and microelectronics assembly across more than one manufacturing location. • Ensuring we have flexible manufacturing capacity in various sites across numerous territories, and sufficient resilience across these sites. • Standardised approaches to product assembly. • Annual risk assessments and business continuity planning. • Reviewing and maintaining business interruption and other insurance cover.

Significant changes over the last year

There have been a number of changes to the principal risks compared to those reported last year. This is due to a number of factors. First, the means by which the principal risks are identified and approved has changed as part of the comprehensive review of our approach to risk management, as referred to above. Secondly, the external risk landscape has changed, including the impact of the COVID-19 pandemic and global trade wars. Thirdly, our internal risk landscape has also changed as we improve our systems and processes, we seek to align our risks more closely with our strategy, and to reflect significant projects, such as IT systems changes.

Key changes to note are:

- a greater number of risks have been reported this year, not because we are facing an increasing number of risks, but to provide greater transparency of the diverse range of risks the Company is facing;
- all of the risks reported last year are included in the principal risks listed above. However, some have been subsumed within larger or more overarching risks – for example, **Regulation of healthcare**, reported last year, has now been included within **Non-compliance with laws and regulations**. Some risks have also been renamed and broadened in scope, such as the **Workforce** risk reported last year, which is now referred to as the **People** risk, and the **R&D** risk reported last year, which is now referred to as the **Innovation strategy** risk;
- this year's principal risks are also very much aligned with the Company's strategy, which is reflected in risks such as ***Fit for the future***, **Capital allocation**, **Innovation strategy** and **Route to market/customer satisfaction**; and
- there are also more externally focused risks reported this year, such as **Industry fluctuations** and **Economic and political uncertainty**.

Key Increased ↑ Decreased ↓ No change ↔ New risk ◯

Viability statement

The Board undertakes an annual review of the Group's corporate strategy, which incorporates medium-term financial forecasts and an assessment of the principal risks facing the business, including consideration of how those principal risks may change to reflect emerging risks. The corporate strategy provides the foundations for monitoring of performance, budgets, risks and strategic actions by the Board, and the basis on which the Board assess the viability of the Group.

While the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the three-year period to 30 June 2023. This takes account of the Group's current position, financial forecasts, future prospects and the potential impact of the principal risks and uncertainties, documented in the Strategic report. The Board believes this assessment period is appropriate, as it reflects the Group's corporate strategy, takes account of the Group's short order book and gives management and the Board sufficient, realistic visibility of the future.

The Board confirms that its assessment during the year of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and/or liquidity, and which are set out on pages 29 to 36, was robust and included consideration of the potential impacts of the COVID-19 pandemic and other emerging risks.

In addition, current financial year forecasts are reviewed regularly by the Board, underpinned by regular briefings from its business segments and regions on progress. Further information on the assessment of the Group's forecast performance, solvency and liquidity for the 12 months to August 2021 is set out on pages 60 to 61.

Scenario analysis

In making the assessment, severe but plausible scenarios have been considered that estimate the potential impact of the principal risks on the financial forecasts over the assessment period. The potential impact of climate change on the demand for our products was also considered, with opportunities arising from an increasing need to make manufacturing more efficient, and both the opportunities and challenges arising from the move from internal combustion engines to hybrid and electric vehicles. Other emerging issues such as competitor activity and industry and technological disruption were also considered, particularly regarding how our principal risks of industry fluctuations, innovation strategy and competitive activity may evolve as a result. This consideration anticipated that the competitive threats could be mitigated through our continued investment in new product development, as well as the opportunity for these new products to increase market share, and that patented designs and investment levels present a barrier to entry for potential competitors. Where the scenario assumptions opposite refer to economic and political uncertainty, this includes the potential impact of 'reshoring' on our business in the three-year period, with political tensions driving investment in new localised manufacturing facilities. This investment is compounded in markets with a high labour cost, where the need for automation and robotics is heightened.

The potential impacts of COVID-19 were also considered as an emerging risk, including further lockdowns, reduced consumer spending, the impact on aerospace and automotive markets in particular, and the broader impact on the global economy. In addition, while Brexit is not a separate principal risk for the Group, the risks relating to Brexit have been considered when assessing the impact of individual principal risks.

Third-party research and publications were reviewed, in which the most severe scenario considered that a 'second wave' of the pandemic would be experienced in calendar year 2020, before easing from the start of the calendar year 2021. Taking this external view into consideration, the Board's most severe scenario therefore assumed that:

- lockdown measures and other COVID-19 related restrictions would reoccur in calendar year 2020, resulting in reduced demand;
- an increase to pre-pandemic demand levels would follow from January 2021 for the remainder of the financial year, consistent with revenue in the first half of financial year 2020;
- principal risks most relevant to short- to mid-term revenue, being supply chain dependencies, exchange rate fluctuations and capital allocation strategy, would also crystallise in the first half of financial year 2021, whilst other principal risks of industry fluctuations and economic and political uncertainty are reflected in the pre-pandemic demand. These factors included the impact on revenue of a 15% strengthening of sterling.
- the above combination of assumptions produced an annual revenue forecast of £350m for financial year 2021, with the Board considering that the revenue forecasts for financial year 2022 and 2023 would be no lower than this given the assumed combination of principal and emerging risks crystallising concurrently in the first half of financial year 2021.

The Group's profitability and liquidity have been assessed and incorporated within each scenario, with relevant assumptions for the most severe scenario being:

- a deterioration in debtor days to 85 days, which is worse than was experienced by the Group in the 2009 global recession;
- continued funding of the UK defined benefit pension scheme in line with the agreed recovery plan;
- no reduction in the Group's operating expenses beyond the cost-reduction initiatives that are already underway; and
- the impact on costs of a 15% strengthening in sterling against the major trading currencies of the Group.

This scenario also assumed that the Group would conserve its cash by not paying dividends and by restricting capital expenditure to £10m per annum, a level which would support our manufacturing facilities, IT infrastructure and other necessary capital expenditure.

No additional borrowings or financing were reflected in this severe scenario, and the cash flow forecast showed positive cash balances, net of working capital requirements, throughout the forecast period.

Reverse stress testing has also been applied to the model and was updated to the date of signing the Annual Report to reflect actual sales in July 2020. This stress testing demonstrated that the Group would retain a liquid position until annual revenue from August 2021 decreased to c£325m. The Board considers the possibility of this revenue forecast to be highly unlikely, and mitigating actions to further reduce operating costs would be put in place if actual trading in the period was consistent with this scenario.

Conclusion

On the basis of the above, and other matters considered and reviewed by the Board during the year, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 30 June 2023. In assessing the Group's viability over the next three years, it is recognised that all future assessments are subject to a level of uncertainty which increases for the latter part of the assessment period and that future outcomes cannot be guaranteed or predicted with any certainty.

Managing our resources and relationships

How we engage with our stakeholders

Our rich and varied network of stakeholder relationships upholds the values on which Renishaw was founded.

We have more than 1,700 registered shareholders, 4,463 colleagues and supplied more than 23,000 customer accounts during the year. We deal with suppliers in more than 35 countries. These individuals, businesses and communities are all integral to our business.

Our stakeholders

People

It is through the commitment and dedication of our people that we will successfully deliver our business strategy.

Why we engage

Only by fully engaging with our workforce, embedding our values across all that we do and developing progressive people management practices, will we achieve a culture that aims to allow employees to maximise their potential. We strive to continuously improve Renishaw as a great place to work and to achieve personal goals.

How we engage

We have a sustained focus on engagement, this is achieved through works forums, increasing the flexibility in working practices, wellbeing programmes and an employee assistance helpline. A Diversity and Inclusion Group has also recently been established.

Read more on pages 40 to 43

Customers

We work closely with our customers to solve their complex challenges and deliver on our purpose.

Why we engage

To deliver on our purpose, it is vital that we work closely with our customers to solve their complex challenges and help them to increase their own innovation, improve product quality, expand their production output and enhance their operational efficiencies.

How we engage

Through face-to-face contact via a number of different forums, regional marketing conferences, trade shows, in-house seminars and technical workshops. We have moved to online equivalents during the pandemic.

Read more on pages 11 and 43

Suppliers

The supply of outsourced goods and services is critical to our overall success.

Why we engage

The integrated nature of our supply chain enables us to be agile and deliver quality products at the right time. To ensure we are all working to the same quality standards and delivery time frames we work closer with our suppliers than ever before.

How we engage

Suppliers are engaged in our supplier performance programme. They are assessed on a regular basis to ensure that they are suitable suppliers for Renishaw and are trained in best practice. Appropriate ongoing improvement programmes are also put in place, as required.

Read more on page 11 and 44

Communities

We recognise the impact we have on our communities and aim to make a positive difference.

Why we engage

Our core value of integrity is central to the relationships we have with our communities around the world, where we strive to be open, honest and consistent. We aim to make a positive difference and to maintain an open dialogue with community representatives.

How we engage

Our communities are supported through charitable donations, educational outreach, employee volunteering, the donations of equipment, the use of our facilities and through supporting community efforts where our respective goals align.

Read more on pages 11 and 45

Shareholders

We aim to provide all shareholders with high-quality information at the same time.

Why we engage

We value the trust our shareholders have placed in us by investing, and want to pay that back in kind through payment of dividends where appropriate and/or capital appreciation. By engaging we can update on our progress and seek feedback.

How we engage

We engage through various media including our website, the Annual Report, our financial results and trading statements. We also hold open webcasts of presentations of the full and half-year results.

Read more on pages 11 and 55 to 56

Planet

Sustainability is about leaving a positive legacy for the future. Part of our long-term strategy is to ensure we have a net positive impact.

Why we engage

We believe that sustained action is required to address climate change and the impact it is having on our planet. We feel that, as a business, we have a responsibility to mitigate our impact on the planet.

How we engage

We measure and report on the impacts we have through our GHG emissions and waste footprint. We look for ways to invest our time and money to reduce these impacts, through on-site renewable energy generation, waste and energy reduction and the purchase of clean electricity.

Read more on pages 46 and 47

Managing our resources and relationships continued

People and culture

Workforce engagement

Catherine Glickman (Non-executive Director) is our ambassador for workforce engagement. Since joining the Board in 2018, she has regularly visited our headquarters and manufacturing sites, has been briefed on people initiatives and meets with the Health & Safety team annually. Since lockdown in March, she has participated in team communications remotely, which she will continue during 2020/21. She is also advising the Diversity and Inclusion Group and is contributing to its initiatives. In the next year, she plans to continue the onsite visits (where permissible), meeting staff directly, and extending engagement with the international teams.

Global HR system implementation progress

Within this financial year, we have implemented and embraced Workday as our global HR system. Our wider focus is now on overseas configuration together with preparing to migrate our legacy e-learning platform of 450 internal courses across to our new system. By bringing HR, performance and learning data together, we are enabling a future of greater connectivity and a more transparent personal and career development pathway for our employees.

The system provides immediate access to business-critical information with high levels of data accuracy, integrity and security. This brings increased management visibility across many areas enabling the business to strengthen individual performance management and accountability.

2020 leadership and development

Continuous development of our managers is critical to the success of our business. This year has seen significant focus on the development of a series of modular interactive management and leadership programmes, which will continue to be delivered during the next financial year.

These programmes are specifically aimed at improving the performance of leadership and management capability, by strengthening and understanding the key traits and attributes that allow leaders to manage themselves and their teams. These programmes will be available to our worldwide management group.

Graduates and apprentices

Renishaw remains committed to its early career programmes and endeavours to attract key talent that will grow with the business and become part of the future pipelines for succession and development.

Across our sites in the UK, we currently have 91 graduates on two-year programmes across 11 different schemes/ disciplines and 192 apprentices across 13 different standards and levels.

We continually review the requirements of our Early Careers programmes to meet our future business needs. This year we introduced an overarching development framework to support skills development in areas including communication, presentation and commercial awareness.

Further education programmes are in place to upskill our existing employees where there is a business need. As part of this we have also been able to utilise our Apprenticeship Levy fund and currently have 31 employees on a variety of degree apprenticeship programmes.

Higher engagement = higher performance

Through the commitment and dedication of our people we will fulfil our potential and successfully deliver our business strategy.

Only by fully engaging with our workforce, embedding our values across all that we do and developing progressive people management practices, will we achieve a culture that aims to allow employees to maximise their potential. We strive to continuously improve Renishaw as a great place to work and to achieve personal goals.

Having a sustained focus on engagement will help us retain our talent, which is crucial to our future success. Improving engagement also helps us to build on our core values, resulting in committed, hardworking and loyal employees.

Restructure and focus

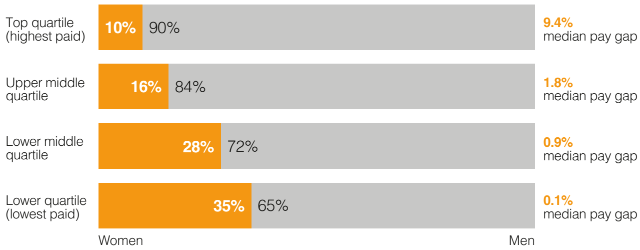
Renishaw has implemented difficult changes over the course of the year, including a phased closure of the Staffordshire site and a resizing programme that resulted in a number of redundancies. These measures were implemented with a view to preserving key skills, boosting future productivity and ensuring that the company is best placed to face the future.

Response to COVID-19

The COVID-19 pandemic compelled Renishaw to be agile in its response to protect the health and safety of our employees, as well as the business. This resulted in many employees working from home at short notice and the temporary shutdown of manufacturing sites to implement robust COVID-secure procedures before resuming operations.

The swift and successful implementation of these measures highlighted how dynamic, resilient and committed our employees were across all areas to facilitate these changes. It also highlighted the importance of extending flexibility to employees around their work commitments during this unprecedented period, in relation to childcare and/or health-related considerations.

The proportion of women and men in each pay quartile



Gender pay gap

25.2% **mean**

21.1% **median**

2019 UK average (median) pay gap 17.3%

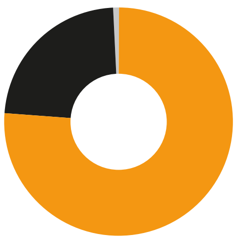
Gender bonus gap

61.7% **mean**

29.3% **median**

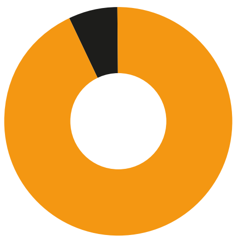
75.5% of women received bonus pay
78.6% of men received bonus pay

All employee gender diversity ratio



- 76% (3,402) Male
- 23% (1,028) Female
- 1% (33) Not disclosed

Senior management team diversity*



- 93% (55) Male
- 7% (4) Female

* See table below for breakdown of the senior management bands.

Board diversity

- 75% (6) Male
- 25% (2) Female

Management level	Male	Male %	Female	Female %
Board	6	75	2	25
Executive Committee	8	89	1	11
Senior managers[1]	13	81	3	19
Subsidiary directors[2]	42	98	1	2

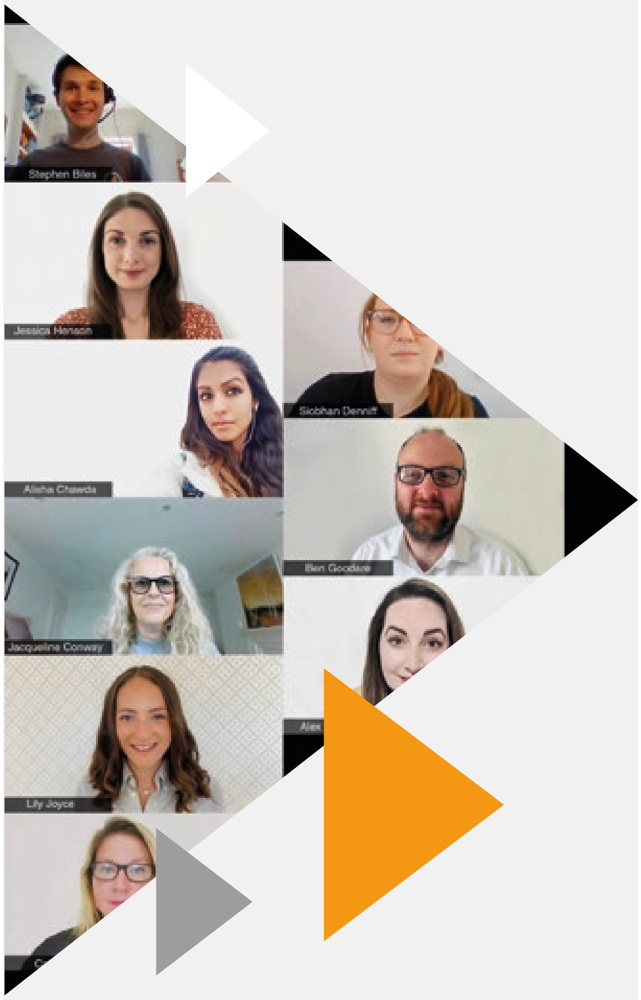
1 Includes the direct reports of the Executive Committee, excluding those in administrative or non-managerial roles.

2 Means statutory directors.

The Diversity and Inclusion Group

Renishaw recognises that the greater the range of talent and diversity of our people, the greater the performance potential of our business. To enable us to align diversity with business strategy, we recently established the Diversity and Inclusion Group, with the purpose of 'establishing a more inclusive culture and diverse workforce at Renishaw by promoting equality and diversity through a committed collaborative approach.'

Employee engagement will be driven through focus groups that will collate data to guide and shape some of the key objectives for the group. This will include national awareness days, blogs and guest speakers. We will also engage with our Regional HR Heads to look at the Group diversity and inclusion strategy, supporting our employees across the world.



Managing our resources and relationships continued

Flexible working practices

Adopting flexible working practices to maintain business continuity during the pandemic has highlighted the need for us to increase our flexibility in working while maintaining operational efficiency.

Employee wellbeing

Employee wellbeing has been a priority for Renishaw during 2019/20. To support the wellbeing of our employees during the pandemic, we have introduced additional support in the form of online presentations, self-help materials and links to external resources. Training has been developed for our managers to support remote management of their teams. All of our UK management team completed mental health awareness workshops during 2019/20 and the implementation of a UK network of mental health first aiders (MHFAs) has also been completed. Our MHFAs are developing their own channels of communication and sources of support in readiness to assist employees more effectively.

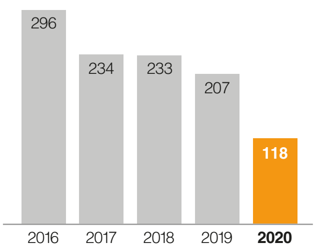
Our worldwide Employee Assistance Programme (EAP) continues to offer support and signposting in relation to a variety of topics. Our employee wellbeing activities will be expanded throughout the Group in 2021 to support our global colleagues.

Health and safety (H&S)

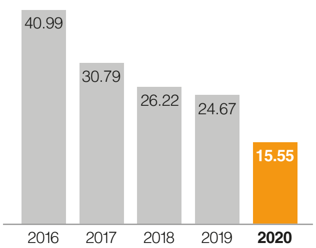
Maintaining a safe working environment for our people, visitors and customers is the primary aim of our H&S management system. Our Group H&S policy frames our approach, drives our culture of safety throughout the Company, and details Renishaw's H&S management structure and processes, in line with industry best practice. The outcome is a clear and consistent approach to H&S that is used throughout the Group.

The total number of accidents for the period was 118 (2019: 207) against a year-end headcount of 4,463 (2019: 5,041). This equates to an accident frequency rate of 15.55 per million hours worked (2019: 24.67).

Total number of accidents



Accident frequency rate
per million hours



There were four reportable accidents under the UK RIDDOR reporting requirements: two musculoskeletal injuries, one deep laceration to the hand and one suspected rib fracture. This equates to a lost time injury rate of 0.54 per million hours worked, compared with a UK manufacturing average for RIDDOR reportable accidents of 2.10 per million hours worked.

We continually assess H&S risks across the Group. This is done through our risk assessment processes and regular auditing. Through these actions, our AM activities and associated processes continue to be identified as our main area of risk. These are tightly controlled and managed via training, policy and procedures, with the wider AM industry generally accepting Renishaw as one of the safest producers of AM machinery.

2019 saw the launch of the stress management training programme for line managers within the UK. This programme run by ACAS, was completed on schedule with nearly 500 undertaking the training.

The internal H&S auditing procedure has been reviewed and amended to ensure that auditing is conducted in a consistent and robust manner. The 2021 H&S annual audits will be conducted against the new audit structure.

During the COVID-19 pandemic, H&S has been a key priority for the business, including the implementation of safe working measures designed to ensure the continuity of key activities.

In 2021, our H&S focus will be on the following key areas:

- The preparation and implementation of a robust home working policy, including an assessment of the H&S risks of homeworkers.
- A full review of the Group manual handling policy, risk assessment strategy and training programmes.
- Maintaining global legal compliance and implementing consistent strategies for managing H&S risks across the Group.

Customers

To deliver on our purpose, it is vital that we work closely with our customers to solve their complex challenges and help them to increase their own innovation, improve product quality, expand their production output and enhance their operational efficiencies.

Building relationships

Our key aims for our customer relationships are to:

- build long-term relationships with our customers. It is not just about a sale, but also about supporting and helping our customers develop their processes and improving the quality of their product output;
- bring high levels of integration to our customers' manufacturing environments. We are especially focused on those businesses who are looking to bring connectivity and the intelligent use of data within their manufacturing processes;
- deliver excellent customer support on a global basis. Our customers can be global, with orders being placed in one country and the product shipped to the eventual end user, who could be located on a different continent; and
- provide innovative services to support changing customer expectations and market requirements throughout the life cycle of all our product ranges. We are flexible with our approach and support customer needs from initial purchase, right through to obsolescence, regardless of global location.

Renishaw was 'born global' and we have always understood the importance of providing excellent support at a local level. We achieve this through our wholly-owned subsidiary network and long-term distributors. This allows us to assure our customers that whatever their needs, we can support and assist them, resulting in a positive return on their investment.

Although machinery and the application of our products may be common across the globe, business practices, local customs, levels of technical expertise and language, are very different, so employing local people is vital. This also ensures that Renishaw people are easily accessible to provide fast engineering support and answer queries. Our model is to use the strength of our UK operations for product development, but to decentralise decision making to our subsidiary network. This allows our local offices to make fast decisions and also to tailor sales and marketing messages and customer solutions, to their specific needs.

Establishing feedback

Our future success depends on us:

- understanding customers' true needs and using this to inform future technology innovations;
- obtaining customer feedback on new developments during testing programmes; and
- working with customers to help us develop our world-class customer support programmes.

Due to the highly technical nature of both our customers' requirements and our products, we prefer to do this through direct contact with our customers. The voices of our customers are represented at numerous forums including regional sales and marketing conferences, product line conferences attended by representatives from the sales regions and our group service conferences. Members of our Board, Executive Committee and regional presidents also regularly engage with original equipment manufacturer (OEM) customers and end users across our key sales regions. They receive feedback on our performance as a supplier and how we can continue to help them improve their own products and operational performance.

A key platform for our engagement with current and future customers is trade exhibitions, which are typically held over two to six days. Over the duration of these events there is the opportunity to meet with thousands of people from multiple industries who visit our stands to talk to us about their challenges. Enquires from customers and prospects are recorded and stored digitally in accordance with our privacy notice (which is set out on our website), to ensure appropriate follow-up by our sales teams after the exhibitions to continue those conversations.

Prior to the pandemic, we attended 47 trade exhibitions during the year, covering most of the industries that we supply. The most important of these was EMO Hannover, where, over six days and two different stands, we met with customers from over 50 different countries. We also held numerous in-house seminars, inauguration events (including the opening of our new office in Moscow, Russia), and attended conferences and OEM customers' open houses across the world, the latter providing access to companies with whom we would not normally deal directly.

COVID-19 has impacted and will continue to impact the ability to meet customers at physical events. We have been making good use of online conferencing tools and at the end of the year we introduced a virtual exhibition platform and a series of webinars, which will be utilised globally. We continue to make use of social media to engage with our customers, with multiple corporate, subsidiary and product line accounts across platforms including Facebook, Instagram and LinkedIn.

Managing our resources and relationships continued

Suppliers

The supply of outsourced goods and services is critical to our overall success. We have developed processes and procedures to ensure all supply chains and supplier relationships are managed in an effective way.

Particular attention is paid to the initial supplier identification/selection process for new suppliers to ensure that we have supply chains capable of achieving Renishaw's requirements in the areas of quality, cost, timescales and risk management. The ongoing management of existing supply chains and supplier relationships are equally as important, so we engage with all key suppliers on a regular basis through defined communication and feedback channels.

We have approximately 400 key UK suppliers who vary in size and location, with about half being located within a 100-mile radius of our main manufacturing sites in the UK. Many of these are SMEs (small and medium-sized enterprises). We also have many suppliers overseas. To support this, we have supply chain staff located in the UK, Ireland, India, China, the USA and various European countries. This allows us to have regular and direct communications with our suppliers while addressing differences in culture, time zone and language.

We recognise the need to protect the interests of our employees, customers and shareholders by ensuring that our supply chains are as risk-free as possible. We use a risk management process that regularly assesses supply chain risk and, where possible, looks to introduce secondary sources for all key outsourced requirements. Where this is not possible, bespoke stock policies have been implemented to allow us to manage any potential disruption in the supply chain.

We actively involve suppliers in our supplier performance programme. Existing suppliers are assessed on a regular basis to ensure that they meet expectations in the areas of delivery, quality, corrective actions and responsiveness. Where there are shortcomings, we engage with suppliers to ensure they are trained in best practice and appropriate ongoing improvement programmes are put in place.

Our supply chain and engineering teams put great emphasis on ensuring that suppliers have the capability to meet our high standards of quality by engaging with suppliers as early as possible. Where necessary, we work closely with suppliers to ensure that they have the controls in place to ensure the ongoing supply of quality goods and services. We share known best practices and our knowledge and experience of working within the metrology and process control manufacturing sector.

We are committed to conducting our business with honesty and integrity; suppliers are no exception to this policy. All suppliers we engage with are required to comply with our trading terms and the Group Business Code, covering areas such as modern slavery, conflict minerals, human rights, anti-bribery, tax evasion, data protection and dangerous goods.

Communities

We aim to be an inspiring employer and a responsible business. Our core value of integrity is central to the relationships we have with our communities around the world, where we strive to be open, honest and consistent. We recognise the impact we have on our communities and aim to make a positive difference and maintain an open dialogue with community representatives.

Our approach

We achieve these aims through: engagement with trade and general business organisations; financial support for charities and other not-for-profit organisations; our extensive education outreach initiatives; large work experience programmes; support for employee fundraising and volunteering; the free use of our facilities for educational and other community events; and the sponsorship of community sports clubs and festivals for science, music and the arts.

Charitable giving

Our values of innovation and integrity play a large part in our approach to supporting charities and not-for-profit organisations within our communities, which are supported through formal charities committees, individual employee fundraising and one-off fundraising events. The committees are focused on supporting organisations local to Renishaw offices that help enrich the lives of children and adults; from toddler groups and sports clubs, through to organisations that support people with disabilities and the bereaved. In the UK, an additional fund is administered by the employee-led charities committee, which donates monies to aid the victims of global disasters.

In 2019/20, we made direct donations totalling more than £198,000 to 219 different organisations. Although the number of UK grant applications has dropped significantly due to COVID-19, we responded to emergency appeals from various charities and proactively supported foodbanks located close to our major sites in the UK. In the USA our support for local people included a Thanksgiving Food drive; in Brazil, food, cleaning and hygiene supplies are collected and donated to the Centro de Desenvolvimento Bem Me Quer, which supports local children with disabilities; and in South Korea our people took part in Running with the Blind to raise money for the Foundation for the Blind and mark the 20th anniversary of Renishaw Korea. For a full list of organisations who received significant donations of over £2,000 or local currency equivalent, see page 151.

Community organisations

Before COVID-19 we continued to host tours and give talks to a wide range of organisations including business clubs, primary schools, secondary schools, colleges and universities. We hosted events organised by other organisations, including the Stroud Young Photographer of the Year final and a regional engineering open house for the Institution of Engineering Technology (IET).

We actively support the business community regionally, nationally and internationally, through active membership of trade associations and industry research centres. Some of these include: the Additive Manufacturing Users Group (USA); the European Society for Precision Engineering & Nanotechnology; UCIMU-SISTEMI PER PRODURRE (Italy); Verein Deutscher Werkzeugmaschinenfabriken e.V. (Germany); the Association of British Healthcare Industries; the Manufacturing Technologies Association (UK); Global 3D Printing Hub (Spain); PräziGen (Germany); and Canada Makes.

We also support a wide range of arts and music festivals, sports clubs and organisations in the West of England and South Wales. During the year, this included: corporate membership of the SS Great Britain Trust, Bristol Music Trust and Bristol Museums; sponsorship of Cardiff Blues Women and Gloucester-Hartpury Women rugby teams; and sponsorship of professional rugby players including Tomos Williams who plays for Cardiff Blues and Wales.

Education outreach

Our educational outreach programme is designed to excite, interest and engage young people, regardless of gender, sexuality, ethnicity or background, to study STEM subjects and to consider engineering as a career. We aim to be a key educational resource for the hands-on learning of design, fabrication, manufacturing and engineering skills, delivering workshops at our Gloucestershire HQ and dedicated education centre at our Miskin site.

In an average academic year, we engage with around 22,000 students through our various outreach programmes in South Wales, Gloucestershire and Bristol. These are managed by our four full-time outreach staff and supported by over 160 STEM ambassadors. In addition to workshops this included careers fairs, school visits, our 3D printer loan scheme, work experience programme and activities delivered by trusted partners including Bloodhound Education, Cardiff Blues and STEMworks.

Managing our resources and relationships continued

Our planet

We believe that sustained action is required to address climate change and that businesses have a responsibility to mitigate their impacts. We take this seriously and have continued to invest in increasing our energy efficiency, our generating capacity, and lowering our GHG emissions. The use of our own products in our manufacturing facilities is part of this strategy of increasing efficiency by reducing raw material use, waste, and energy consumption.

Our Corporate Responsibility (CR) Committee manages the oversight of the CR strategy and released an updated Group Business Code this year. This frames our approach to environmental management and drives our culture of efficiency throughout the Company. It is supported by our environmental and waste policies, with other underlying management controls, as necessary. The outcome of these policies is a clear and consistent approach to environmental management that is used across all our locations.

We continue to engage with colleagues around the Group using our internal social networks, a newly developed intranet site, and increased training for the subsidiary representatives.

We recognise that COVID-19 and the restrictions on travel will have significantly affected our GHG emissions during this fiscal period. In 2019/20, our normalised statutory emissions have increased by 4% (market-based) compared with 2018/19 and have decreased by 65% (market-based) compared with our base year (2015). We have also had an absolute reduction in our total GHG emissions of 22% (market-based).

Our statutory emissions are defined by the Greenhouse Gas Protocol as Scopes 1 and 2. Scope 1 is the direct emissions coming from our sites and vehicles, and Scope 2 is indirect emissions coming from the electricity and heat that we purchase from energy providers.

A sizeable proportion of our GHG emissions fall within the definition of Scope 3 emissions. These are emitted by other organisations on our behalf, for example, emissions from our freight forwarders when transporting our products. The details of our GHG emissions for this year are shown in the charts on page 47 with the relevant data shown on page 152.

To calculate our GHG emissions we have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the UK Government's GHG reporting guidance. The emission factors are taken from the DEFRA, IEA and IPCC libraries and energy suppliers. Our GHG emissions are based on actual data taken from bills, invoices, meter readings and expense claims wherever possible.

For our Scope 1 and 2 emissions, less than 2% of the data is estimated. We continue to strive to reduce our GHG emissions and energy consumption worldwide, including investing in renewable energy generation. In 2019/20, we increased the area of solar panels at New Mills, added a new ground mount array at Stonehouse and installed new solar arrays at our new site in Norton Shores, Michigan, USA and our existing site in Turin, Italy. We are investigating further solar potential at other sites worldwide, as well as considering hydroelectric and wind energy generation opportunities.

We are pleased to report that our 2018/19 GHG emissions figures have been independently verified by thinkstep and they have found no inaccuracies. They also verified the methodology we used as being compliant with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition).

Waste management

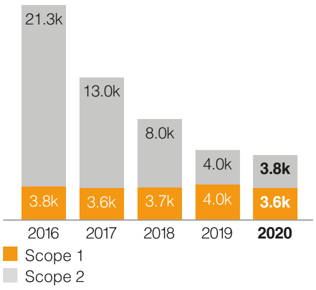
During the year our waste management strategy successfully diverted a further 1,906 tonnes of waste from landfill.

Global waste totals (tonnes)

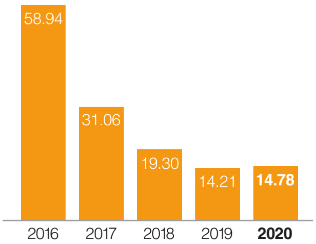
	2020	2019	2018	2017
Reused	**88.00**	166.00	67.62	0.00
Recycled	**1,541.20**	2,208.90	2,370.05	2,151.00
Composted	**47.75**	100.97	71.76	27.50
Incinerated	**229.26**	300.00	240.70	310.60
Total non-landfilled	**1,906.21**	2,775.87	2,750.13	2,489.10
Landfilled	**247.10**	235.00	162.93	129.52
Percentage of waste sent to landfill	**11.48%**	7.81%	5.59%	4.95%
Total waste	**2,153.31**	3,010.87	2,913.06	2,618.62

This year our target was a 5% reduction of waste to landfill from our global operations. Despite our best efforts this year the amount of waste to landfill has increased by 5% or 12.1 tonnes. Due to the restrictions on operational practices because of COVID-19 our manufacturing colleagues and our waste contractors struggled to meet the target of 5% reduction of waste to landfill. We have, however, reduced the amount of waste produced by 28%. We have diverted more than 88.52% (2019: 92.19%) of our waste from landfill this year.

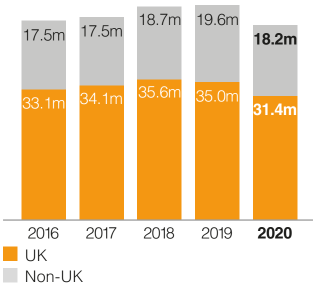
Total statutory emissions
tCO_2e



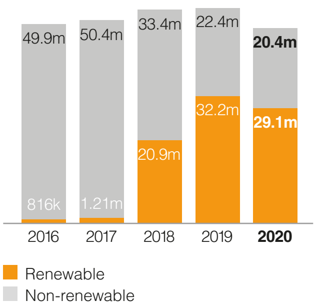
Statutory GHG emissions
tCO_2e per £m turnover



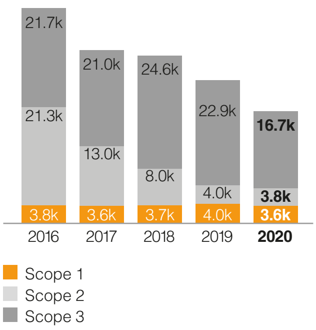
Group energy consumption
kWh



Energy source
kWh



Total measured GHG emissions
tCO_2e



Non-Financial Reporting Statement

This section of the Annual Report is about how we manage our resources and relationships. It contains a wide range of non-financial information about our people, environmental, social and ethical matters, ranging from human rights to waste. Our approach to CR and our Group Business Code are available on our website www.renishaw.com/CSR and expand on this information. As required under the non-financial reporting requirements, the table below sets out where more information on non-financial matters can be found within this Annual Report and also on our website www.renishaw.com. The due diligence carried out for each policy is contained within the respective documentation.

Section 172 statement

Key requirement

Under the Companies (Miscellaneous Reporting) Regulations 2018, the Directors are required to explain how they have complied with their duty to have regard to the matters in section 172 (1) (a)-(f) (Section 172) of the Companies Act 2006. Under Section 172 a director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing so the director must have regard to other matters including: – likely consequences of any decisions in the long term; – interests of the company's employees; – the need to foster the company's business relationships with suppliers, customers and others; – impact of the company's operations on the community and the environment; – the company's reputation for high standards of business conduct; and – the need to act fairly as between members of the company.

Examples of the way in which the Board had regard to s172 matters

The Board's engagement with employees, suppliers and customers in 2019/20 is explained in the stakeholder engagement model on pages 38 to 49. The Directors receive regular reports on health, safety and environment and security to support their consideration of the impact of their decisions on our community and the environment. Further information can be found on pages 34, 42 and 46 to 47. Ensuring high standards of business conduct is critical for the success of the Group. The Directors receive reports from the Group Legal, Quality, Compliance, Human Resources and Corporate Responsibility teams and our Non-Financial Reporting Statement opposite identifies policies and guidelines governing our approach to anti-corruption, anti-bribery, social matters and human rights. Consideration of the long-term impact of decisions is integral to the approval of strategy, and our strategic progress in 2019/20 is disclosed on pages 1 to 49.

Examples of how the Directors discharged their s172 duty when taking the principal decisions during the year

The Board takes the interests of stakeholders into account when making decisions. The relevance of each stakeholder group may increase or decrease by reference to the issue in question, so the Board seeks to understand the needs and priorities of each group during its discussions. This, together with the combination of the consideration of long-term consequences of decisions and the maintenance of our reputation for high standards of business conduct, has always been integral to the way the Renishaw Board operates. During a challenging year, the below have been the principal decisions taken and how stakeholders views have been considered:

Stakeholder	Principal decision	Engagement	Outcome	Page(s)
Shareholders, potential investors and lenders/ employees/ customers/ suppliers.	In light of the increased global macroeconomic uncertainty due to the COVID-19 pandemic, the interim dividend payable during the year was cancelled, and no final dividend is declared in respect of the year. This reflects the previously announced decision for all directors to waive their dividends.	Various communication forums to achieve equitable treatment of our stakeholders, given the effects of the COVID-19 pandemic.	No dividend paid for 2019/20 in line with the Board's priority of conserving cash and managing the Group in a prudent manner through this period of uncertainty.	**5**
People/ customers/ suppliers/ communities	The implementation of the *Fit for the future* strategy was a key area of focus during the year, and saw the realignment of the business with current global demand and a heightened focus on key strategic priorities.	Rigorous Board debate and consideration of Board papers, and business plans, consultation processes, CEO communications, workforce engagement mechanism, staff survey by works forum representatives.	Implemented redundancy programmes, the co-location of the Staffordshire AM operations to New Mills and Miskin, travel restrictions, and other efficiencies. Where possible, at risk employees were offered other roles and those leaving the business were not replaced to reduce redundancies.	**6, 9 and 22**
People	Since the start of COVID-19 we put in place short-notice arrangements for many people to work from home, a temporary shutdown of manufacturing operations to implement strict social distancing measures, implemented a heightened focus on our *Fit for the future* strategy and initiated temporary shorter working hours.	Additional bi-weekly Board calls, regular CEO online briefings for employees, COVID-19 support group, consultation processes, enhanced employee wellbeing programme, senior management feedback, workforce engagement.	Highlighted need to evaluate our working practices, increase our flexibility and deliver on *Fit for the future*. The Board considered a wide range of operational and financial scenarios and the interests of multiple stakeholder groups to determine the overhead and salary reductions necessary to protect the financial position of the Company.	**6 and 40**
Customers	Development of alternative routes to access customers as a result of COVID-19 impact on the ability to meet customers at physical events.	Key platform is trade exhibitions, prior to the pandemic, 47 trade exhibitions attended.	Increased use of online conferencing tools and introduction of a virtual exhibition platform as well as a series of webinars, which will be utilised globally.	**38 and 43**

Allen Roberts
Group Finance Director

The Strategic report on pages 1 to 49 was approved by the Board on 18 August 2020 and signed on its behalf by

Sir David McMurtry
Executive Chairman

Directors' corporate governance report

"

A strong governance framework, overseen by the Board, is critical if we are to support the business and enhance the interests of all our stakeholders.

Sir David Grant
Senior Independent Director

Introduction

I am pleased to introduce our corporate governance report for the year, in which we describe our governance arrangements, the operation of the Board and its Committees, and how the Board discharged its responsibilities. The Board is ultimately responsible to our stakeholders for all the Group's activities, its strategy and financial performance, the efficient use of the Group's resources and social, environmental and ethical matters.

Central to everything we do is the Group's purpose to design, develop and deliver solutions and systems that provide unparalleled precision, control and reliability. We are proud of our culture that aims to allow our employees to maximise their potential, which aligns with our purpose, strategy and values. Having a strong governance framework, which supports the Group's long-term strategic development, is critical if we are to support the business and enhance the interests of all our stakeholders for the future.

The implementation of the *Fit for the future* strategy was a key area of focus during the year, and saw the re-alignment of the business with current global demand and a heightened focus on key strategic priorities. This included the decision to reorganise our additive manufacturing (AM) business by co-locating our AM engineering, marketing and commercial activities at Renishaw's New Mills headquarters in Gloucestershire, UK. The manufacturing of AM systems will continue at the Company's Miskin site near Cardiff, South Wales. The Board also made the difficult decision during the year to instigate redundancy programmes to match our headcount with global demand for our products, as well as pursuing other efficiencies.

The Board made a number of significant decisions in response to the COVID-19 pandemic, and the associated global macroeconomic uncertainty, so as to ensure the long-term success of the Company. This included the decision to cancel the previously announced interim dividend and not declare a final dividend which were due to be paid on 6 April 2020 and 29 October 2020 respectively, in order to conserve the Group's cash resources – see page 49 for more information.

During the year, the Board considered and approved John Deer's role change from Deputy Chairman (an executive role until January 2020) to a non-executive role, retaining the title Deputy Chairman.

This Annual Report is the first in which Renishaw is required to report in accordance with the UK Corporate Governance Code 2018 (Governance Code) which introduced a number of significant changes with regard to corporate governance in the UK. In addition, new legislation in respect of the governance arrangements of private companies, including major subsidiaries within listed companies, also applies to the Group for the first time this financial year. The external audit market and the role of auditors is currently under review, with the UK Government considering how to progress the recommendations of the various studies into the statutory external audit market.

The Board continually monitors its governance arrangements and we have carefully considered and in many cases enhanced our governance arrangements in light of those changes. We continue to discuss the most effective methods of achieving greater Board engagement with our workforce and other stakeholders and building on our existing initiatives, in order to better understand their views. Catherine Glickman, one of our Non-executive Directors, has provided the Board with improved visibility of workforce engagement activities across the Company and of the views of our workforce. Catherine was appointed as our designated officer for workforce engagement in 2019. It is essential that this framework is dynamic and we are able to respond as our business and our stakeholders evolve. Further information on workforce engagement can be found on page 40.

As a Group, we are committed to equality and diversity at Board and all levels, and this will remain an important area for the Board to continue to work on. Employment policies are designed to provide equal opportunities irrespective of race, religion, gender, age, socio-economic background, disability or sexual orientation – see page 88 for more information.

The Board takes seriously its responsibilities for making sure all employees are aware of their obligations to act with openness, honesty and transparency. As we continue to grow, it is vital that we maintain a strong culture which aligns with our purpose, strategy and values. The Company's strong culture, from an ethics perspective, is already embedded in our Group Business Code and Anti-Bribery Policy which can be found at: www.renishaw.com/businesscode.

The Company reviewed its global whistleblowing policy and process during the year with the aim of making it easier for employees and other key stakeholders to report any suspected unlawful or unethical conduct. A new hotline provider has been appointed as part of the refreshed service, now referred to as Speak Up, which launched in July 2020.

Board of Directors

Sir David McMurtry N*

CBE, RDI, FREng, FRS, CEng, FIMechE

Executive Chairman

Appointed September 1975

Areas of expertise
Strategy, Product Development, Engineering, Science and Technology

Contribution, skills and experience

- Co-founder of Renishaw, provides strong leadership to the Board, and responsible for Group innovation, product strategy, and Group technology.
- Significant contribution to long-term sustainable success of the Company and all aspects of the business.
- Strategic vision, and technical and industry knowledge.

External appointments
None

John Deer

Non-executive Deputy Chairman

Appointed July 1974

Areas of expertise
Manufacturing, Strategy, International

Contribution, skills and experience

- Co-founder of Renishaw and contributes to Board leadership and strategic decisions for growing the business.
- Extensive manufacturing and quality experience contributes to delivery of efficient, high-quality manufacturing.
- Strategic vision, and commercial and international experience.

External appointments
None

Will Lee

MA, MBA, FinstP

Chief Executive

Appointed August 2016 as Group Sales and Marketing Director, February 2018 as Chief Executive

Areas of expertise
Sales and Marketing, Strategy, Engineering, Operations

Contribution, skills and experience

- Effective and strong leadership and management, both technical and commercial, with an acute awareness of the industry and its opportunities and challenges.
- Maintains a wide breadth of knowledge, as well as strong relationships which continue to develop the Renishaw business.
- Joined the Renishaw graduate scheme in 1996 and since then has held various senior management positions in engineering, operations, and sales and marketing resulting in an in-depth understanding of the Group's business, products and markets.

External appointments
None

Allen Roberts

FCA

Group Finance Director

Appointed October 1980

Areas of expertise
Finance, Strategy, Internal Controls, Operations, Compliance

Contribution, skills and experience

- Significant contribution to financial planning and strategy, including adept management of financial risks and business development.
- Deep understanding of the Group's business, products, relationships and the sectors in which it operates.
- Experienced in the management of financial risks, reporting and planning.

External appointments
None

Sir David Grant A N R

CBE, PhD, FREng, FLSW, CEng, FIET

Senior Independent Director

Appointed April 2012

Areas of expertise
Engineering, People, Science and Technology

Contribution, skills and experience

- Contributes to talent recruitment, increasing diversity and development of workforce.
- Extensive engineering experience and recognised for his contributions to industry.
- Various previous leadership positions at international engineering companies and government-related science and technology bodies.

External appointments
Non-executive director and nomination committee and remuneration committee chair of IQE plc

Chair of the National Physical Laboratory

Carol Chesney A* N R
FCA

Independent Non-executive Director

Appointed October 2012

Areas of expertise
Finance, Corporate Governance, Internal Controls, Compliance, M&A, Pensions

Contribution, skills and experience
- Contributes to the effectiveness of the Board.
- In-depth understanding of corporate governance, internal controls, compliance, M&A and pensions.
- Career experience in finance, as a company secretary, audit committee chair and having responsibility for health and safety compliance in listed company environments, and a wide industry perspective.

External appointments
Non-executive director and audit committee chair of Hunting plc

Non-executive director and audit committee chair of Biffa plc

Non-executive director and audit committee chair of IQE plc

Catherine Glickman A N R*
BA

Independent Non-executive Director

Appointed August 2018

Areas of expertise
People, Remuneration, Pensions, Strategy

Contribution, skills and experience
- Renishaw HR team are able to readily access Catherine's expertise.
- Skilled at developing reward structures that align leadership motivation with group strategy.
- Extensive HR, remuneration and pensions experience, as well as previous international experience with Genus plc and Tesco PLC.

External appointments
Non-executive director and remuneration committee chair of TheWorks.co.uk plc

Non-executive director and remuneration committee chair of RPS Group plc

Committees
A Audit Committee
R Remuneration Committee
N Nomination Committee
* Chair of Committee

Read more extensive Board biographies online.
Visit www.renishaw.com/en/board-of-directors-and-company-secretary--21878.

John Jeans A N R
CBE, CEng

Independent Non-executive Director

Appointed April 2013

Areas of expertise
Healthcare, International, Strategy

Contribution, skills and experience
- Healthcare sector knowledge gained from senior leadership positions in various global companies.
- Experience serving on several government bodies relating to healthcare.
- Invaluable insight into the healthcare industry from a government/regulatory perspective.

External appointments
Non-executive director of Edinburgh Molecular Imaging Ltd

Chair of the Scottish government's Digital Health & Care Innovation Centre at the University of Strathclyde

Chair of the strategic advisory panel for the Singapore Government's diagnostics development hub

Advisor to the Singapore Government on advanced manufacturing, health and biomedical science

Leads Innovate UK's knowledge transfer network's (KTN) health board

Non-executive director of Karoo CGT Ltd

Jacqueline Conway
General Counsel & Company Secretary

Appointed November 2019

Areas of expertise
Corporate Governance, Risk and Compliance

Contribution, skills and experience
- Responsible for providing legal and governance advice to the Board and senior management, as well as leading the legal function.
- Specialised in corporate governance, risk and compliance.
- Substantial experience of operating in a listed environment.

External appointments
None

Executive Committee

Will Lee (chair)
Chief Executive
See page 52 for biography

Sir David McMurtry
Executive Chairman
See page 52 for biography

Allen Roberts
Group Finance Director
See page 52 for biography

Jacqueline Conway
General Counsel & Company Secretary
See page 53 for biography

The first three members of the Executive Committee listed above were also plc Board Directors during 2019/20.

Further information on the Executive Committee can be found on page 57.

Leo Somerville
President, Americas

Appointed March 2004

Contribution, skills and experience

- Executive Committee responsibility for development of the Americas region.
- Strong leadership and business development skills combined with in-depth market and product knowledge.
- Experience as project manager for machine tool probing in the UK, and as business manager for machine tool probing and calibration products at Renishaw, Inc.

Dave Wallace
Director of Industrial Metrology

Appointed January 2008

Contribution, skills and experience

- Executive Committee responsibility for the management and strategy of Industrial Metrology.
- Deep insight into Renishaw's products, markets, and product development, as well as strong management skills.
- Has worked in various functions of the business, including as Director and General Manager for the CMM Products Division and previously was accountable to the Board for the Styli and Fixturing Products Division.

Geoff McFarland
Director of Group Technology

Appointed July 2002

Contribution, skills and experience

- Responsibility for Renishaw's research centres and intellectual property.
- Skilled in computer-aided mechanical engineering.
- Experience in the medical device and electronic manufacturing sectors.

Gareth Hankins FIET
Director, Group Manufacturing Services Division

Appointed February 2018

Contribution, skills and experience

- Responsibilities include manufacturing operations, procurement and facilities management within the UK, and holding a directorship on our Ireland subsidiary.
- Skilled leader with acute insight into operations and manufacturing.
- Experience in engineering, production, and operations and business management, including previous role as operations manager in the Styli and Custom Products Division.

Mark Moloney
Director and General Manager, Renishaw (Ireland) DAC

Appointed February 2018

Contribution, skills and experience

- Responsibility for manufacturing capabilities and resources in Ireland, and Lyon, France, and for the establishment and expansion of our facilities in Pune, India.
- Skilled leader in operations and manufacturing.
- Prior experience in a production and inventory planning management role, including development of bespoke MRP/ERP systems for manufacturing.

Directors' corporate governance report continued

UK Corporate Governance Code 2018

As mentioned in our Annual Report 2019, we welcome the publication of the Governance Code which applies to the Company for the 2020 financial year. We have been working to ensure we apply the updated Principles with effect from 1 July 2019.

This activity has included:

- Structuring this corporate governance report in line with the Provisions of the Governance Code: Board leadership and purpose; Division of responsibilities; Composition, succession and evaluation; Audit, risk and internal control; and Remuneration.
- Considering the Provisions of the Governance Code while completing the annual review of the Matters Reserved for the Board and its Committees' terms of reference, and updating them accordingly.
- Developing a framework to assist our Directors with engagement with our stakeholders.

The Directors receive a Legal and Governance Report from the General Counsel & Company Secretary ahead of each Board meeting and, since the publication of the Governance Code, they have been updated on progress towards compliance with the new requirements.

Scope of disclosures

This corporate governance report has been prepared in accordance with the Governance Code. The Governance Code can be viewed at: www.frc.org.uk. This report, which incorporates the reports of the Audit Committee and Nomination Committee, together with the Directors' remuneration report, describes how we have applied the main principles of the Governance Code.

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

- a review of the Group's business and likely future developments is given in the Chairman's statement, pages 4 and 5, the Chief Executive's review, pages 6 to 9 and the other sections of the Strategic report on pages 10 to 49. Results are also reported by operating segment in note 2 to the Financial statements, together with an analysis of revenue by geographical market;
- the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR), require the Annual Report to include a management report which can be found in the Strategic report;
- the Directors' corporate governance report and Other statutory and regulatory disclosures set out on pages 50 to 86 and 87 to 89 together form the Directors' report;
- for the purposes of the DTR, 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; and
- for the purposes of the Financial Conduct Authority's Listing Rules (LR), certain information required to be provided to the shareholders is also contained in the Directors' corporate governance report, the Directors' remuneration report and the Other statutory and regulatory disclosures, including information relating to arrangements with controlling shareholders.

Cautionary note and safe harbour: this Annual Report has been prepared for the purpose of assisting the Company's shareholders to assess the strategies adopted by the Company and the potential for those strategies to succeed and no one, including the Company's shareholders, may rely on it for any other purpose.

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, the Company's shareholders should treat this information with due caution.

1. Board leadership and Company purpose

Reporting against the new Governance Code

The Board continues to be committed to the highest standards of corporate governance in order to promote the long-term sustainable success of the Group. The table below seeks to cross-refer the reader to explanations given elsewhere of how we have sought to comply with key aspects of Governance Code Principles A-E, in order to avoid duplication in this report. In addition, we report against other relevant Governance Code principles and provisions within this governance report.

Topic	Page(s)
Company purpose	IFC, 50
Values and culture	5
Workforce engagement	38, 40, 49
Other stakeholder engagement	38–49
Strategy and business model	14–15, 10
Effective controls	60
Sustainability	46–47
Capital allocation	21, 30
Workforce policies and practices	40–42, 48, 87 to 88

Engagement with shareholders and other stakeholders

The Board seeks to ensure that it has effective engagement with shareholders and other stakeholders. During this financial year, the global economic climate has meant that difficult decisions, necessary to safeguard the business's longer-term future, have been required. The table on page 49 illustrates examples of engagement and how the Board has considered s172 obligations in Board discussions and decision-making. The Board will be monitoring progress with engagement mechanisms going forward.

The AGM takes place at the Company's headquarters or one of its other sites and formal notification is sent to the shareholders at least 20 working days before the meeting. A business presentation is given and all Directors are available for questions during and after the meeting, including the chairs of the Audit, Remuneration and Nomination Committees. The COVID-19 pandemic has necessitated specific changes to this year's AGM which have been separately communicated.

Directors' corporate governance report continued

Separate resolutions are proposed for each substantially separate issue, and all resolutions are taken on a poll.

The Company reports on the number of votes lodged on each resolution, the balance for and against each resolution and the number of votes withheld. This information is published via a Regulatory Information Service (RIS) and on the Company's website following the meeting.

At the 2019 AGM, the Board was again pleased that the majority of resolutions were passed with a high level of support from shareholders. The Board has considered the votes against resolutions 4, the re-election of Sir David McMurtry (22.40%) and 5, the re-election of John Deer (22.75%). In order to better understand the reasons for these votes against, the Board has considered the views of shareholders and proxy voting agencies as to voting and voting recommendations respectively (where these had been made available to the Company for the 2019 AGM) and received feedback from the then General Counsel & Company Secretary, following engagement with a number of shareholders on the rationale for their voting. The Board will continue to engage with shareholders to understand their views on this and any other significant matter at AGMs and the annual Investor Days, which include Q&A sessions with the Board. There are also Q&A sessions with the Executive Chairman, Chief Executive and Group Finance Director as part of the full and half-year results webcasts. The Board regularly reviews the Company's investor relations policy. The Board will continue to engage with shareholders to understand their views on this and any other significant matter and published an update on the matter as required under the Governance Code at www.londonstockexchange.com/news-article/RSW/statement-re-2019-agm-resolution-votes/14489925. The Company's overall approach to engagement with shareholders, and the opportunities for interacting with the Board, are set out earlier in this section and on page 39.

Employee whistleblowing

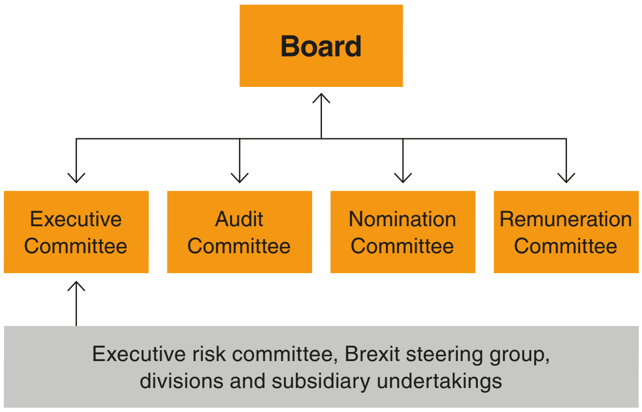
We have a whistleblowing policy, facilitated by a confidential global hotline service, which allows the workforce to raise concerns about suspected unlawful or unethical conduct. Any calls to our whistleblowing line are rigorously followed up. In July 2020, we refreshed our whistleblowing policy and moved to a new service provider Navex Global, as part of an initiative to improve our compliance and facilities in this area, in line with the Governance Code requirements.

Conflicts of interest

The Board has a conflicts of interest policy and register of authorisations, with procedures for the disclosure and review of any conflicts and potential conflicts, and authorisation by the Board (if considered appropriate). Authorisations granted, and the terms of such, are reviewed on an annual basis. New disclosures are made where applicable.

2. Division of responsibilities

Governance structure



Composition of the Board

The Governance Code recommends that at least half the Board, excluding the chairman, should comprise of independent Non-executive Directors. The Board currently comprises two Executive Directors in addition to the Executive Chairman and five Non-executive Directors, four of whom are considered independent.

All the Non-executive Directors (with the exception of John Deer) are considered by the Board to be independent in character and judgement and there are no other relationships or circumstances that are likely to affect a Non-executive Director's judgement. Sir David Grant has served as an Independent Non-executive Director for over eight years and Carol Chesney for almost eight years. As such, the Board considered in particular their continued independence and concluded that they both continue to demonstrate independent judgement and character.

The Board considers that all the Non-executive Directors demonstrate commitment to their roles and are able to dedicate sufficient time to their duties at the Company. Their contribution, skills and experience are summarised in their biographies on pages 52 and 53.

Sir David McMurtry has held the position of Executive Chairman since the Company listed in 1983. Following careful consideration of the new provision of the Governance Code relating to the chairman's tenure, the Board concluded Sir David's continued service as Executive Chairman is in the best interests of the Company and its shareholders. This is because of his unique history as a co-founder of the Company, his contribution to the long-term sustainable success of the Company, in particular given his role and responsibilities for Group innovation and product strategy, and his continued effective leadership of Renishaw's Board in accordance with the Principles set out in the Governance Code.

Senior Independent Director and Non-executive Directors

Sir David Grant is the Senior Independent Director and is available to discuss material concerns with shareholders including if the normal channels of the Executive Chairman, the Chief Executive or the Group Finance Director fail to resolve any concerns shareholders may have. The Non-executive Directors meet with the Executive Chairman without the other Executive Directors present, and the independent Non-executive Directors also meet without the Executive Directors or Executive Chairman or other Directors present, in each case to discuss performance, corporate governance and other matters.

Division of responsibilities

Throughout the year, the Board considered that there was a clear division of responsibilities at Board level ensuring an appropriate balance of power and authority so that there is no one person with unfettered powers of decision. The Board and Executive Committee meet on a sufficiently regular basis to make decisions of significance to the Group's business segments and review management actions.

There are written statements of the key responsibilities of the Chief Executive and the Executive Chairman which also detail the key responsibilities of the Senior Independent Director. These are available on the Company's website at: www.renishaw.com/corporategovernance.

The Board of Directors

At the beginning of the financial year, the Board comprised three Executive and four Independent Non-executive Directors in addition to the Executive Chairman, until the Board approved John Deer's role change from Deputy Chairman (an executive role until January 2020) to a non-executive role, retaining the title Deputy Chairman. For the remainder of the period there were two Executive Directors, in addition to the Executive Chairman, and five Non-executive Directors. The Directors holding office at the date of this report, and biographical details, are given on pages 52 to 53 including the specific reasons why their contribution is, and continues to be, important to the Company's long-term sustainable success. The Directors' biographies are also available at: www.renishaw.com. All Directors will be retiring and seeking re-election at the AGM.

There is a formal schedule of matters specifically reserved for the Board's decision. These include the approval of annual and half-year results and trading statements, company and business acquisitions and disposals, major capital expenditure, borrowing facilities, reviewing the effectiveness of workforce engagement mechanisms, reviewing whistleblowing policy and processes, ensuring maintenance of a sound and effective system of internal control and risk management, business plans and budgets, material agreements, director and company secretary appointments and removals, patent-related disputes 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 30 June 2020, the Board met for eight scheduled meetings 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. A high-level summary of subject areas discussed by the Board during the year is set out on page 58.

The Board has three formally constituted Committees – the Audit Committee, the Remuneration Committee and the Nomination Committee.

There is an executive management committee, the Executive Committee, which is responsible for the executive management of the Group's businesses. It is chaired by the Chief Executive and includes the Executive Directors and senior managers as noted on page 54. The Executive Committee usually meets for two days on a quarterly basis and considers the performance and strategic direction of the metrology and healthcare businesses and other matters of general importance to the Group.

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

The framework for managing risk is set out on pages 26 to 28.

The formal schedule of matters specifically reserved for the Board and the terms of reference of each of the Nomination Committee, Audit Committee, and Remuneration Committee are available on the Company's website at: www.renishaw.com/corporategovernance.

Directors’ corporate governance report continued

Scheduled Board and Committee meetings in the year

July 2019	August 2019
A A B N R R	
September 2019	**October 2019**
B R	A B N R
November 2019	**December 2019**
B R*	
January 2020	**February 2020**
A B N* R*	
March 2020	**April 2020**
B N R	
May 2020	**June 2020**
A B R	B R

* Unscheduled meeting

Key

- B Board
- N Nomination Committee
- A Audit Committee
- R Remuneration Committee

High-level summary of subjects discussed by the Board during the year

Strategy

- Business and corporate strategy
- Changes in markets and the competitive landscape
- Divisional strategies and objectives
- Products and intellectual property
- Strategic risks
- Productivity initiatives and redundancy programme

Risk

- COVID-19 pandemic
- Supply chain dependencies
- Brexit
- Cyber security
- Group’s risk analysis and process evolution
- Data protection

Governance

- Corporate Governance Code 2018 requirements and legal updates, s172
- Board evaluation
- Committee terms of reference
- Business organisation and structure
- Draft Annual Report
- Executive management structure
- Board changes

Finance

- Dividend policy
- Forecasts, objectives, targets, budgets and costs
- Financial performance across the Group
- Oversight of the preparation and management of the financial statements
- Tax strategy and updates
- Trading statements
- Remuneration policy

Shareholder engagement

- AGM and other shareholder feedback
- Investor day
- Communications with shareholders

People

- Health and safety system and updates
- Whistleblowing (now ‘Speak Up’) policy
- Salary reviews, bonus and pensions
- Culture and values
- Workforce and general stakeholder engagement

Commitment

The terms of appointment of the Non-executive Directors, which includes the expected time commitment and requirement to discuss any changes to other significant commitments with the Executive Chairman and Chief Executive in advance, are available for inspection at the AGM and the registered office upon written request.

None of the Executive Directors hold 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, papers and presentations on changes to law and regulations are provided as appropriate. Non-executive Directors are invited to attend internal conferences, which provide information to the Group on new product development and marketing initiatives, to meet with business units and functions, as well as attending investor days. Business presentations are given at Board meetings to provide updates on, and opportunities to discuss, products and business strategies.

A tailored induction pack is provided to new appointees to the Board, and the induction programme (together with the continuing development programme) includes site visits and briefings by senior managers, attendance at internal senior management conferences and external trade shows, as well as foreign subsidiary visits, as applicable.

Information and support

The Board receives business updates, financial information, 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 General Counsel & Company Secretary advises the Board on all governance matters. All Directors have access to the General Counsel & 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 General Counsel & Company Secretary is a matter reserved for the Board. The Company maintains liability insurance for its directors and officers, as disclosed in the Other statutory and regulatory disclosures.

Board and Committee meeting attendance record

The table below shows the number of scheduled meetings of the Board and its Committees at which each Director was present, and the number of meetings they were eligible to attend during the year. During the pandemic, the Board has held additional bi-weekly calls as part of its response planning process.

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
David McMurtry	8/8			4/4
John Deer	8/8			
Will Lee	8/8			
Allen Roberts	8/8			
Carol Chesney	8/8	5/5	9/9	4/4
Catherine Glickman	7/8*	5/5	9/9	4/4
David Grant	8/8	5/5	9/9	4/4
John Jeans	8/8	5/5	9/9	4/4

* Catherine Glickman was absent from the Board meeting on 30 July 2019 due to a pre-existing commitment.

3. Composition, Succession and Evaluation

Nomination Committee

A description of the structure and activities of the Nomination Committee is set out in the Nomination Committee report on pages 62 to 64 where the Board's commitment to diversity is also affirmed.

Re-election

In accordance with the Governance Code all the Directors will retire from the Board at the next AGM and offer themselves for re-election.

4. Audit, risk and internal control

Audit Committee

A description of the membership and activities of the Audit Committee is set out in the Audit Committee report on pages 65 to 69.

Financial and business reporting

The respective responsibilities of the Directors and auditor in connection with the financial statements are explained in Directors' responsibilities on page 90 and the Independent auditor's report on pages 91 to 99.

Directors' corporate governance report continued

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, but not absolute assurance against material misstatement or loss.

There are defined lines of responsibility and delegation of authorities. Established and centrally documented control procedures also exist, including, for example, approvals of 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 control procedures are appropriate and effectively applied. The Group Internal 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 an established process for the review of business risks throughout the Group including an executive risk committee as explained on pages 26 and 28.

The Board ensures 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 review of subsidiaries' accounting processes and performance to provide assurance to the Board on the integrity of the information supplied by each company forming part of the Group's consolidated results.

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

The Board has conducted a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Group's principal risks and uncertainties can be found on pages 29 to 36. The Board is satisfied that there is an ongoing process for identifying, evaluating and managing the significant risks facing the Group, which has been in place during the year, is regularly reviewed and accords with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Board confirms that necessary action has been or is being taken to remedy any significant failings or weaknesses identified from its review.

Fair, balanced and understandable

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Going concern

An overview of the Group's business activities, including a review of the key business risks that the Group face is given in the Strategic report on pages 1 to 49, together with the factors likely to affect its future development, performance and position. Details of the financial and liquidity positions are also given in the Financial review on pages 18 to 21 of the Strategic report, and note 20 to the financial statements sets out 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.

As explained in the Strategic report, and in note 26 Restructuring costs, changes were made to the Group's strategy for AM and resulted in impairments to capitalised development costs, goodwill and property and equipment relating to this part of the business. The Board do not consider that this will have a significant adverse effect on the Group's profitability or liquidity in the period covered by either the going concern assessment or the viability statement, and have taken account of these strategic changes when preparing the forecast models. This consideration is also applicable to the impact on the 12-month forecast period of the impairment in 2020 of other capitalised development costs.

As at 30 June 2020, the Group has a strong balance sheet with net current assets of £286.4m, including net cash and bank deposits of £120.4m. While the Group has secured eligibility to the Bank of England Covid Corporate Financing Facility (CCFF), no commercial papers have been issued and the Group does not anticipate making use of this facility. Access to the CCFF has not been taken into consideration in the downside scenarios discussed below.

Against the backdrop of the aforementioned strong financial position, as part of the Directors' consideration of the appropriateness of adopting the going concern basis in preparing the consolidated financial statements, severe but plausible scenarios have been considered that estimate the potential impact of the principal risks on the financial forecasts over the assessment period, as well as the potential impact of the COVID-19 pandemic.

Third-party research and publications were reviewed, in which the most severe scenario considered that a 'second wave' of the pandemic would be experienced in the remainder of the calendar year 2020, before easing from the start of the calendar year 2021. The Board's most severe scenario therefore assumed that lockdown measures and other COVID-19 related restrictions would reoccur in calendar year 2020, resulting in reduced demand for that period, particularly in the aerospace and automotive markets. Principal risks most relevant to short-term revenue, being supply chain dependencies and exchange rate fluctuations were also assumed to crystallise in the first six months of the forecast period, reflecting the risks relating to Brexit and the impact on revenue of a 15% strengthening of sterling. Other principal risks of industry fluctuations and economic and political uncertainty are reflected in the assumption that trading in the second six months of the forecast period would be comparable to the first half of financial year 2020.

From this combination of assumptions, a revenue forecast of c£350m was determined for the 12 months from the date of signing. In assessing liquidity for the going concern period the other key assumptions under this scenario were a deterioration in debtor days from 79 to 85 days (worse than was experienced by the Group in the 2009 global financial crisis), continued funding of the UK defined benefit pension scheme in line with the agreed recovery plan, no reduction in the Group's operating expenses beyond the cost-reduction initiatives that are already underway, and the impact on costs of a 15% strengthening in sterling against the major trading currencies of the Group. This scenario also assumes that the Group will conserve its cash by not paying dividends and by restricting capital expenditure to £10m per annum, a level which would support the Group's manufacturing facilities and IT infrastructure. No additional borrowings or financing are assumed in this severe scenario, and the cash flow forecast shows positive cash balances, net of working capital requirements, throughout the 12-month going concern period.

Reverse stress testing has also been applied to the model and was updated at the date of signing the Annual Report to reflect actual sales in July 2020. This stress testing demonstrated that the Group would retain a positive liquidity position until revenue decreased to c£169m for the 12 months to August 2021. The Board considers the possibility of this revenue forecast to be highly unlikely, and mitigating actions to further reduce operating costs would be put in place if actual trading in the period was consistent with this scenario.

As a result of the assessments undertaken, the Directors consider 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 a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

Viability statement

The Board approved the Company's viability statement on page 37.

5. Remuneration

The Directors' remuneration report explains how the Company applies the Governance Code principles relating to remuneration and includes a description of the membership and activities of the Remuneration Committee on pages 70 to 86.

Compliance statement

The Board considers that it has complied with the provisions of the Governance Code throughout the year except in relation to the following matter:

- (Provision 19) The chair should not remain in post beyond nine years from the date of their first appointment to the board. To facilitate effective succession planning and the development of a diverse board, this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment. A clear explanation should be provided.

Sir David Grant
Senior Independent Director

18 August 2020

Nomination Committee report

"

The Nomination Committee leads the process for Board appointments and in ensuring the Board has the right balance of experience, skills and diversity to support the Company in achieving its strategy.

Sir David McMurtry
Chair of the Nomination Committee

Date	Topic
29 July 2019	• final review of draft 2019 Annual Report • Board evaluation action plan 2019/20 • review of terms of reference • meeting schedule for the year ahead
24 October	• Board evaluation action plan 2019/20 update • UK Corporate Governance Code 2018 requirements • succession planning for Directors • diversity
28 January 2020*	• change in role of the Executive Deputy Chairman
31 March	• Board evaluation action plan 2020/21 • Board succession planning

* Unscheduled meeting

Nomination Committee role, composition and attendance

Principal role and responsibilities

The Committee is responsible for:

- reviewing the size, structure and composition – including the balance of skills, knowledge, experience and diversity – of the Board and its Committees, and recommending changes to the Board, as appropriate;
- overseeing succession planning for the Board and other senior executives;
- leading the process for new Board appointments and nominating candidates for appointment to the Board;
- annually reviewing the independence and requirements of Non-executive Directors; and
- monitoring the leadership needs of the Group, including for directors and other senior executives.

The members of the Nomination Committee are Sir David McMurtry (Chair), Sir David Grant, Carol Chesney, John Jeans and Catherine Glickman. With the exception of Sir David McMurtry, all of the members of the Committee are independent non-executive directors.

Only Committee members are entitled to attend meetings, although the Chief Executive is invited to attend (excluding where his role is being discussed). Details of attendance at meetings is shown below and the terms of reference are published on the Company's website at www.renishaw.com/corporategovernance.

Committee composition and attendance

Committee members	Attended
Sir David McMurtry (Chair)	4/4
Sir David Grant	4/4
Carol Chesney	4/4
John Jeans	4/4
Catherine Glickman	4/4

Areas of focus for the year ahead

These include:

- increased focus on talent management and succession planning at Board and senior executive level, and across the wider Company;
- continued focus on diversity and inclusion; and
- implementing the recommendations from the Board effectiveness review.

Boardroom diversity

The Board recognises the importance and value of all forms of diversity, including gender, age, ethnicity and background, as well as the importance of creating a culture of inclusion. Our aim is for the Board to have a diverse range of skills, experience and thought from individuals who can really add value to the business and help us to develop and achieve our strategic goals.

The proportion of women on the Board is currently 25%. While the Board supports the aspiration of gender diversity, and best practices in this area, as set out in the Hampton-Alexander review (with a target of 33%), as well as the aspiration of ethnic diversity set out in the Parker Review, it continues to believe it is not appropriate to set any specific targets that may require positive discrimination for appointments to the Board. The Committee considers diversity when making Board and senior management appointment recommendations. The most recent appointments were Catherine Glickman, Non-executive Director and Chair of the Remuneration Committee, appointed in August 2018, and Jacqueline Conway, General Counsel & Company Secretary, appointed in November 2019.

The Board will have the opportunity to review and refresh the diversity of its members in the next few years as some of the Non-executive Directors reach the nine-year tenure and decisions on the future composition of the Board are made. In this regard, the Committee has commenced a process to look for additional independent non-executive directors to join the Board to ensure there is a timely succession of those Board members approaching their nine-year tenure.

Board appointment process

The Board has an established process for identifying and evaluating candidates for appointment to the Board and senior management, which was applied for the appointments of Catherine Glickman and Jacqueline Conway referred to above. Board appointments are also subject to the Company's Equality, Diversity and Inclusion Policy which was adopted in 2018 and which formalised our commitment to diversity at all levels. The Committee's procedures require it to:

- evaluate the balance of skills, knowledge, experience and diversity on the Board;
- identify the skills, knowledge and experience required;
- agree a role specification for the proposed appointment;
- select and appoint recruitment consultants to produce a long list of diverse candidates for the Committee's consideration, if the position is not to be filled internally;
- review candidate profiles and prepare a shortlist of diverse candidates for interview;
- consider and take forward candidates on merit and against objective criteria, with due regard to the benefits of diversity on the Board; and
- recommend the preferred candidate to the Board.

Senior management diversity

Following some changes to the Executive Committee during the year, there are now nine members of this Committee, comprising eight men and one woman (11% women). There were previously no women on the Executive Committee, so the appointment of Jacqueline Conway in November 2019 was welcomed by the Nomination Committee. Across senior management, which includes the Executive Committee and some of their direct reports (excluding those in administrative or non-managerial roles), there are 21 men and four women (19% women). The gender split for both the Executive Committee and for the senior management are included in the table set out below.

Management level	Male	Male %	Female	Female %
Board	6	75	2	25
Executive Committee	8	89	1	11
Senior managers[1]	13	81	3	19
Subsidiary directors[2]	42	98	1	2

1 Includes the direct reports of the Executive Committee, excluding those in administrative or non-managerial roles.

2 Means statutory directors.

For the engineering sector to reach its full potential, it is important that it reflects the society in which it operates. The Committee will continue to focus on improving all forms of diversity at senior management level across the Company.

Tenure of the Chairman

The UK Corporate Governance Code issued by the Financial Reporting Council in July 2018 sets out the governance principles that applied to the Company during the 2020 financial year. The Company complied with all of the principles of the Code in 2020 with the exception of Code Provision 19. This Code Provision recommends that the Chairman should not remain in post beyond nine years from the date of his first appointment to the Board. This provision was introduced for the first time for accounting periods beginning on or after 1 January 2019.

The Company's Chairman, Sir David McMurtry, co-founded Renishaw together with John Deer in 1973. Sir David was appointed to the Board in September 1975 and has been Executive Chairman since the Company listed in 1984. He also served as Chief Executive from 1975 to 2018, when Will Lee was appointed.

While Sir David's tenure exceeds the nine years recommended under the Code, his length of service reflects his ongoing commitment and contribution to what drives our business: innovation. Sir David is a leader in disruptive engineering, and a creator of cutting-edge products and technologies. He continues to be heavily involved in our product strategy and in keeping Renishaw at the forefront of global innovation in metrology and, most importantly, in mentoring and supporting our next generation of innovators. His unique skills, experience, and knowledge of the industry are well recognised both internally and externally, including within his profession, and in the Board's view this sets him apart and explains the rationale for his lengthy tenure and the unanimous support for him remaining in post.

Board effectiveness review

The Board undertakes an annual evaluation of its performance and effectiveness.

In 2019, an external, independently-facilitated Board effectiveness evaluation was conducted by Equity Communications Limited, which resulted in an action plan that was tracked against progress throughout the year.

Nomination Committee report continued

Equity Communications Limited has no other connection with the Company or individual directors.

The next external review is scheduled for 2022, as set out in the diagram below showing the three-year cycle of internal and external reviews.

Internal review process conducted in 2020

During 2020 an internal Board effectiveness review was conducted by the company secretarial team. The review consisted of a questionnaire, covering a number of areas such as strategy, succession and talent, conduct of Committees, and content and effectiveness of Board meetings. The questions were partly based on the output from the 2019 review, together with feedback from the Board on that process. The questionnaire was distributed to the Board in May, and all eight Directors responded. The responses were consolidated and anonymised, and the results and key themes set out in a summary report. The recommendations were set out in an action plan based on the findings in the report. Both the report and the action plan were reviewed and discussed by the Board at its meeting in June.

The outcome of the evaluation confirmed that the Board and its Committees continued to operate effectively.

Key findings from the 2020 review

It was noted the following areas had improved since the 2019 review:

- the quality and timeliness of feedback on the implementation of Board decisions;
- the quality of the Board papers;
- the balance between background briefings and routine matters, and strategic discussions in Board meetings; and
- communication between Board meetings – particularly since the recent introduction of fortnightly informal meetings.

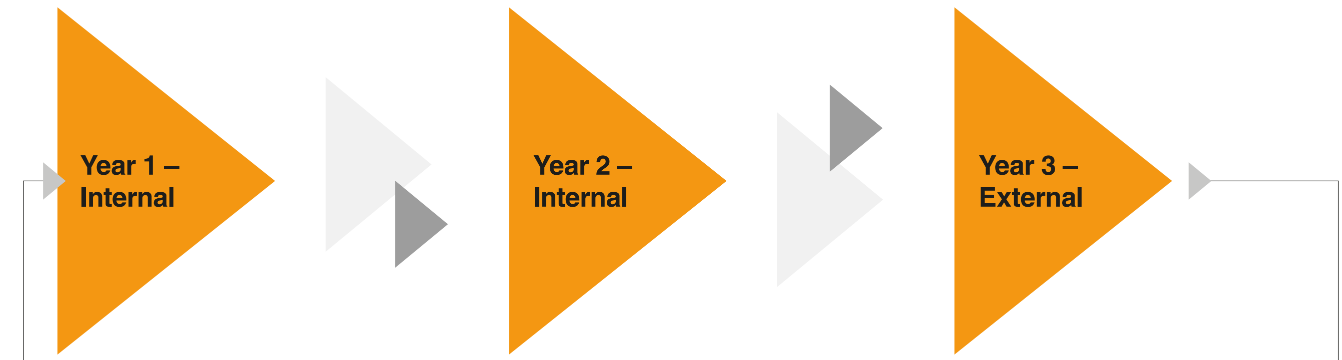
The main recommendations from the 2020 evaluation included:

- getting the balance right between scheduled formal Board meetings (currently nine per year) and more informal updates, such as the regular calls held during the COVID-19 pandemic;
- greater focus on talent management and succession planning; and
- ongoing commitment to ensuring Board papers remain as concise and relevant as possible with critical information made suitably apparent.

Sir David McMurtry
Chair of the Nomination Committee

18 August 2020

Board evaluation: three-year cycle



2020

- Coordinated internally by company secretarial team
- Questionnaire based on outcomes from previous external review
- Anonymised results discussed at Board meeting and outcomes and actions agreed.

Next: 2021

- Coordinated internally by company secretarial team
- Questionnaire based on outcomes from previous internal evaluation
- Anonymised results discussed at Board meeting and outcomes and actions agreed.

Last: 2019/Next: 2022

- Independent external evaluator appointed
- Evaluation conducted via interviews with directors
- Report prepared by independent evaluator
- Board reviews and agrees outcomes and actions.

Audit Committee report

“The Audit Committee plays a vital role in ensuring the integrity of our financial statements, the effectiveness of our risk management processes and internal controls, and in evaluating the performance of the external audit process.

Carol Chesney
Chair of the Audit Committee

Date	Topic[1]
5 July 2019	• results overview to 31 May, challenge critical accounting judgements and estimates • review/discuss EY report on hard close audits
29 July	• results overview to 30 June, challenge critical accounting judgements and estimates • review/discuss EY report on year-end audits • review/discuss Annual Report
23 October	• initial discussions with EY regarding FY20 audit • tax strategy update • discuss the application of the UK Corporate Governance Code 2018 and requirements for s172 • IFRS 16 update
28 January 2020	• results overview to 31 December, challenge critical accounting judgements and estimates • review/discuss EY audit plan for FY20 • forward contract hedging policy update
11 May	• year-end update including COVID-19 considerations • banking controls update • tax strategy update

1 An internal audit update is a standing item at all meetings.

Given the challenging macroeconomic conditions faced during the year, exacerbated by the impact of the ongoing COVID-19 pandemic, the Committee focused its efforts on ensuring the control environment remained suitably robust and appropriate to address the increase in the risks associated with a number of areas of the financial statements. In particular, the Committee reviewed and challenged the assumptions used by management in preparing the going concern assessment, the viability statement, the hedge effectiveness testing, and in its consideration of the carrying value of intangible assets and deferred tax assets.

Audit Committee role and composition

The Audit Committee is appointed by the Board from the Non-executive Directors of the Company. The Audit Committee’s terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the Governance Code. The terms of reference are considered annually by the Audit Committee and any changes are recommended to the Board for approval; they are available on the Company’s website.

The Audit Committee reviews the Group’s accounting policies and procedures, its full and half-year financial statements before submission to the Board and its compliance with statutory requirements. The Audit Committee monitors the integrity of the Group’s financial statements and announcements relating to financial performance, and reviews the significant reporting judgements contained therein. It also reviews the scope, remit and effectiveness of the internal control systems and internal audit function, and together with the Risk Committee and the Board, reviews the effectiveness of the Group’s risk management systems.

The Audit Committee comprises four Non-executive Directors: Carol Chesney (Chair), Sir David Grant, John Jeans and Catherine Glickman. The Board is satisfied that at least one member of the Committee, Carol Chesney, has recent and relevant financial experience and that collectively, the Committee has a depth of financial and commercial experience in various industries, as well as the metrology and healthcare sectors in which the Group operates. A more detailed summary of the qualifications, skills and experience of each Committee member can be found on pages 52 and 53.

Governance

The Committee meets a minimum of four times a year with the Chief Executive, the Group Finance Director, the Head of Group Finance, the Group Financial Accountant, the General Counsel & Company Secretary (together, the executives), the Group Internal Audit Manager and the external auditor in attendance. The main topics discussed at the five meetings held during 2019/20 are detailed in the table to the left. After each meeting, the Committee holds separate discussions with the external auditor and with the Group Internal Audit Manager, respectively, without the executives. The executives work closely with the Chair of the Committee to ensure that transparency is maintained in both meeting papers and communications between meetings with the other Committee members, providing additional practical industry experience to aid discussions in and around meetings. The Chair of the Committee provides feedback on significant matters considered during meetings to the Board after each Committee meeting.

Audit Committee report continued

Key issues and activities

In addition to reviewing the financial reporting of the Group, the Committee also spends a significant amount of time reviewing the effectiveness of the Group's internal control processes and its internal and external audit activities.

The principal activities in the year were:

Financial statements and reports

- assessed the effectiveness of the Group's risk management and internal controls, and reviewed the disclosures made in the 2020 Annual Report;
- reviewed the 2020 Annual Report and the 2020 Interim Report. The Committee received a report from the external auditor on the audit of the 2020 Annual Report;
- challenged the liquidity forecasts for the short to medium term that support management's going concern assessment, the viability statement and the related disclosures;
- assessed critical accounting judgements and estimates in the Annual Report, being: revenue recognition; the amortisation and impairment of intangible assets; the capitalisation of development costs; the carrying value of inventory; cash flow hedges; the assumptions used to determine the defined benefit pension schemes' liabilities; and the estimates of future profits to utilise tax losses;
- considered the effectiveness of the Group's hedging policy and its application, including discussing the ongoing hedging strategy with management alongside the forecasts that support the hedge effectiveness calculations;
- considered the accounting and disclosures in relation to the Group's defined benefit pension schemes;
- considered the appropriateness of the alternative performance measures included in the 2020 Annual Report;
- assessed the effective tax rate in the Annual Report, including reviewing the calculations in relation to the partial derecognition of the deferred tax asset in relation to US tax losses and challenging management's assessment of the provision for uncertain tax positions;
- considered the approach the external auditor took in respect of management override of controls;
- evaluated the controls in place to ensure the Group's revenue recognition policy has been correctly applied, including discussion of the work undertaken by Internal Audit in the year; and
- reviewed and discussed with management the work undertaken to implement IFRS 16 'Leases'.

Risk management and internal controls

- reviewed the output from the Risk Committee regarding the identification of the Group's principal risks, including emerging risks, and the process it followed to identify, evaluate and mitigate risks and considered whether changes in risk profile were complete and adequately addressed;
- monitored the effectiveness of the Group's internal controls and fraud risk;
- reviewed the Group's control environment in relation to our treasury activities;
- reviewed and monitored the implementation plan to ensure the effective roll-out of the remaining updated sections of the Group Internal Control Manual;
- reviewed and agreed the content of the viability statement (see page 37) and the process undertaken, including an assessment of the stress testing performed, in order to approve both it and the going concern assessment (see pages 60 and 61);
- received updates on compliance with the Group's anti-bribery and corruption policy;
- monitored the effectiveness of the Group's global whistleblowing and serious misconduct policy; and
- reviewed the Group's published tax strategy.

Internal audit

- evaluated the scope of work to be undertaken by the internal audit function, including the approach to audits where onsite visits could not take place due to COVID-19 and requesting a review, by questionnaire, of the potential impact that lockdowns in subsidiary locations, due to COVID-19, was having on the control environment;
- reviewed progress on recommendations brought forward and considered recommendations arising during the year, and received regular updates during the year and challenged management regarding the progress relating to the most significant recommendations;
- considered the resource levels available to the internal audit function; and
- reviewed the effectiveness of the internal audit function through discussion with the Group Finance Director, the Head of Group Finance, members of the Audit Committee and a questionnaire completed by a number of subsidiary finance teams.

External auditor and non-audit work

- managed the relationship with the external auditor;
- reviewed, considered and agreed the scope and methodology of the 2020 audit work to be undertaken by the external auditor for the full year;
- evaluated the independence and objectivity of the external auditor;
- agreed the terms of engagement and approved the fees to be paid to the external auditor for the audit of the 2020 Annual Report;
- reviewed the level and nature of non-audit services provided by the external auditor;
- reviewed the effectiveness of the external audit process by a questionnaire completed by the Group Finance Director, the Head of Group Finance, the Group Internal Audit Manager, members of the UK finance team and subsidiary finance teams where EY is the auditor; and
- reconfirmed the non-audit services policy.

Significant issues in relation to the financial statements

As part of the reporting and review process, the Committee has regular discussions with management and the external auditor relating to significant issues.

For the current year, the Committee concluded that (1) the treatment of forward exchange contracts for hedging purposes, (2) the forecasts which are used to support judgements made in relation to the going concern assessment, the viability statement, the carrying value of capitalised development costs, other intangibles and deferred tax assets, (3) the judgements made in relation to the Group's defined benefit pension schemes' liabilities and (4) the classification of certain items as restructuring costs were the four significant issues relating to the financial statements.

The Committee reviewed and challenged the revenue forecasts that support the hedge effectiveness calculations. During the year these forecasts were reduced due to the global macroeconomic uncertainty which resulted in portions of forward contracts failing hedge effectiveness testing according to IFRS 9. The Committee discussed the hedge effectiveness calculations with management and has satisfied itself that the work undertaken was appropriate, and agreed with the conclusions reached and the accounting entries and disclosures made.

The Committee also reviewed the ongoing use of alternative performance measures (APMs), being Revenue at constant exchange rates, Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit. The Revenue at constant exchange rates APM adjusts for changes in exchange rates, while the Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit APMs adjust for hedge ineffectiveness and restructuring costs. The Committee concluded that these APMs should be retained in order to provide stakeholders with a better measure of underlying performance; one which is consistent with management's own assessment of performance.

Due to the COVID-19 pandemic and the actual and potential impacts on the Group's future performance, the Committee decided that it needed to increase its focus on the short to medium-term forecasts prepared by management. These forecasts are key in supporting the going concern assessment, the viability statement, the carrying value of capitalised development costs, other intangibles and deferred tax assets. The Committee discussed the forecasts with management and challenged the appropriateness of the assumptions made including the achievability of the business plans, assumptions in relation to revenue forecasts and growth rates for products currently in development, assumptions in relation to revenue forecasts and growth rates of cash generating units and specifically the likelihood of generating sufficient taxable profits to support the level of deferred tax assets being recognised. During the Committee's feedback to the Board, these discussions usefully continued with the benefit of contributions from all Board members.

The Committee then reviewed the judgements made in relation to the Group's defined benefit pension schemes' liabilities, with particular focus on the discount rate, inflation rate and mortality assumptions, along with an assessment of the disclosures made in respect of employee pension benefits. The Committee made enquiries of management to understand the process undertaken for determining the appropriate actuarial assumptions and satisfied itself that the judgements reached by management were appropriate.

The Committee also reviewed the nature of the items included in restructuring costs, with particular focus on whether the items related to specific restructuring activities that should be separately disclosed in order to aid users' understanding of the Group's performance. The Committee agreed that the items were appropriately classified as restructuring costs as they were incurred in relation to UK redundancy programmes as part of the Group's *Fit for the future* strategy or to the rationalisation of the AM product range to focus on the successful RenAM500Q platform. The Committee then concluded that restructuring costs should be separately disclosed items and were also appropriately excluded from Adjusted profit before tax, a key performance measure by which the Board evaluates the Group's performance.

The Committee discussed these issues with the external auditor and was satisfied that its conclusions were consistent with those of the external auditor.

Engagement with Financial Reporting Council

During the year, the Group's 2019 Annual Report was reviewed by the FRC's Corporate Reporting Review team. As a result of this review, the Group's accounting policy for Cash and cash equivalents has been amended such that Cash and cash equivalents now comprise cash balances, and deposits that either have an original maturity of less than three months, or deposits with an original maturity date of more than three months where the deposit can be accessed on demand without significant penalty for early withdrawal and where the original deposit amount is recoverable in full. Deposits not meeting these criteria are reported separately as Bank deposits. As the amended accounting policy is applied retrospectively, the comparatives in the Consolidated statement of cash flow have been amended to show a cash outflow of £52.5m in Investing activities for the amounts placed on deposits exceeding three months and not accessible on demand, and the comparatives in the Consolidated balance sheet show £52.5m of Bank deposits in current assets separately from Cash and cash equivalents. This amended policy has no impact on profit before tax, net current assets or net cash flow.

The review undertaken by the FRC is based on the 2019 Annual Report and does not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. The review provides no assurance that the 2019 Annual Report was correct in all material aspects and the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC accepts no liability for reliance on them by the Group or any third party.

Audit Committee report continued

Approach to auditor appointment and audit quality

The Committee has primary responsibility for recommending the appointment, reappointment or removal of the external auditor, which the Board puts to shareholders for approval at the AGM.

This is the fourth financial year that the Annual Report has been audited by EY following appointment at the AGM in October 2016. There are no current plans to tender the audit, however the contract for external audit will be put out to tender at least every 10 years.

The Committee continues to monitor the audit approach undertaken by EY by way of updates provided at Audit Committee meetings and further routine discussions between the Committee Chair, company finance representatives, the Group Internal Audit Manager and senior representatives of EY.

When the Committee assesses the effectiveness of the external auditor and the quality of the audit work throughout the year it considers:

- any issues arising from the prior year audit;
- the proposed audit plan including the identification of risks specific to the Group, audit scope and materiality thresholds;
- the delivery of the audit in line with the plan;
- the communication of matters arising during the audit to the Committee;
- meetings with the external auditor without management being present;
- the independence and objectivity of the auditor; and
- feedback from executive management as well as a questionnaire completed by UK and subsidiary finance teams.

Independence of external auditor

In order to safeguard the independence and objectivity of the external auditor, the Committee reviews the nature and extent of the non-audit services supplied, receiving reports on the balance of audit to non-audit fees.

The non-audit services policy reflects the extended list of prohibited services as set out in the latest EU audit regulation. There are also specified services which require the prior approval of the Group Finance Director and Chair of the Audit Committee before the auditor may be appointed to provide such services. In addition, there are specified levels of authorisation to be obtained before the auditor may tender for non-audit services.

For 2020, the external auditor provided £14,668 of non-audit work in relation to separate pieces of work regarding Wotton Travel's annual ATOL/ABTA reporting, French tax compliance and VAT turnover certificates for both the Irish subsidiary and a UK subsidiary.

An analysis of fees paid to EY is included in note 6 to the Group financial statements.

Risk management and internal controls

The Committee monitors the effectiveness of the Group's internal controls and risk management processes with support from Internal Audit and the executive risk committee, which allows it to maintain a good understanding of the business performance and key areas of judgement and decision making within the Group.

During the year the Risk Committee undertook a comprehensive review of the risk management processes which resulted in a number of changes to its composition and terms of reference, but also to how risks, including emerging risks, are identified, managed and reported across the Group. The changes included a new 'top down' process to identify the Group's principal risks, including emerging risks, through interviews with over 20 senior executives from across the business, which meant there was greater alignment between the risks identified and the Company's strategy. A new 'bottom up' process, in which risk reports are submitted by the subsidiaries and product divisions, will be implemented in 2020/21, creating an improved central repository of risk data from across the Group. Risk owners have also now been identified for each principal risk, and as part of their responsibilities, owners will be asked to report on how they are managing and tracking their respective risks at the risk committee, Audit Committee or Board.

The Internal Audit team reports and follows up on control and operational weaknesses, and supports management in making improvements where required. The review of the Group Internal Control Manual was completed in the year and compliance with the key controls set out therein has been undertaken during each audit. Further, an annual declaration of compliance with internal controls and processes is completed by senior management from each active Group company.

Internal Audit continues to review and develop its work programmes to match the evolving risk landscape. The original audit plan included performing 25 overseas subsidiary audit visits during the year. Due to the COVID-19 pandemic, eight of the 25 overseas subsidiary audits have been undertaken remotely. While the standard work programme has been used for all audits undertaken remotely, some of the physical checks have been undertaken by members of the respective subsidiary team, who are independent of the area being checked. This work has been reviewed by the internal audit team and we have no reason to believe the quality of the work was impacted.

Overseas subsidiary audits are currently expected to be performed remotely for the 2020/21 financial year, supplemented with the support of the respective subsidiary team where required.

The Committee determined that the internal audit function is effective following the review detailed in the Key issues and activities section of this report.

Details of risk management and internal controls are set out on pages 26 to 28.

During the year, the Company complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 issued by the UK Competition and Markets Authority for the financial year.

Fair, balanced and understandable Annual Report

One of the key governance requirements is for the Annual Report to be fair, balanced and understandable and that it provides the shareholders with sufficient information to assess the Company's performance, business model and strategy. Ensuring that this standard is met requires continuous assessment of the financial reporting issues affecting the Group on a year-round basis, in addition to a number of focused exercises that take place during the Annual Report production process within a strict timeframe. The processes adopted in relation to the Annual Report included the following:

- overall management of the Annual Report was the responsibility of the Group Finance Director and the General Counsel & Company Secretary who instigated a comprehensive review of the disclosures and then assigned specific ownership and responsibility for the individual sections;
- during the compilation period, regular meetings were held with key contributors from Group Finance, Company Secretarial, CR, Group HR and Group Communications, all of whom are primary authors of the Annual Report. These meetings ensured that there was appropriate linkage between the various sections of the Annual Report and that reporting was balanced;
- considered the enhancements to disclosures suggested by the FRC's Corporate Reporting Review of the 2019 Annual Report;
- an extensive review and verification process was undertaken to ensure factual accuracy;
- a qualitative review of the entire Annual Report, including the application of the Corporate Governance Code 2018 and s172 requirements, was undertaken to ensure that it promotes consistency and balance between the component elements;
- at the first of the Committee's meetings in July 2020, the Committee reviewed an initial draft of the Annual Report, during which it probed and tested certain disclosures;
- at the Committee's meeting in August 2020, the Committee challenged the fair, balanced and understandable assessment and examined whether appropriate balance and equal prominence had been given to favourable and unfavourable events, including the accounting treatment and disclosures in relation to hedge effectiveness and restructuring of the AM business; and
- following review and comment by both the Committee and the Board, the Annual Report was subject to final approval by the Board.

The Committee was satisfied with the process undertaken in preparing the Annual Report. Following discussions at its August 2020 meeting, the Committee advised the Board that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

The Directors' statement on a fair, balanced and understandable Annual Report is set out on page 60.

Carol Chesney
Chair of the Audit Committee

18 August 2020

Directors' remuneration report Committee Chair's statement

"

The Committee recommends the 2020 Directors' remuneration policy to shareholders: the core policy continues to support high performance and long-term sustainable growth while evolving to align with market practice.

Catherine Glickman
Chair of the Remuneration Committee

Introduction

On behalf of the Board, I am pleased to present my second remuneration report as Chair of the Remuneration Committee. This year's report contains a proposed update to our remuneration policy for which we are seeking shareholder approval at the 2020 AGM, together with the FY20 Annual report on remuneration.

This remuneration report has been prepared in accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, LR 9.8 of the Listing Rules, the Companies (Miscellaneous Reporting) Regulations 2018 (SI 2018/860), the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 (SI 2019/970) and the UK Corporate Governance Code 2018.

Remuneration in context

2020 has been a challenging year for the Group, with the COVID-19 pandemic exacerbating the already difficult economic conditions. In H1, the business experienced subdued demand, partly as a result of trade tensions between the USA and China, which had a knock-on effect on the aerospace and automotive industries. In response, the Company implemented its *Fit for the future* strategy which incorporated: rationalisation and prioritisation of key projects and products; aligning our structure to our revised strategies; implementing tight cost control; and cost reductions.

These measures have resulted in improved focus and productivity across Renishaw. The cost-reduction measures included not replacing staff who had left the business, redundancies in direct manufacturing staff in the UK, Ireland and India, and redundancies in other roles across the Group. This resulted in a total headcount reduction across the Group of 578 within the year.

The COVID-19 pandemic, recognised as both a global health and an economic crisis, impacted the Group in the second half of the financial year. The Company's response to this global crisis from a financial perspective has been to focus on cash preservation, which in turn has impacted decisions regarding current salaries and the 2020 salary reviews and bonuses. The decisions that have been taken in this regard are explained later in this statement.

In 2020 the Committee also undertook a review of the Directors' remuneration policy, in particular for non-founder Executive Directors. The Committee agreed that the policy remained fit for purpose and the primary focus of the Company during the pandemic was on ensuring the health and wellbeing of its employees, their families and the communities in which they live and work, and Renishaw customers while prudently managing the Group through this period of uncertainty. The Committee therefore limited the review to aligning the policy with developments in governance and shareholder guidance, since the policy was last approved in 2017.

Key remuneration activities during the year

Executive Directors' bonus plan 2019/20

For the 2019/20 financial year, the Committee agreed that the metrics should continue to be predominantly financial, but that strategic drivers should also be rewarded. It was agreed that the bonus should include, for the first time, an element based on non-financial metrics, as follows: 90% of the 2019/20 bonus was based on financial metrics (specifically Adjusted* profit before tax); and 10% on non-financial metrics. Objectives with specific targets were set, including reducing the cost base, improving productivity, and rationalising and prioritising key projects. The bonus plan structure is consistent with the 2017 remuneration policy which allows up to 25% of the bonus opportunity to be based on non-financial measures.

Salaries for Executive Directors and the wider workforce

In response to the COVID-19 pandemic, the Committee supported the Company's decision in March 2020 to participate in the UK Government's Coronavirus Job Retention Scheme, in order to help preserve its cash position and retain employees. An average of 779 employees were furloughed each month in the UK from 6 April 2020 until the end of June 2020.

In addition, there were salary reductions across the Group, and in particular approximately 1,200 UK employees agreed to move to a 20% reduction in salary commencing on 6 April 2020 for a corresponding reduction in working hours. The salary reduction scheme ended on 15 June 2020, therefore lasting 10 weeks rather than the anticipated three months. The majority of manufacturing staff were asked to continue to work their usual hours for their usual salary to fulfil customer orders, after social-distancing measures were implemented on our sites.

The 20% reduction in salary, though not responsibilities, applied to the Executive Directors and Group-wide senior management, with the latter returning to full pay on 15 June 2020 along with the wider workforce, and the Executive Directors returning to full pay on 1 July 2020. Further, Will Lee, the Chief Executive, voluntarily agreed to an increased level of reduction in salary (to 40%) during the period from 1 April to 30 June 2020. In addition, the Executive Chairman waived his salary, and the Deputy Chairman waived his Non-executive Director fees from 6 April to 30 June 2020. The remaining Non-executive Directors aligned with the senior management by reducing their fees by 20% from 6 April to 30 June 2020.

2020 salary and bonus reviews

In his announcement to staff published on 5 June 2020, Will Lee confirmed that, because of the vital need to manage costs and preserve cash, there would be no routine salary increase this year, neither would a bonus be paid to eligible staff in relation to 2019/20 performance.

In line with this decision, the Committee has confirmed that there will be no salary increase for FY2021 for the Executive Directors or the Executive Chairman, neither will any bonus be payable for the year ending 30 June 2020. The Committee did review performance against the bonus targets, and while the financial targets were not met, it was agreed that the non-financial targets of restructuring the business, project rationalisation together with an acceleration in cost reductions had been met or exceeded. In accordance with the policy, no bonus award can be made unless the financial targets are also met, so there was no award in respect of the non-financial elements. As such, there was no exercise of the Committee's discretion in relation to either the salary or bonus review for 2019/20.

Executive Director changes

John Deer stepped down from his Executive Deputy Chairman role on 29 January 2020 to assume a Non-executive Deputy Chairman role. John received his Executive Director salary and benefits until that date. From 30 January 2020 his remuneration has been aligned with that of the other Non-executive Directors.

Remuneration policy review

The current policy has been in place since 2017, when it received 98.9% approval from shareholders. Its implementation in the last three years has also received strong levels of support. The objectives of the policy remain to attract, motivate and retain Executive Directors while maximising long-term shareholder value and reinforcing Renishaw's culture. We prefer a policy that is simple, conservative, consistent with the approach to remuneration for the wider workforce, and aligned with the interests of our shareholders and other stakeholder groups.

The Committee concluded that making significant changes to the remuneration policy was inappropriate and unnecessary this year. The elements introduced in 2017 – including the deferred annual equity incentive element – have worked effectively in supporting succession planning, aligning non-founder Executive Directors with shareholder interests and rewarding strong performance.

We are therefore proposing that the policy be resubmitted broadly unchanged, save for revisions relating to:

- aligning pension contributions for current and future Executive Directors with the wider workforce and linked to service with Renishaw;
- introducing a post-employment shareholding policy;
- increasing the level of bonus deferral into shares, but not relaxing the stretching targets; and
- extending our malus and clawback policy.

These changes are set out in full on pages 74 to 77.

We consulted with shareholders on our proposals and would like to thank those that engaged in giving us feedback. The policy changes were broadly supported by shareholders; there were some points raised that the Committee will keep under review and consider at the next policy review. The Committee continues to believe that the Policy supports high performance and long-term sustainable growth while being appropriately aligned with evolving market practice.

* Note 25, Alternative performance measures, defines how Adjusted profit before tax is calculated.

Committee Chair's statement continued

Areas of focus for the year ahead

We will implement the Policy, if approved by shareholders, and work on the following areas:

- continue to review financial and non-financial measures and targets ensuring that our incentives remain aligned with performance and strategy, given the potential long-term impact of COVID-19; and
- continue to engage with the wider workforce to help inform decisions on executive reward.

I would like to thank shareholders for their continued support, and am always happy to answer questions or receive feedback: I can be contacted at companysecretary@renishaw.com.

Catherine Glickman
Chair of the Remuneration Committee
18 August 2020

Role of the Committee

A key aim of the Committee is to help attract, retain and motivate talented executives by ensuring competitive remuneration and motivating incentives. The incentives are linked to the overall performance of the Group and, in turn, to the interests of all shareholders.

The Remuneration Committee is responsible for:

- deciding the Company's framework for executive remuneration;
- determining the remuneration for each of the Executive Directors;
- reviewing and approving remuneration for other senior management; and
- overseeing and reviewing the structure and operation of the remuneration policy.

Committee composition and attendance

All members of the Committee are Independent Non-executive Directors: Catherine Glickman (Chair), Sir David Grant, Carol Chesney and John Jeans. The terms of reference for the Committee are published on the Company's website www.renisaw.com/corporategovernance. Executive Directors may attend meetings of the Committee by invitation and independent advisers are used as required.

Committee composition and attendance

Committee members	Attended scheduled meetings	Attended unscheduled* meetings
Catherine Glickman (Chair)	7/7	2/2
Sir David Grant	7/7	2/2
Carol Chesney	7/7	2/2
John Jeans	7/7	2/2

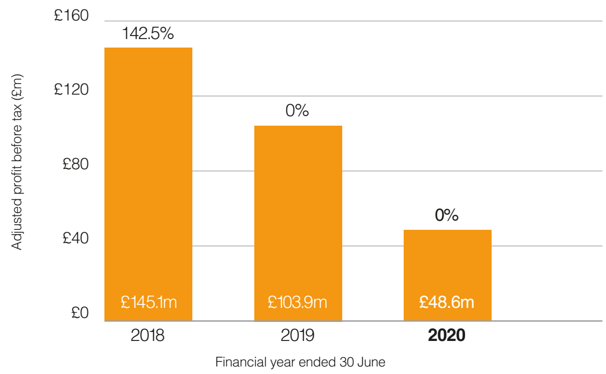
* There were two unscheduled Committee meetings on 29 November 2019 (regarding remuneration for the Chairman and Deputy Chairman) and on 28 January 2020 (regarding John Deer stepping down as an Executive Director and being appointed as a Non-executive Director).

Date	Topic
5 July 2019	• Committee's terms of reference • Chairman's expenses • Annual Report
29 July	• Executive Directors' bonus plan • senior management bonus plan • Annual Report
26 September	• Executive Directors' bonus plan • remuneration policy review • plan for FY 2019/20 • Committee meeting schedule for 2020
24 October	• workforce considerations • feedback from institutional shareholders • Executive Directors' bonus plan update
31 March 2020	• furloughing • current salaries • FY2020 bonus review and FY2021 salary review
11 May	• remuneration and COVID-19 • remuneration policy review
25 June	• remuneration and COVID-19 • additive manufacturing restructuring • remuneration policy review • Directors' remuneration report • Executive Directors' service agreements

Remuneration at a glance

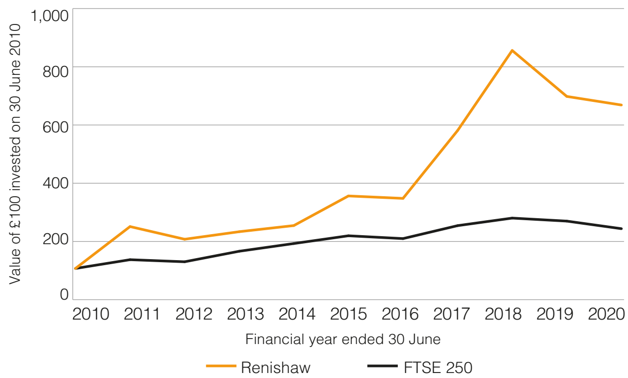
KPI – performance snapshot

Adjusted profit before tax[1*]



1 The percentages in this bar chart refer to the total of the awards made to the Executive Directors. Note that in 2017/18 the founder Executive Directors only received 100%, and in 2018/19 and 2019/20 no awards were made as the financial targets were not met.

Total shareholder return (TSR)



How is performance reflected in our incentives?

Adjusted* profit before tax (PBT) is a key measure of Renishaw's financial performance.

In 2019/20, Adjusted PBT was weighted 90% in both the annual cash bonus and deferred equity incentive plan, with the remaining 10% of the opportunity subject to the achievement of non-financial objectives relating to restructuring of the business, prioritisation of projects and a cost-reduction programme.

Our financial performance for 2019/20 has resulted in no awards being made in relation to the annual cash bonus or the deferred annual equity incentive plan, under either the financial or non-financial elements of the plan (although the financial targets must be met in order for any award to be made).

* Note 25, Alternative performance measures, defines how Adjusted profit before tax is calculated.

Alignment of Executive Director and shareholder interests is reinforced by the significant shareholdings of our founder Directors, and for non-founder Directors through deferred annual equity plan awards being denominated in shares. Renishaw's TSR has outperformed the FTSE 250 index over the last three and five years. TSR over these periods has been 15% and 90% respectively. This compares with -4% and 12% for the FTSE 250 over the same timeframe.

Executive Director remuneration in 2019/20

£'000	Sir David McMurtry	John Deer	Will Lee	Allen Roberts
Base salary	536	260	505	398
Taxable benefits	3	12	20	20
Pension	n/a	n/a	76	60
Annual cash bonus	–	–	–	–
Deferred equity incentive	n/a	n/a	–	–
Total	539	272	601	478
Shareholding (multiple of salary)	1,485x	n/a*	0.265x	0.497x

* John Deer stepped down as an Executive Director on 29 January 2020 (becoming a Non-executive Director) and therefore is no longer subject to the minimum shareholding guideline. For the avoidance of doubt, while John Deer was an Executive Director his shareholding exceeded the shareholding guideline that applied in that tenure (i.e. during the period from 1 July 2019 to 29 January 2020).

Implementation of policy in 2020/21

Salary

In line with the wider UK workforce, there will be no salary increase for Executive Directors.

Benefits

The package of benefits for Executive Directors is unchanged from 2019/20, with the exception of home telephone costs which are no longer included in the package.

Annual incentive plan

Subject to the proposed 2020 policy being approved by shareholders, the annual cash bonus and deferred equity incentive opportunities will be combined into a single annual incentive opportunity for 2020/21 onwards for the non-founder Executive Directors. In line with the proposed policy, 50% of any payment earned by the non-founder Executive Directors will be deferred into shares for three years. This change represents an increased level of deferral, but no change to the previous maximum aggregate award opportunity. The Executive Chairman's opportunity remains at 100% of salary and any award would be paid in cash.

Directors' remuneration policy

Executive Directors' remuneration policy

This section of the Directors' remuneration report sets out the proposed Directors' remuneration policy of the Company, to be approved at the 2020 AGM. This policy is largely unchanged from that approved by the shareholders at the 2017 AGM and published most recently in the 2019 Directors' remuneration report. If approved by shareholders, this 2020 policy will come into force after the 2020 AGM, for a period of up to three years. Changes to the 2017 policy are also summarised in a separate table on page 77. The 2020 policy was determined by the Committee after reviewing the impact of the 2017 policy, key governance factors, and taking account of shareholder feedback. The Committee further reviewed the policy against the six themes set out in paragraph 40 of the 2018 UK Corporate Governance Code: clarity, simplicity, risk, predictability, proportionality and culture. The Committee concluded that:

- the policy and our approach to its implementation are simple, appropriately designed and well understood, reinforcing the Group's culture as well as strategy;
- the performance measures used in the incentive plans are well aligned to the Group's strategy and goals, with stretching and achievable targets: the maximum awards under any award are clearly stated and therefore predictable;
- the balanced approach drives behaviours that promote high performance and sustainable growth to drive the long-term success of the Company for the benefit of all stakeholders, without encouraging or rewarding excessive risk-taking;
- the Committee retains sufficient discretion to adjust formulaic incentive outcomes or require the repayment of previous awards to ensure that poor performance is not rewarded; and
- our approach to disclosure is transparent with clear rationale provided on its maintenance and any changes to policy.

The Committee has the discretion to amend the 2020 policy with regard to minor or administrative matters where it would, in the opinion of the Committee, be inappropriate to seek or await shareholder approval. To ensure conflicts of interest are managed, the Committee ensures no Director determines the policy regarding their own remuneration.

Executive Directors' policy table

Total remuneration policy	
Purpose and relevance to strategy	To attract, motivate and retain talented Executive Directors to support delivery of Renishaw's strategy and maximise long-term shareholder value.
Operation	Executive Director remuneration is designed to be simple, conservative and aligned with shareholder interests.
Maximum	A cap on total remuneration at upper quartile of the relevant market for the position in question will apply.
Performance measures	Described below in relation to each constituent element of remuneration.

Our total remuneration policy comprises the following constituent elements:

Base salary	
Purpose and relevance to strategy	To provide a competitive remuneration package to motivate and retain Executive Directors of the required calibre to help the Group meet its objectives to deliver the Group's strategy.
Operation	Renishaw aims to pay base salaries between median and upper quartile, reflecting that its variable pay opportunities remain significantly below market.
Maximum	Salaries are set to deliver total remuneration in accordance with the policy defined above. Base salary increases will normally be capped at the level of salary increases for the broader workforce in the Executive Director's home market, unless the Committee in its absolute discretion determines that circumstances warrant a higher increase. Example circumstances include: to reflect a significant change in a director's role or responsibilities, or if (in shareholders' interests) a director was intentionally appointed on a below-market total remuneration opportunity initially and their subsequent performance in the role warrants an above-average salary increase. The rationale for any above-average increase will be disclosed in the relevant annual remuneration report.
Performance measures	Continued good performance.

Benefits

Purpose and relevance to strategy

To provide market-competitive benefits to motivate and retain Executive Directors and to support them to give maximum attention to their role.

Operation

Benefits provided on an ongoing basis include:

- a car or car allowance;
- private medical insurance;
- life assurance; and
- long-term disability cover.

If, on the appointment of a new Executive Director, relocation is required to the director's place of work, reasonable and proportionate relocation support may be provided.

Maximum

Excluding accommodation and relocation costs, benefits are capped at £50,000 per annum.

Performance measures

Not applicable.

Annual incentive opportunity (comprising cash bonus and deferred equity awards)

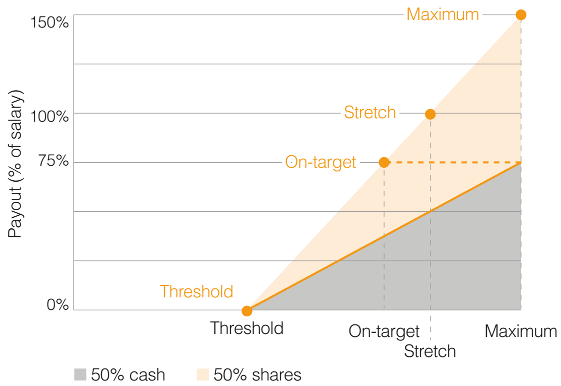
Purpose and relevance to strategy

To incentivise and reward execution of the Group's objectives, reward outperformance and encourage Executive Director share ownership.

Operation

The annual cash bonus and deferred annual equity opportunity under this proposed 2020 policy have been combined into a single annual incentive award opportunity for the non-founder Executive Directors with 50% of any earned payout deferred into shares for three years. Dividends may accrue on deferred shares over the deferral period and, if so, will be paid as additional shares on vesting.
The Committee sets Group performance targets, including a threshold below which no annual incentive is earned, increasing from zero on a straight-line basis to a target at which 75% of salary (equivalent to 50% of the maximum opportunity for non-founder Executive Directors) would be earned, and to a cap at which the maximum opportunity of 150% of salary could be earned. As under the previous policy, the targets for payouts of between 100% of salary ('Stretch') to 150% of salary ('Maximum') will incentivise and reward even greater outperformance of profit growth expectations for any year – this is shown in the chart below.
Sir David McMurtry participates in the annual bonus plan: his incentive opportunity is capped at a maximum of 100% of salary, to be paid in cash.

Part or all of any annual incentive payment (whether paid in cash or deferred into shares) may be subject to repayment in the event of any:
(i) material financial misstatement;
(ii) error in calculation;
(iii) misconduct;
(iv) corporate failure;
(v) material loss; and/or
(vi) reputational damage.



Maximum

150% of salary for non-founder Executive Directors, and 100% of salary for Sir David McMurtry. Any award for Sir David McMurtry will be paid in cash.

Performance measures

Based on Group performance, primarily measured by Adjusted PBT (one of the key measures of performance used by the Board). The Committee may introduce other metrics (financial and non-financial) to reflect the Group's priorities, or make adjustments to appropriately reflect underlying performance, provided that the bonus will always be subject to achievement of the threshold financial performance.
Targets will be set around the Group's internal strategic plan. Any non-financial metrics shall not form more than 25% of the overall bonus opportunity.

Directors’ remuneration policy continued

Pension	
Purpose and relevance to strategy	To provide a pension contribution/allowance in line with the wider workforce of the home country of the Executive Director and to motivate and retain Executive Directors of the required quality to meet the Group’s objectives.
Operation	As from 1 August 2020, Executive Directors who joined Renishaw prior to 2007 will receive pension contributions in to the Company’s defined contribution scheme, or all or part as an allowance paid in lieu, at 11% of salary, in alignment with other long-serving employees. Executive Directors who joined Renishaw after 2007 will receive the same annual contributions as other more recent joiners across the wider workforce (currently 9% of salary); the allowance will be made into the Company’s defined contribution scheme or all or part as a cash allowance in lieu, as agreed by the Committee. Will Lee is a deferred member of the Company’s defined benefit scheme, which closed for future accruals on 5 April 2007. Sir David McMurtry receives no pension contribution or allowance in lieu.
Maximum	The maximum contribution to the defined contribution scheme, or, where applicable, additional salary payment in lieu of contributions, is 11% of base salary for Executive Directors who joined Renishaw prior to 2007 and 9% of base salary for those who joined after 2007.
Performance measures	Not applicable.

Minimum shareholding guideline	
Purpose and relevance to strategy	Supports the alignment of Executive Director and shareholder interests.
Operation	The Chief Executive is expected to build up and maintain a level of share ownership of at least 200% of base salary. All other Executive Directors are expected to build up and maintain a level of share ownership of at least 50% of base salary. 50% of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding guideline is met. The required level of shareholding is expected to be achieved within five years from an Executive Director’s appointment. Executive Directors’ shareholdings are reviewed annually by the Committee to ensure progress is being made towards achievement of the guideline level of shareholding. However, if it becomes apparent to the Committee that the guideline is unlikely to be met within the timeframe, then the Committee will discuss with the Director a plan to ensure that the guideline is met over an acceptable timeframe.
Maximum	Not applicable.
Performance measures	Not applicable.

Post-employment shareholding policy	
Purpose and relevance to strategy	Supports the principle of long-term share ownership that is promoted by the 2018 UK Corporate Governance Code.
Operation	Executive Directors (excluding Sir David McMurtry) will be required to maintain a personal shareholding in Renishaw at a level of at least the lower of their actual shareholding and the level of their minimum shareholding guideline for one year after they step down from the Board, and 50% of that level for a further year. The post-employment shareholding policy will apply to shares awarded under the new policy, effective October 2020. The Committee retains the discretion to modify the post-employment shareholding requirement in certain, exceptional circumstances; for example, on a change of control or if a conflict of interest arises with an Executive Director’s next appointment.
Maximum	Not applicable.
Performance measures	Not applicable.

Key changes from the 2017 Directors' remuneration policy

As detailed in the statement from the Chair of the Remuneration Committee, the 2020 Policy is broadly unchanged from 2017, apart from the revisions summarised in the table below.

Element of remuneration	Summary of the changes	Rationale
Pension	From 1 August 2020, Executive Directors (excluding Sir David McMurtry) who joined Renishaw prior to 2007 will receive pension contributions in to the Company's defined contribution scheme (or all or part as an allowance paid in lieu) at 11% of salary, in alignment with other long-serving employees. For any Executive Director who joined Renishaw after 2007, annual contributions of up to 9% of salary (in alignment with the wider workforce) will be made in to the Company's defined contribution scheme (or all or part as an allowance paid in lieu) as agreed by the Remuneration Committee. The 2017 policy maximum was 15% of salary.	To fully align Executive Directors' pensions with the wider workforce. This is consistent with a commitment made in the 2019 Directors' remuneration report.
Malus and Clawback	Extended to include corporate failure, material loss and reputational damage. The 2017 policy limited recovery provisions to cases of material financial misstatement, error in calculation or misconduct.	To align with market practice.
Minimum shareholding requirement	The CEO is expected to build up and maintain a level of share ownership of at least 200% of base salary (2017 policy: 50% of salary).	This is consistent with a commitment made in the 2019 Directors' remuneration report.
Post-employment shareholding requirement	Executive Directors (excluding Sir David McMurtry) will be required to maintain a personal shareholding in Renishaw at a level of at least the lower of their actual shareholding and the level of their shareholding requirement for one year, and 50% of that level for a further year.	This new requirement supports the principle of long-term share ownership that is promoted by the 2018 UK Corporate Governance Code.
Benefits	No longer includes home telephone costs.	To align with market practice.
Single annual incentive combining cash bonus and deferred equity	A single annual incentive award opportunity comprising a combined annual cash bonus and deferred annual equity award of up to 150% of salary for non-founder Executive Directors, with 50% of any bonus earned deferred into shares for three years (rather than limiting deferral into shares to any payout in excess of 100% of salary, as provided for under the 2017 policy). This represents an increased level of deferral, but no change to the current maximum award opportunities. The payout schedule remains unchanged, with 0% payout at Threshold, increasing to a payout of 75% of salary at Target, 100% of salary at Stretch, and a maximum payout of 150% of salary. Performance targets will continue to be set such that payouts above 100% of salary will represent very stretching performance outcomes which reward overperformance. Sir David McMurtry's maximum opportunity remains 100% of salary (to be paid in cash).	Simplifies the bonus into a single award opportunity, without increasing the current award opportunity while encouraging Executive Director share ownership.

Directors' remuneration policy continued

Approach to recruitment remuneration

When agreeing the remuneration package for a new Executive Director, the Committee will apply the Policy for the existing Executive Directors to ensure a consistent approach, except as set out below.

For an external hire, base salary will be set in line with the factors set out in the policy table, taking into account the individual's experience and the amount required to attract the individual to join the Company. The Committee may also consider paying compensation over and above the limits set out in the policy table to new hires who forfeit any award under the variable remuneration arrangements with a previous employer. Any such buyout awards would have a fair value no higher than that of the awards being replaced, and would be structured as far as possible to replicate the awards being forfeited, in terms of vesting horizons and performance linkage.

Where a new Executive Director is required to relocate from their home location to take up their role, the Committee may provide reasonable relocation assistance and other appropriate allowances if business needs require it.

When an internal appointment is made, any pre-existing obligations will be honoured and payment will be permitted under the policy.

As mentioned in the Statement from the Chair of the Remuneration Committee, the pension contributions for all incumbent Executive Directors are now aligned with that available to the wider workforce in the relevant market, and future Executive Directors will also be aligned following the approval of the 2020 policy.

Committee discretion in exceptional circumstances

The Committee retains discretion in exceptional circumstances to offer a long-term incentive to support Renishaw in securing the best Executive Director candidate, if the Committee considers it to be in shareholders' best interests to do so. Any use of this discretion would be limited by our internal policy for the aggregate of all incentive opportunities (as a percentage of salary) not to exceed market median, and for an individual Executive Director's total remuneration not to exceed upper quartile. Any use of this discretion would be accompanied by a full rationale in the relevant annual remuneration report.

Service contracts and policy on payment for loss of office

The Executive Directors' service contracts require 12 months' notice of termination by either party. There are no obligations in any Executive Director's service contract, or Non-executive Director's letter of appointment, which would require the Company to pay a specific amount of compensation for loss of office.

The Executive Directors' service contracts reflect the Company's policy regarding notice periods. No payment will be made for a termination by the Company for a breach by the Executive Director of his or her service contract. In other cases, payment in lieu of notice will be considered up to the 12 months' notice period to cover base salary, benefits and pension contributions. If additional compensation is required to be considered, such as on a settlement agreement, the Committee will consider all relevant commercial factors affecting the specific case. Directors' service contracts are available for inspection at the Company's registered office upon written request to the Company Secretary.

A summary of the key elements of the policy for loss of office are set out below:

Provision	Policy
Notice period	12 months' notice by either party. No obligation to pay a specific amount in compensation for loss of office.
Pension	Pension will continue to apply until the termination date; payment in lieu of notice will be considered up to a period of 12 months.
Treatment of annual incentive plan awards	No annual incentive is payable for the financial year, unless the Committee determines otherwise in certain 'good leaver' circumstances. These include ill health, death, disability, retirement in agreement with the Committee, redundancy, or any other reason as the Committee in its absolute discretion may determine. For 'good leavers', any payment would normally be pro-rated for time and reflect the Company's performance against the targets set at the start of the year. It would also take into account the circumstances of the individual's loss of office, and may be paid wholly in cash. Unvested deferred equity awards normally lapse, unless the Committee determines otherwise for a 'good leaver'. In such cases, unvested awards would normally be pro-rated to reflect the portion of the deferral period that has elapsed on cessation of employment, and vest on the normal vesting date (except in the event of death, when vesting would be brought forward). Unvested awards normally vest early on a change of control of the Company.
Benefits	Benefits will continue to apply until the termination date; payment in lieu of notice will be considered up to a period of 12 months.

Statement of consideration of employment conditions elsewhere in the Group

The Committee takes into account the pay and employment conditions of the Group in the country in which the Executive Director resides, and is satisfied that the approach taken is fair and reasonable based on market conditions and practice, and the best interests of shareholders. When considering the annual salary review, the average base salary increase awarded to employees provides a guide when determining the salaries of the Executive Directors (located in the same country).

The Company does not specifically consult with employees on its Executive Director remuneration policy.

Statement of consideration of shareholder views

The Committee has taken into account feedback provided by external shareholders when drawing up the revised remuneration policy for 2020. The top twenty external shareholders as well as proxy voting agencies were consulted in May and June 2020 regarding the proposed changes. The Committee is grateful for the feedback received from shareholders as part of this process, and which indicated broad support for the initial proposals. While no substantive changes were made to the policy as a result of the feedback, the questions raised by shareholders and proxy voting agencies to clarify certain points, such as in relation to pension contributions for new versus existing Executive Directors, was extremely helpful in shaping the language used in the policy.

The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

Employee engagement

A variety of stakeholder views are taken into account when determining executive pay, including those of our shareholders, colleagues, and external bodies. Further details on how we engage with, and consider the views of, each of these stakeholders are set out on pages 38 and 39.

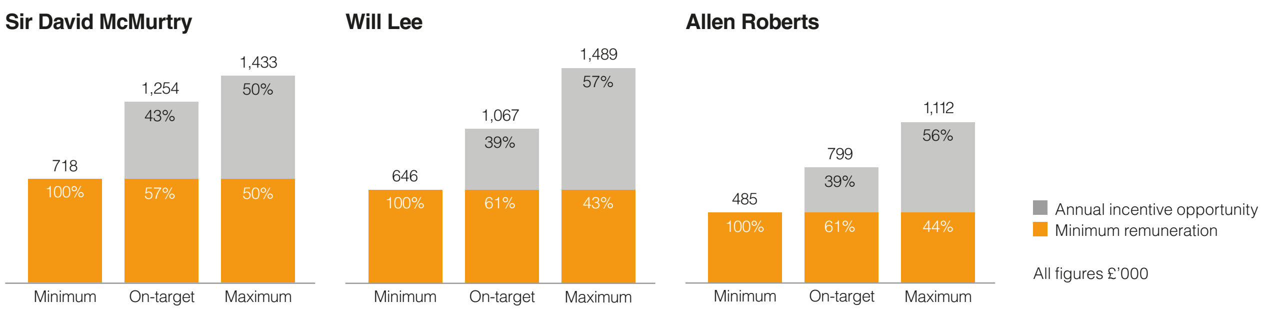
The Remuneration Committee is supportive of the growing focus on engaging the employee voice, which has accompanied recent changes to the UK Corporate Governance Code. The Chair of the Committee is the ambassador for our workforce engagement activities and has attended a number of meetings with employee groups, both in person and via Teams, and this has been useful for gaining an insight into employee views on a range of subjects. When reviewing and determining this policy, the Remuneration Committee is briefed on pay and employment conditions of employees in Renishaw as a whole, with particular reference to the UK, being the market in which the Executive Directors are based.

Illustrations of application of remuneration policy

The bar charts set out below for each Executive Director show remuneration for the financial year ending 30 June 2021 under different performance scenarios:

- firstly, the minimum remuneration payable in respect of salary, benefits and pension;
- secondly, the remuneration payable if performance is on target and in line with the Company's expectations; and
- thirdly, the remuneration payable if the maximum cash bonus and deferred annual equity incentive is payable.

Note that deferred equity incentive plan awards granted in a year will not normally vest until the third anniversary of the date of grant, and the projected value excludes the impact of share price movement. Due to the absence currently of a long-term incentive, the fourth scenario required by the latest reporting regulations (requiring the impact on the value of long-term incentives of 50% share price growth over the performance period) is not shown; this is unchanged from the third scenario above.



Directors' remuneration policy continued

Non-executive Directors' policy table

The remuneration of the Non-executive Directors is determined by the Executive Directors and consists of a board fee only. There is no entitlement to any additional fees nor any bonus, incentive plans or pension. There are no additional fees payable as each Non-executive Director contributes in their own way, according to their unique skillset and experience. Set out below is a table summarising the approach to fees for the Non-executive Directors of the Company.

The Non-executive Directors are appointed for an initial three-year period subject to annual performance review and re-elections at AGMs, unless terminated earlier by either party on one month's written notice. Appointments will not normally continue beyond nine years in office, although there may be exceptions where a certain skillset is difficult to replace and/or in order to allow a comprehensive recruitment exercise to be conducted.

Element of remuneration	Purpose and relevance to strategy	Operation	Maximum	Performance measures
Board fees	To provide a competitive fee to attract and retain Non-executive Directors of the required calibre to meet the Group's objectives.	All Non-executive Directors are paid the same fee, irrespective of membership of, or their chairing of, Board committees. The fees are reviewed annually with reference to fees payable to non-executive directors of companies of a similar size and complexity. Reasonable expenses that are incurred by Directors in undertaking their duties as a director are reimbursed.	The maximum aggregate Non-executive Director fees payable are set by the Company's Articles of Association, currently an aggregate of £300,000 per annum*.	Not applicable

* Subject to the approval of a separate ordinary resolution at the 2020 AGM, the maximum aggregate fees under the Company's Articles of Association for all Non-executive Directors will be increased from £300,000 to £500,000 per annum to ensure that any future annual increases, in the ordinary course, can be made and to allow for the appointment of additional Non-executive Directors.

Annual report on remuneration

This section of the report sets out the remuneration of the Directors in the year ended 30 June 2020 and also contains details of how we intend to implement the remuneration policy for the forthcoming financial year. The information on pages 81 to 86 has been audited where required under the regulations and is indicated as audited where applicable.

Single total figure table (audited) – Executive Directors

	Salary		Benefits		Bonus[2]		Pension		Total fixed remuneration		Total variable remuneration		Total remuneration	
	2020[1] £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Sir David McMurtry	**536**	700	**3**	3	**0**	0	**n/a**	n/a	**539**	703	**0**	0	**539**	703
John Deer[4]	**260**	437	**12**	21	**0**	0	**n/a**	n/a	**272**	458	**0**	0	**272**	458
Will Lee	**505**	550	**20**	20	**0**	0	**76**	83	**601**	653	**0**	0	**601**	653
Allen Roberts	**398**	409	**20**	21	**0**	0	**60**	61	**478**	491	**0**	0	**478**	491

Single total figure table (audited) – Non-executive Directors

	Fees		Expenses		Total remuneration[3]	
	2020[1] £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
John Deer[5]	**9**	n/a	**0**	n/a	**9**	n/a
Carol Chesney	**53**	55	**0**	0	**53**	55
Catherine Glickman[6]	**53**	>50	**0**	>0	**53**	51
Sir David Grant	**53**	55	**0**	0	**53**	55
John Jeans	**53**	55	**2**	1	**55**	56

1 The figures for 2020 represent the impact on salary or fees received for the financial year ended 30 June 2020, as a result of the COVID-19 pandemic, as follows: Sir David McMurtry waived his salary from 1 April to 30 June; John Deer waived his fees from 1 April to 30 June; Will Lee had a 40% reduction in salary from 1 April to 30 June; Allen Roberts had a 20% reduction in salary from 6 April to 30 June; all of the independent Non-executive Directors had a 20% reduction in fees from 6 April to 30 June.

2 The value of the bonus includes both the value of the annual cash bonus and the face value of shares to be awarded under the deferred annual equity incentive in respect of the relevant financial year. Deferred shares will normally vest on the third anniversary of grant, subject to continued employment.

3 The Non-executive Directors are not eligible for any variable remuneration and only receive fixed remuneration.

4 John Deer stepped down as an Executive Director on 29 January 2020 (becoming a Non-executive Director) and therefore these figures reflect remuneration received during the period from 1 July 2019 to 29 January 2020.

5 John Deer became a Non-executive Director on 30 January 2020 and therefore these figures reflect remuneration received during the period from 30 January 2020 to 30 June 2020.

6 Catherine Glickman's fees in 2019 were for part of the year only following her appointment on 1 August 2018.

Benefits

	Car allowance £'000	Private medical cover applies to all Executive Directors and insurance on personal cars apply to some Directors £'000
Sir David McMurtry	–	3
John Deer*	12	<1
Will Lee	20	<1
Allen Roberts	20	<1

* John Deer stepped down as an Executive Director on 29 January 2020 (becoming a Non-executive Director) and therefore these figures reflect remuneration received during the period from 1 July 2019 to 29 January 2020. John Deer ceased to receive benefits following his transition to a Non-executive role.

Incentive outcomes for 2019/20

Under the remuneration policy approved at the 2017 AGM, the Executive Directors were eligible in 2019/20 for a cash bonus (of up to 100% of salary) and, in the case of Will Lee and Allen Roberts, an award of shares worth up to 50% of salary under the deferred annual equity incentive plan. These awards were subject to the achievement of financial and non-financial targets being met for the year to 30 June 2020. Ninety percent of the maximum cash and share award opportunity was based on financial targets using a single financial measure, being the Group's Adjusted profit before tax. The remaining 10% of the bonus plan was, for the first time, based on non-financial measures in which objectives with specific targets were set, specifically to reduce the cost base, improve productivity, and rationalise and prioritise key projects. The non-financial targets were met or exceeded in 2019/20, but because the financial targets were not met, in line with policy, no bonus award was made for 2019/20.

The Committee established stretching targets for the annual cash bonus and deferred annual equity incentive plan taking into account the profit growth expectations for the business, other financial parameters and strategic objectives to be achieved.

The Adjusted profit before tax targets for 2019/20 were: threshold £104m; on-target £116m; and maximum £135m.

Annual report on remuneration continued

Total pension entitlements

Will Lee is a member of the Company's closed defined benefit scheme. The normal retirement age is 65. On death, pension benefits would pass to that member's dependants.

Since the closure of the defined benefit scheme, contributions have been made to a defined contribution scheme or paid in cash.

At 30 June 2020:	Value of defined benefit pension entitlement £'000 per annum	Pension contributions
Will Lee	9	Paid in cash

Payments to past directors

No payments were made to past directors during the year.

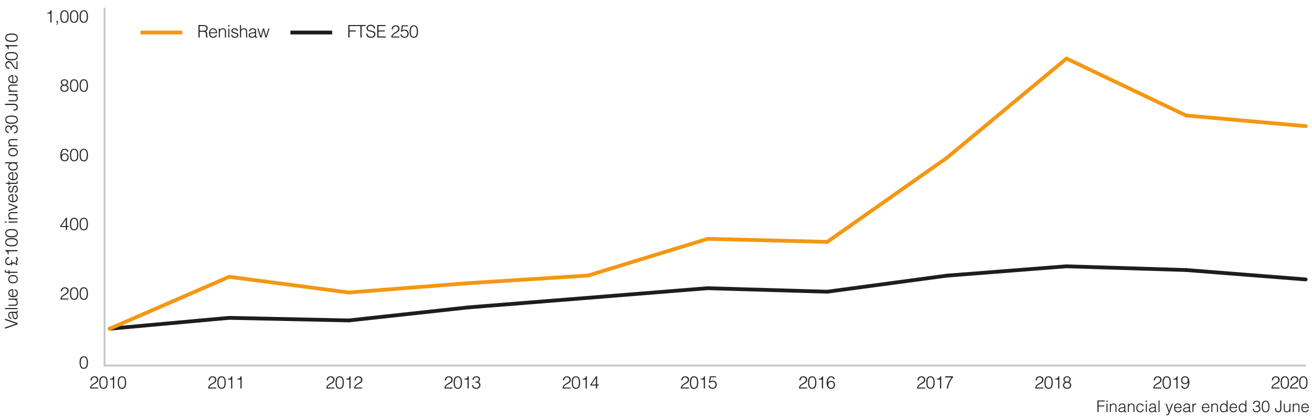
Loss of office payments

There were no loss of office payments during the year.

Performance graph

The graph below shows the Company's TSR performance, compared with the FTSE 250 index, which the Committee believes is the most appropriate broad index for comparison, as Renishaw is a constituent of this index. TSR performance has been rebased to 100 at 30 June 2010.

TSR performance



Chief Executive total remuneration

The table below sets out information relating to the remuneration of the Chief Executive for each of the years in question:

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
Will Lee (from 1 February 2018)										
Single figure of total remuneration (£'000)								594	653	**601**
Annual bonus payout (includes annual cash bonus and deferred equity incentive) % of maximum								95	0	**0**
Long-term incentive vesting % of maximum								n/a	n/a	**n/a**
Sir David McMurtry (until 31 January 2018)										
Single figure of total remuneration (£'000)[1]	1,066	969	663	632	1,298	668	1,207	818		
Annual bonus payout % of maximum	100	69	10	0	100	0	77	100		
Long-term incentive vesting % of maximum	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a		

1 Represents the total remuneration received by Sir David McMurtry in relation to this role.

Chief Executive pay ratio

The table below sets out the Chief Executive pay ratios as at the 30 June 2020. The report will build up over time to show a rolling ten-year period. The ratios compare the single total figure of remuneration of the Chief Executive with the equivalent figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees.

We have used the 'Option B' methodology (based on gender pay reporting), as the most robust way to identify the individual reference points within an organisation with multiple operating segments.

Where necessary, adjustments have been made to the underlying data to reflect a reduction in working hours during April to June in connection with the COVID-19 pandemic. The reductions in salary and employer pension contributions during this time have been added back to give a full-time equivalent figure. No other adjustments were made to the underlying data.

Total remuneration

2020	Employee remuneration			Pay ratio		
Chief Executive	P25	P50	P75	**P25**	**P50**	**P75**
£601,241	£27,476	£35,619	£51,683	**21.9**	**16.9**	**11.6**

Base salary

2020	Employee remuneration			Pay ratio		
Chief Executive	P25	P50	P75	**P25**	**P50**	**P75**
£505,350	£24,650	£32,634	£47,092	**20.5**	**15.5**	**10.7**

Executive Directors serving as non-executive directors of other companies

During the year none of the Executive Directors served as a non-executive director of any other company in respect of which any remuneration was received.

Statement of Directors' shareholding and share interests

During the year, none of the Directors were required to own shares in the Company, although the remuneration policy approved by the shareholders at the AGM in 2017 includes a minimum shareholding guideline for Executive Directors. As at 30 June 2020 the share interests (including the interests of connected persons) of the Directors who have served on the Board at any time during the year are:

	Number of ordinary shares of 20p each beneficially owned (as at 30 June 2020)	**Unvested and subject to continued employment** (awarded under the deferred equity incentive plan)	**Minimum shareholding guideline**	**Current shareholding**[1]	**Minimum shareholding guideline met**
Sir David McMurtry	26,377,291	n/a	0.5x salary	1,485x salary	Yes
Will Lee	3,700	3,537	2x salary	0.265x salary	Building
Allen Roberts	5,165	3,051	0.5x salary	0.497x salary	Building
John Deer[2]	12,172,040	n/a	n/a	n/a	n/a
Carol Chesney	1,000	n/a	n/a	n/a	n/a
Catherine Glickman	675	n/a	n/a	n/a	n/a
Sir David Grant	–	n/a	n/a	n/a	n/a
John Jeans	440	n/a	n/a	n/a	n/a

1 Current shareholdings for comparison with the shareholding requirements for Executive Directors are calculated based on annualised salary as at 30 June 2020 and by reference to the closing share price on 30 June 2020 (4,024p).

2 John Deer stepped down as an Executive Director on 29 January 2020 (becoming a Non-executive Director) and therefore is no longer subject to the minimum shareholding guideline. For the avoidance of doubt, while John Deer was an Executive Director his shareholding exceeded the share ownership guideline that applied in that tenure (i.e. during the period from 1 July 2019 to 29 January 2020).

Deferred equity incentive plan awards granted during the year

No deferred equity incentive plan awards were granted to Executive Directors during 2019/20.

Annual report on remuneration continued

Percentage change in remuneration of the Directors

The following table sets out the percentage change in the Directors' remuneration compared with the percentage change in average remuneration to UK employees from 2018/19 to 2019/20:

Sir David McMurtry	Salary	Benefits	Annual bonus
2019 £'000	700	3	0
2020 £'000	536	3	0
% change	-23.4	0	0

John Deer	Salary	Benefits	Annual bonus
2019 £'000	437	21	0
2020 £'000	270[1]	12	0
% change	-38.2	-42.9	0

Will Lee	Salary	Benefits	Annual bonus
2019 £'000	550	20	0
2020 £'000	505	20	0
% change	-8.2	0	0

Allen Roberts	Salary	Benefits	Annual bonus
2019 £'000	409	21	0
2020 £'000	398	20	0
% change	-2.4	-4.7	0

Carol Chesney	Fees	Expenses	Annual bonus
2019 £'000	55	0	n/a
2020 £'000	53	0	n/a
% change	-3.6	0	n/a

Catherine Glickman[2]	Fees	Expenses	Annual bonus
2019 £'000	50	0	n/a
2020 £'000	53	0	n/a
% change	+6	0	n/a

Sir David Grant	Fees	Expenses	Annual bonus
2019 £'000	55	0	n/a
2020 £'000	53	0	n/a
% change	-3.6	0	n/a

John Jeans	Fees	Expenses	Annual bonus
2019 £'000	55	1	n/a
2020 £'000	53	2	n/a
% change	-3.6	+100	n/a

UK employee (average)	Salary	Benefits	Annual bonus
% change	**+2.8**	**+1.1**	**-100**

1 John Deer stepped down as an Executive Director on 29 January 2020 (becoming a Non-executive Director) and therefore this figure was calculated on the basis of the salary received as Executive Director during the period from 1 July 2019 to 29 January 2020 and the fees received as Non-executive Director during the period from 30 January 2020 to 30 June 2020.

2 Fees in 2018/19 being paid for part year only following Catherine Glickman's appointment on 1 August 2018.

Relative importance of spend on pay

The following table sets out the total amount spent in the current financial year and the previous year on remuneration to all Group employees and on dividends to shareholders:

	2020 £'000	2019 £'000	Change %
Employee remuneration	**225,641**	237,222	-4.9
Shareholder dividends paid	**33,478**	43,672	-23.3

Except as shown above, no other distributions have been made to shareholders or other payments or uses of profit or cash flow which impact on the understanding of the relative importance of spend on pay.

Statement of implementation of remuneration policy in the next year

Executive Directors

Base salary

The Committee determined the salaries for each of the Executive Directors will remain unchanged with no increase for 2020/21 due to the financial impact of COVID-19 on the Company and the global economy. This aligns with no annual awards this year for the wider UK workforce.

	1 July 2020 £'000	30 June 2020 £'000
Sir David McMurtry	**715**	715
Will Lee	**562**	562
Allen Roberts	**418**	418

As stated in previous years, the Remuneration Committee reserves the right to adjust Will Lee's salary to align closer to the market in view of his increased tenure and experience, which may involve a salary increase above the average salary increase for the UK employee population as a whole. The package of benefits for Executive Directors is unchanged from 2019/20 (excluding home telephone costs which are no longer payable), but the pension allowance for the non-founder Executive Directors will reduce from 15% to 11% of salary effective from 1 August 2020.

Annual cash bonus and deferred annual equity incentive

As set out in the remuneration policy, the annual cash bonus and deferred annual equity incentive have been combined into a single award opportunity for 2020/21 onwards. The maximum opportunity for the year ended 30 June 2021 will be 150% of salary for non-founder Executive Directors and 100% of salary for Sir David McMurtry. For the non-founder Executive Directors, 50% of any bonus earned will be deferred into shares for three years; any award to Sir David McMurtry will be made in cash. Measures will be approved and targets set by the Committee in line with our stated policy. Further details (including the targets) will be disclosed in next year's Annual remuneration report.

Non-executive Directors

The fees payable for each Non-executive Director for the year ending 30 June 2021 will remain unchanged at £56,155. No additional fees are paid, for example, for chairing Board committees.

Consideration by Directors of matters relating to Directors' remuneration

During the year, the Remuneration Committee considered the amount of the Executive Directors' salary and the framework for the annual bonus. The members of the Committee for this purpose were:

- Catherine Glickman
- Carol Chesney
- Sir David Grant
- John Jeans

Mercer Kepler assisted the Committee in reviewing and benchmarking the Executive Director remuneration arrangements, as well as providing other remuneration-related advice to the Committee during the year under review.

Mercer Kepler is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. Total professional fees and expenses paid to Mercer Kepler for advice received in the year were £17,715. Mercer Kepler was appointed by the Committee and has not advised the Company on any other matters. During the year, the actuarial advisory division of Mercer Limited (Mercer Kepler's parent company) provided advice to the trustees of the Company's UK defined benefit pension scheme and in relation to the defined contribution scheme. This work is entirely separate from the work undertaken by Mercer Kepler for the Committee.

The Committee is of the opinion that the advice received from Mercer Kepler is objective and independent.

Annual report on remuneration continued

The Company Secretary acts as secretary to the Committee. Executive Directors may attend meetings of the Committee by invitation for parts of the agenda, as appropriate, and independent advisers are used as required. Directors are not present for discussions in relation to their own remuneration.

Statement of voting at general meeting

At the AGM held on 20 October 2017, votes cast in respect of the Directors' remuneration policy were as follows:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of remuneration policy	60,902,216	98.94	654,533	1.06	61,556,749	1,187,755

At the AGM held on 24 October 2019, votes cast in respect of the Directors' remuneration report were as follows:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of remuneration report	61,245,398	95.75	2,721,177	4.25	63,966,575	215,872

This report was approved by the Board and has been signed on its behalf by:

Catherine Glickman
Chair of the Remuneration Committee

18 August 2020

Other statutory and regulatory disclosures

Review of the business

A review of the business and likely future developments is given in the Chairman's statement, the Chief Executive's review and the other sections of the Strategic report. Segmental information by geographical market is given in note 2 to the Financial statements.

The principal activities of the Company are the design, manufacture, sale, distribution and service of metrology and healthcare products and solutions outlined on page 2 of the Strategic report. The Group has established and acquired overseas manufacturing, marketing and distribution subsidiaries to manufacture some of the Group's products and provide support to customers in our major markets in the following regions outside the UK:

- **EMEA:** Austria, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Israel, Italy, Netherlands, Poland, Romania, Russia, Spain, Sweden, Switzerland and Turkey;
- **Americas:** Brazil, Canada, Mexico and USA; and
- **APAC:** Australia, China, Hong Kong, India, Japan, Malaysia, Singapore, South Korea and Taiwan.

There are also representative offices in Indonesia, Slovakia, Thailand and Vietnam and a joint venture in Slovenia, RLS Merilna tehnika d.o.o. (RLS).

In addition, the Group has a subsidiary in Slovenia which designs and arranges the procurement of application-specific integrated circuits for the Group and RLS.

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

Research and development

The Group continues to invest significantly in developing future technologies, with R&D activities located primarily in the UK. We develop technologies that provide patented products and methods to help deliver our product strategies in both metrology and healthcare. Further information on the expenditure on R&D is contained in note 4 on page 116. The amount of R&D expenditure capitalised, the amount amortised, and impairment charges in the year, are given in note 11 on page 121.

Dividends

As referenced in the Chairman's statement, the Board decided to cancel the interim dividend and withdraw the proposed final dividend for the year ending 30 June 2020 to help preserve cash in response to the ongoing macroeconomic uncertainty. This position will be reviewed by the Board in 2021 with the intention of reinstating dividends when it is appropriate to do so.

As at 30 June 2020, 9,639 shares were held by the Renishaw plc Employee Benefit Trust (EBT). The shares held by the EBT may be used to satisfy awards made to employees under the Company's employee share plan, namely the Renishaw Deferred Annual Equity Incentive Plan. The terms of the EBT provide that any dividends payable on the shares held by the EBT are waived.

Directors and their interests

The Directors at the end of the year are listed on pages 52 and 53. In accordance with the provisions of the Governance Code all Directors will retire and, being eligible, offer themselves for re-election at the AGM to be held on 30 September 2020. Details of Directors who offer themselves up for re-election are shown on pages 52 and 53 and full biographical details are available at www.renishaw.com.

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.

The Directors' interests in the share capital of the Company (with the equivalent number of voting rights), as notified to the Company, are listed on page 83. There has been no change in the holdings shown on page 83 in the period 1 July 2020 to 18 August 2020, other than on 14 August 2020 John Deer informed the Company that he had disposed of 5,350 shares. All the interests were beneficially held with the exception of 2,368,061 shares (2019: 2,434,411 shares) which were non-beneficially held by John Deer but in respect of which he has voting rights.

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 M E Deer agree that (i) John Deer and Mrs M E 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 was renewed in 2018 for a further period of five years and will terminate on the earlier of 25 May 2023 or the deaths of both Sir David McMurtry and John Deer.

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 its directors and officers in respect of their acts and omissions during the performance of their duties.

Share capital and change of control

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 authority for the purchase by the Company of a maximum of 10% of its own shares was in existence during the 2020 financial year. However, the Company did not purchase any of its own shares during that time.

Auditor

A resolution to reappoint EY as the auditor of the Company will be proposed at the forthcoming AGM.

Other statutory and regulatory disclosures continued

Disclosure of information to auditor

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 auditor is unaware, and each Director has taken all the steps that he or she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Annual General Meeting

The notice convening the AGM and an explanation of the resolutions sought is set out in a separate circular. At the meeting, the Company will be seeking shareholder approval for, among 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 (36.23% and 16.72% respectively), the table below discloses the voting rights that have been notified to the Company under the requirements of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules DTR 5, which represent 3% or more of the voting rights attached to issued shares in the Company, as at 30 June 2020. It should be noted that these holdings may have changed since being notified to the Company. However, notification of any change is not required until an applicable threshold is crossed.

Substantial shareholdings	% of issued share capital	Number of shares
BlackRock, Inc.	4.92%	3,578,133
Capital Research and Management Company	4.76%	3,465,730
Standard Life Investments Limited	4.99%	3,631,612

There have been no changes notified to the Company, in the holdings shown above, in the period 1 July 2020 to 18 August 2020.

Employees

The retention of highly-skilled employees 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 others.

Employment policies are designed to provide equal opportunities irrespective of race, religion, gender, age, socio-economic background, disability or sexual orientation. Proper consideration is given to applications for employment from disabled people where suitable for appropriate vacancies. Employees who become disabled while 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, retraining 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 how the Directors have engaged with employees and had regard to employee interests, information provided to employees on the performance of the business, consultation with employees and performance incentives are set out on pages 38 to 49.

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

Suppliers, customers and other stakeholders

Details on how the Directors have had regard to the need to foster the Group's business relationships with suppliers, customers and others are set out on pages 38 to 49.

Political donations

No political donations were made during the year.

Events after the balance sheet date

There have been no material events affecting the Company since the year end.

Financial risk management, objectives and policies

Descriptions of the use of financial instruments and the Group's financial risk management objectives and policies, policies in relation to hedge accounting and exposure to market risk, including credit and liquidity risk, can be found in note 20 to the Consolidated financial statements on pages 128 to132.

Controlling shareholders' arrangements

The Listing Rules require that premium listed companies with 'controlling shareholders' (defined as a shareholder who individually or with any of their concert parties exercises or controls 30% or more of the votes that may be cast on all, or substantially all, the matters at the Company's general meeting) must enter into a relationship agreement containing specific independence provisions.

The independence provisions required by the Listing Rules are that:

(i) transactions and arrangements with the controlling shareholder (and/or any of its associates) will be conducted at arm's length and on normal commercial terms;

(ii) neither the controlling shareholder nor any of its associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and

(iii) neither the controlling shareholder nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

By virtue of his shareholding in the Company, Sir David McMurtry (Executive Chairman 36.23% shareholder) is a controlling shareholder. John Deer (Non-executive Deputy Chairman, together with his wife, 16.72% shareholder) is also a controlling shareholder by virtue of a long-standing voting agreement between John Deer (and his wife) and Sir David McMurtry. The Board confirms that the Company has not been able to enter into a relationship agreement with its controlling shareholders, containing the independence provisions required by the Listing Rules. The Financial Conduct Authority (FCA) has been notified of this, as required by the Listing Rules. The controlling shareholders have informed the Board that they are not willing to enter into a relationship agreement because they are of the view that the requirement to enter into a relationship agreement infringes upon their rights as shareholders and their track record demonstrates that they act in the best interests of the Company.

As a result of there being no relationship agreement in place, the Listing Rules provide that certain enhanced oversight measures will apply to the Company.

This means, unless and to the extent the FCA agrees otherwise, all transactions with the controlling shareholders must be approved by the Company's shareholders (excluding the controlling shareholders) in accordance with the related party transaction requirements of the Listing Rules, and none of the normal exemptions apply.

Guidance has been received from the FCA about the application of the enhanced oversight measures to the remuneration and benefits received by the controlling shareholders in their capacity as Directors (in accordance with the Company's approved remuneration policy) as well as other ordinary course corporate matters, such as the payment of dividends by the Company to all shareholders. The FCA has confirmed that either, these are not transactions or arrangements that fall within the enhanced oversight measures or, the FCA will permit a modification of the enhanced oversight measures so they will not apply, provided the arrangements remain in the ordinary course of business and, in the case of salary reviews and bonuses, provided they fall within the small transaction exemption in the Annex to LR 11. This guidance continues to apply in respect of remuneration awarded under the existing remuneration policy.

Greenhouse gas emissions and energy consumption

The disclosures concerning GHG emissions and energy consumption required by law are set out on pages 46 and 47.

Disclosure of information under LR 9.8.4R

The information that fulfils the reporting requirements under this rule can be found on the pages identified below.

Section	Topic	Location
(1)	Interest capitalised	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	Not applicable
(5)	Waiver of emoluments by a director	Directors' remuneration report page 71
(6)	Waiver of future emoluments by a director	Not applicable
(7)	Non pre-emptive issues of equity for cash	Not applicable
(8)	As item (7), in relation to major subsidiary undertakings	Not applicable
(9)	Parent participation in a placing by a listed subsidiary	Not applicable
(10)	Contracts of significance	Not applicable
(11)	Provision of services by a controlling shareholder	Directors' remuneration report pages 70 to 86
(12)	Shareholder waivers of dividends	Other statutory and regulatory disclosures page 87 and note 20 page 132
(13)	Shareholder waivers of future dividends	Other statutory and regulatory disclosures page 87 and note 20 page 132
(14)	Agreements with controlling shareholders	Other statutory and regulatory disclosures pages 88 to 89

Signed on behalf of the Board.

Jacqueline Conway
General Counsel & Company Secretary

18 August 2020

Renishaw plc
Registered number 01106260
England and Wales

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company Financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company Financial statements for each financial year. Under that law the Directors have prepared the Group Financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and have prepared the Company Financial statements in accordance with UK Accounting Standards, including FRS 101 'Reduced Disclosure Framework'.

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 the Company and of their profit or loss for that period.

In preparing each of the Group and Company Financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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, subject to any material departures disclosed and explained in the Financial statements;
- for the Company Financial statements, state whether applicable UK Accounting Standards, including FRS 101 'Reduced Disclosure Framework', have been followed, subject to any material departures disclosed and explained in the Company Financial statements; and
- prepare the Financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and enable them to ensure that the Financial statements comply with the Companies Act 2006. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply 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 financial report

We confirm that to the best of our knowledge:

- the Financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and the Directors' report include a fair review of the development and performance of the business during the year and the position of the Group and of the Company at the year end, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board.

Allen Roberts
Group Finance Director

18 August 2020

Independent auditor's report to the members of Renishaw plc

Opinion

In our opinion:

- Renishaw plc's group financial statements and parent company financial statements (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 30 June 2020 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 European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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.

We have audited the financial statements of Renishaw plc which comprise:

Group	Parent company
Consolidated balance sheet as at 30 June 2020	Balance sheet as at 30 June 2020
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income and expense for the year then ended	Related notes C.27 to C.42 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flow for the year then ended	
Related notes 1 to 26 to the financial statements, including a summary of significant accounting policies	

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 European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 29 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 60 in the Annual Report that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on pages 60 to 61 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 37 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent auditor's report to the members of Renishaw plc continued

Overview of our audit approach

Key audit matters	• Overstatement of revenue due to accelerated recognition of product revenue as a result of management override of controls • Management override of controls over top-side adjustments posted through the consolidation process to misstate financial performance • Assessment of hedge effectiveness of forward currency contracts • Valuation of the defined benefit pension liability • Impact of COVID-19, including on the group's going concern assessment
Audit scope	• We performed an audit of the complete financial information of eight components and audit procedures on specific balances for a further five components. • The components where we performed full or specific audit procedures accounted for 90% of adjusted profit before tax, 87% of Revenue and 90% of Total assets.
Materiality	• Overall group materiality of £2.4m which represents 5% of adjusted profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Overstatement of revenue due to accelerated recognition of product revenue as a result of management override of controls (£510.2m, 2019: £574.0m) Refer to the Audit Committee Report (page 66); Accounting policies (pages 109 and 110); and Note 2 of the Consolidated Financial Statements (pages 115 and 116) There is an incentive to manipulate timing of revenue recognition through inappropriate cut-off through management override.	We performed walkthroughs of the revenue recognition process for all material revenue streams to assess the design and implementation of key controls. For a number of reporting units, which covered 44% of total revenue, we used data analysis tools on 100% of revenue transactions in the year to test the correlation of revenue to cash receipts to verify the occurrence of revenue. We tested non-correlating entries with detailed testing of a sample of revenue transactions to ensure that revenue had been appropriately recognised. For those in-scope locations where we did not use data analysis tools we performed representative sampling, tracing revenue transactions recorded throughout the year to cash receipts. We selected a sample of revenue transactions recorded before year-end and obtained documentation to verify that revenue recognition criteria had been met. Our testing strategy included randomly selecting items below our standard testing threshold in order to introduce unpredictability. We selected a sample of credit notes issued after year-end and obtained documentation to verify that revenue adjustments had been recorded in the appropriate period. We performed full and specific scope audit procedures over this risk area in eight locations, which covered 82% of the group's revenue, of which the Primary Team performed the procedures in three locations which covered 34% of the group's revenue.	Based on the audit procedures performed, revenue transactions have been recognised appropriately. Our procedures did not identify instances of inappropriate management override in the recognition of revenue across the group.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management override of controls over manual journal entries posted through the consolidation process to misstate financial performance Refer to the Audit Committee Report (page 66); Accounting policies (pages 108 and 109) There are a number of top-side adjustments posted through the consolidation process, many of which are material to the consolidated financial statements. The calculations behind these adjustments are manual in nature, leading to increased risk of misstatement.	We walked through the consolidation process to assess the design and implementation of key controls over the manual consolidation process. For all full and specific scope locations we independently verified the results of the consolidated entities used in the manual consolidation by agreeing the results included in the consolidation directly to the results audited by the component audit teams. For a sample of the remaining entities we verified the results of the consolidated entities to the underlying source data. We selected all journals posted through the consolidation process exceeding 15% of performance materiality and obtained evidence to verify the validity and accuracy of the journals being posted.	Based on the audit procedures performed, manual journal entries posted through the consolidation process are appropriate. Our procedures did not identify instances of management override of controls over manual journal entries posted through the consolidation process.
Assessment of hedge effectiveness of forward currency contracts (£58.6m, 2019: £50.1m) Refer to the Audit Committee Report (pages 66 and 67); Accounting policies (pages 110 and 111); and Note 20 of the Consolidated Financial Statements (pages 128 to 132) The group uses derivative financial instruments to manage risks arising from changes in foreign currency exchange rates relating to forecast sales. The group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge). Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Changes in the fair value of foreign currency derivatives which are ineffective or do not meet the criteria for hedge accounting in IFRS 9 'Financial Instruments' are recognised in the income statement. For those instruments which are effective and meet the criteria for hedge accounting, the change in fair value is recognised in other comprehensive income. The complexity of hedge accounting and the requirements for hedge effectiveness documentation under the provisions of IFRS 9 lead to risk of error, therefore we continued to focus on this area.	We gained an understanding of the key controls and processes in place to assess the hedge effectiveness of forward currency contracts. We assessed whether the requirements of IFRS 9 'Financial Instruments' were met by: • ensuring the appropriateness of the methodology used by management to hedge account. Through the involvement of our treasury specialists we reviewed a sample, spanning all banks and counterparties that Renishaw has deals with, of the terms and conditions of the different categories of forward currency contracts open at the year end and determined whether hedge accounting was permissible under IFRS 9 • using our treasury specialists to evaluate management's documentation and assessment of hedge effectiveness for a sample of hedge effectiveness model types • assessing management's sales forecasts, including the extent to which these have been deemed to be 'highly probable' and therefore accounted for as hedged items, by evaluating historical accuracy and comparing to third party industry forecasts • at the group level, ensuring that the financial statement disclosures were in accordance with accounting standards	Based on the audit procedures performed, we confirmed that the group's assessment of hedging activities, including designation of forward currency contracts, and resulting classification of changes in their fair value, and the disclosures within Note 20 were in accordance with the requirements of IFRS 9 'Financial Instruments'.

Independent auditor's report to the members of Renishaw plc continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of the defined benefit pension liability (£253.5m, 2019: £233.5m) Refer to the Audit Committee Report (page 67); Accounting policies (page 141); and Note 13 of the Consolidated Financial Statements (pages 124 to 126) A gross defined benefit pension liability of £253.5m was held at 30 June 2020 in respect of group schemes. As a result of the quantum of this liability, the level of judgement involved in calculating the closing liability, and the fact that relatively small movements in assumptions can result in a material impact to the financial statements there is an increased risk of material misstatement. Whilst management utilises the services of third party actuarial advisors to determine their key assumptions, there is a risk that the discount rate, rate of inflation and mortality assumptions used in the calculation are inappropriate.	We understood and walked through management's process and methodology for calculating the pension liability to gain an understanding of the design and implementation of key controls. We assessed the completeness and accuracy of the data used by management's external actuarial experts using substantive audit procedures We evaluated the competence and objectivity of management's external actuarial experts. We obtained the IAS 19 actuarial valuations for the UK, Irish and US pension schemes as prepared by management's experts and considered the reasonableness and consistency of the methodology used to calculate the pension liabilities through involvement of our actuarial specialists. For the UK and Irish schemes we used our internal actuarial specialists to challenge the appropriateness of the significant assumptions used in determining the defined benefit pension liabilities including the discount rate, RPI and CPI inflation assumptions and mortality assumptions. Specifically, we ensured these fell within an acceptable range by benchmarking these against our independently calculated actuarial assumptions. For the US scheme we used our internal actuarial specialists to generate an independent valuation of the liability and compared this to the valuation provided by management's experts. We assessed the appropriateness and adequacy of the disclosures in respect of the defined pension liability in Note 13 of the Annual Report. We performed full and specific scope audit procedures over this risk area in three locations, which covered 100% of the risk amount.	For the UK and Irish schemes, all but one of the actuarial assumptions fell within our accepted range. However, overall based on the procedures performed we are satisfied that the closing liability is materially correct. For the US scheme, our independent valuation of the liability was not materially different to that provided by management's expert. We are satisfied that the disclosure in Note 13 is aligned with the requirements of IAS 19.
Impact of COVID-19, including on the Company's Going Concern Assessment Refer to the Audit Committee Report (page 67); Strategic Report (page 27) and Accounting policies (pages 106 and 108) Since early 2020, the COVID-19 pandemic has caused significant disruption to the world's population, business and economic activity and may ultimately impact the group's future performance and asset values. Government measures taken to contain the virus have had an impact not only on the way in which businesses operate, but also in the way in which an audit can be performed. There have been a number of impacts for the business in the current year and also on the short to medium term forecasts as discussed in the Strategic Report (page 27).	Our audit procedures covered four key areas: • Audit logistics • Going concern • Other audit matters • Adequacy of disclosure. **Audit Logistics:** We had already completed our audit planning procedures on site by the time COVID-19 impacted the UK. We have performed the year-end audit fully remotely. We have engaged with the Company throughout this period, using video calls, share-screen functionality, secure encrypted document exchanges and data downloads to avoid any limitation on the audit evidence required. We held regular calls with management to monitor progress, discuss evidence provided, judgements and accounting. We held video calls with our overseas audit teams to facilitate the supervision and direction of their fieldwork, focusing on audit procedures designed to address significant risks.	Despite travel restrictions preventing the attendance at client sites in a number of locations we were able to conduct our audit effectively, including appropriate supervision, direction and review of work completed by our overseas audit teams, using technology including video conferencing and our bespoke audit documentation tools. We have confirmed that management's assessment of going concern is appropriate and concur with the directors' assessment that there is no material uncertainty as there is sufficient headroom in cash flow forecasts after severe but plausible downside scenarios have been factored in.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Our audit focus has been on the following key areas: • How the audit would be undertaken given the remote working and travel restrictions and the resulting refinements to our team, approach and procedures, including how we would supervise and direct our overseas audit teams; • Consideration of the going concern basis of preparation, focusing on forecasting ranges to reflect the impact of the COVID-19 pandemic and resulting liquidity; • Consideration of the increased risks associated with greater forecasting uncertainty in the COVID-19 environment; and • The adequacy of the disclosures made in the Annual Report.	We held additional calls with the component teams that we had planned to visit, to replicate the discussions we otherwise would have had in person. We also requested additional detailed working papers to be shared with us for our review so that we could assess the quality of the work performed by our component teams that we otherwise would have assessed during site visits. For the component teams which were unable to visit client sites, we discussed how sufficient appropriate audit evidence had been obtained. **Going Concern:** We have assessed the going concern assumption adopted by the directors of Renishaw, which included: • Confirming our understanding of the going concern evaluation process and also engaging with management early to ensure all key matters were considered in their assessment; • Obtaining management's forecast cash flows covering the period from the date of signing to 31 August 2021; • Performing reverse stress testing on management's forecasts to understand how plausible the severe adverse scenarios would be to result in negative liquidity; • Assessing management's COVID-19 impact assessment on the forecasts, considering both past historical accuracy of management's forecasting against the actual impact experienced by the Company during the period in which COVID-19 has impacted the performance of the business (March – August 2020); • Evaluating management's assessment of options potentially available to the group to reduce cash flow spend in the going concern period, to determine whether such actions could be successfully implemented and the impacts this could result in. **Other audit matters:** The key areas of increased audit risk related to: • Going concern assessment (mentioned previously within this KAM) • Assessment of hedge accounting criteria (mentioned in KAM above) • Carrying value of goodwill and capitalised development costs Our audit procedures in relation to assessing the carrying value of goodwill and capitalised development costs included: – performing walkthroughs of the impairment review process to assess the design and implementation of key controls – performing detailed substantive procedures to test the clerical accuracy of management's impairment models – Performing sensitivity analysis on the key inputs into these models, including forecast cashflows, growth rates and discount rates. **Adequacy of disclosures:** We have considered whether management's additional disclosure, included within the Strategic Report (page 27) and Notes 1 and 20 sufficiently capture the impacts of COVID-19 on the Company.	See the separate key audit matter on hedge accounting in this audit report. We have concluded that the asset impairments recognised by management are appropriate and that they reflect management's best estimate of future cashflows which have been adjusted to include the impact of COVID-19. We conclude that the disclosure on the impact of COVID-19, including on the group's going concern assessment, is appropriate.

Independent auditor's report to the members of Renishaw plc continued

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 53 reporting components of the group, we selected 13 components covering entities within the UK, Ireland, USA, Japan, Germany, China, India, Spain, Italy and France, which represent the principal business units within the group.

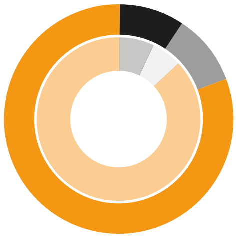
Of the 13 components selected, we performed an audit of the complete financial information of eight components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 90% of the group's adjusted profit before tax (2019: 94%), 87% (2019: 90%) of the group's Revenue and 90% (2019: 91%) of the group's Total assets. For the current year, the full scope components contributed 81% of the group's adjusted profit before tax (2019: 87%), 81% (2019: 81%) of the group's Revenue and 84% (2019: 85%) of the group's Total assets. The specific scope components contributed 9% of the group's adjusted profit before tax (2019: 7%), 6% (2019: 9%) of the group's Revenue and 6% (2019: 6%) of the group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant balances tested for the group.

Of the remaining 40 components that together represent 10% of the group's adjusted profit before tax, none are individually greater than 3% of the group's adjusted profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the group financial statements.

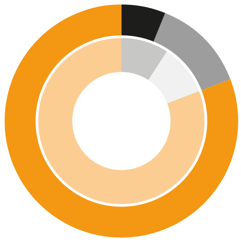
The charts below illustrate the coverage obtained from the work performed by our audit teams.

Profit before tax



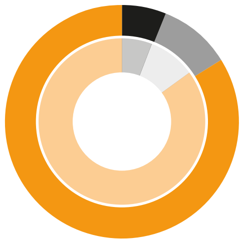
2020	2019
81% Full scope components	87% Full scope components
9% Specific scope components	7% Specific scope components
10% Other procedures	6% Other procedures

Revenue



2020	2019
81% Full scope components	81% Full scope components
6% Specific scope components	9% Specific scope components
13% Other procedures	10% Other procedures

Total assets



2020	2019
84% Full scope components	85% Full scope components
6% Specific scope components	6% Specific scope components
10% Other procedures	9% Other procedures

Involvement with component teams

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the eight full scope components, audit procedures were performed on three of these directly by the primary audit team. Of the five specific scope components, audit procedures were performed on four of these directly by the primary audit team. For the remaining specific scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group as a whole.

The group audit team planned to follow a programme of visits that had been designed to ensure that the Senior Statutory Auditor visited Japan and India in 2020. During the current year's audit cycle, visits were unable to be undertaken due to travel restrictions caused by the COVID-19 pandemic. A series of video calls were held with all component teams. These calls involved discussing the audit approach with the component teams and any issues arising from their work, talking to local management, attending closing meetings and reviewing key audit working papers on risk areas, copies of which we have retained on our group audit file. In addition to these planned calls, further video calls were held with Japan and India in place of the planned on-site visits to discuss aspects of the audit in further detail with our local component teams. The primary team interacted regularly with the component teams where appropriate during all stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £2.4m(2019: £5.5m), which is 5% of adjusted profit before tax as defined in note 25 to the financial statements (2019: 5% of profit before tax). We believe that adjusted profit before tax is a more appropriate measurement basis on which to calculate materiality as it represents a better reflection of the underlying performance of the group than profit before tax which is significantly impacted by both the volatility in the valuation of derivative financial instruments, which is outside of the control of the group, and non-recurring restructuring costs.

During the course of our audit, we reassessed initial materiality, which was based on profit before tax, and updated this to an adjusted profit before tax basis for the reason described above.

We used a performance materiality for the parent company of £1.1m(2019: £1.8m), being the amount allocated for the purpose of forming our opinion on the group financial statements, which was lower than that calculated for the parent company individually.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £1.8m (2019: £4.1m). We have set performance materiality at this percentage due to the past history of few misstatements indicating a lower risk of misstatement in the financial statements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.1m to £1.1m (2019: £0.3m to £2.5m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2019: £0.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 90 and 150 to 155, including the Strategic Report, set out on pages 1 to 49, Governance, set out on pages 50 to 90, and Shareholder information, set out on pages 150 to 155, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Renishaw plc continued

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 60** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 65 to 69** the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on pages 50 to 51** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 90, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 101 and the Companies Act 2006, the Financial Reporting Council (FRC) and the UK Corporate Governance Code) and the relevant tax compliance regulations in the UK and overseas jurisdictions in which the group operates as referred to in the 'Tailoring the Scope' paragraph above. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the London Stock Exchange, the Bribery Act 2010, Occupational Health and Safety Regulations, the Data Protection Act, and export controls.
- We understood how Renishaw plc is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquires of the group's legal counsel and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the programs and controls that the group has established to address risks identified by the entity, or that otherwise prevent, deter and detect fraud; how senior management monitor those programs and controls, evaluating conditions in the context of incentive/pressure to commit fraud, considering the opportunity to commit fraud and the potential rationalisation of the fraudulent act, and by making enquiries of senior management, including the group Finance Director, Head of group Finance, group Internal Audit Manager and Chair of the Audit Committee. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation. Further discussion of our approach to address the identified risks of management override are set out in the key audit matters section of our report.
- We communicated all relevant instances of non-compliance with laws and regulations identified at the group level to our component teams and instructed our component teams to report any instances of non-compliance with laws and regulations identified at the component level to us in order that we could design audit procedures to respond.

A further description of our responsibilities for the audit of the financial statements is located on the

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 13 October 2016 to audit the financial statements for the year ending 30 June 2017 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ending 30 June 2017 to 30 June 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

Use of our report

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.

Paul Mapleston
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol

18 August 2020

Notes:

1. The maintenance and integrity of the Renishaw plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements – contents

Introduction

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations. The full statement of Directors' responsibilities can be found on page 90.

The notes (forming part of the financial statements) provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. The basis of preparation section (see note 1) provides details of accounting policies that apply to transactions and balances in general.

Consolidated financial statements

Primary statements

Notes (forming part of the financial statements)

Company financial statements

Primary statements

Notes to the Company financial statements

Consolidated income statement
for the year ended 30 June 2020

from continuing operations	notes	2020 £'000	2019 £'000
Revenue	2	**510,215**	573,959
Cost of sales	4	**(271,633)**	(289,832)
Gross profit		**238,582**	284,127
Distribution costs		**(123,276)**	(126,822)
Administrative expenses		**(58,584)**	(58,593)
Restructuring costs	26	**(23,797)**	–
Gains/(losses) from the fair value of financial instruments	20	**(26,631)**	1,081
Operating profit		**6,294**	99,793
Financial income	5	**913**	7,238
Financial expenses	5	**(4,840)**	(902)
Share of profits of associates and joint ventures	12	**841**	3,815
Profit before tax	6	**3,208**	109,944
Income tax expense	8	**(2,920)**	(17,712)
Profit for the year		**288**	92,232
Profit attributable to:			
Equity shareholders of the parent company		**288**	92,232
Non-controlling interest	21	**–**	–
Profit for the year		**288**	92,232
		pence	pence
Dividend per share arising in respect of the year	21	**0.0**	60.0
Dividend per share paid in the year		**46.0**	60.0
Earnings per share (basic and diluted)	7	**0.4**	126.7

Consolidated statement of comprehensive income and expense
for the year ended 30 June 2020

	notes	2020 £'000	2019 £'000
Profit for the year		**288**	92,232
Other items recognised directly in equity:			
Items that will not be reclassified to the Consolidated income statement:			
Remeasurement of defined benefit pension scheme liabilities	13	**(23,978)**	10,273
Deferred tax on remeasurement of defined benefit pension scheme liabilities		**5,484**	(1,534)
Total for items that will not be reclassified		**(18,494)**	8,739
Items that may be reclassified to the Consolidated income statement:			
Exchange differences in translation of overseas operations	21	**3,369**	2,045
Exchange differences in translation of overseas joint venture	21	**186**	72
Current tax on translation of net investments in foreign operations	21	**–**	(205)
Deferred tax on translation of net investments in foreign operations	21	**(403)**	–
Effective portion of changes in fair value of cash flow hedges, net of recycling	21	**13,924**	(27,573)
Deferred tax on effective portion of changes in fair value of cash flow hedges	21	**(1,978)**	4,561
Total for items that may be reclassified		**15,098**	(21,100)
Total other comprehensive income and expense, net of tax		**(3,396)**	(12,361)
Total comprehensive income and expense for the year		**(3,108)**	79,871
Attributable to:			
Equity shareholders of the parent company		**(3,108)**	79,871
Non-controlling interest	21	**–**	–
Total comprehensive income and expense for the year		**(3,108)**	79,871

Consolidated balance sheet
at 30 June 2020

	notes	2020 £'000	Restated* 2019 £'000
Assets			
Property, plant and equipment	10	**270,049**	263,477
Intangible assets	11	**43,364**	59,056
Right of use assets	1,22	**12,672**	–
Investments in associates and joint ventures	12	**16,604**	13,095
Long-term loans to associates and joint ventures	12	**2,818**	750
Finance lease receivables	22	**4,801**	4,992
Deferred tax assets	9	**39,641**	29,855
Derivatives	20	**1,242**	1,311
Total non-current assets		**391,191**	372,536
Current assets			
Inventories	16	**105,497**	129,026
Trade receivables	20	**105,077**	116,929
Finance lease receivables	22	**1,982**	1,230
Contract assets		**606**	352
Short-term loans to associates and joint ventures		**318**	6,644
Current tax		**3,878**	4,553
Other receivables	20	**23,196**	24,461
Derivatives	20	**3,758**	2,778
Pension scheme cash escrow account	13	**10,568**	10,490
Bank deposits	15	**10,000**	52,500
Cash and cash equivalents	15,20	**110,386**	54,326
Total current assets		**375,266**	403,289
Current liabilities			
Trade payables	20	**16,998**	21,513
Contract liabilities	20	**5,976**	5,631
Current tax		**2,905**	4,538
Provisions	17	**5,591**	2,846
Derivatives	20	**22,546**	18,920
Lease liabilities	1,22	**4,241**	–
Borrowings	19	**1,061**	1,043
Other payables	18	**34,372**	41,065
Total current liabilities		**93,690**	95,556
Net current assets		**281,576**	307,733
Non-current liabilities			
Borrowings	19	**10,482**	9,356
Lease liabilities	1,22	**8,925**	–
Employee benefits	13	**64,895**	51,870
Deferred tax liabilities	9	**499**	539
Derivatives	20	**41,102**	35,227
Total non-current liabilities		**125,903**	96,992
Total assets less total liabilities		**546,864**	583,277
Equity			
Share capital	21	**14,558**	14,558
Share premium		**42**	42
Own shares held	21	**(404)**	(404)
Currency translation reserve	21	**17,729**	14,577
Cash flow hedging reserve	21	**(30,455)**	(42,401)
Retained earnings		**546,100**	597,784
Other reserve	21	**(129)**	(302)
Equity attributable to the shareholders of the parent company		**547,441**	583,854
Non-controlling interest	21	**(577)**	(577)
Total equity		**546,864**	583,277

* 2019 cash and cash equivalents and bank deposits have been restated following a change in accounting policy, see note 1, and trade receivables have been reclassified, with finance lease receivables reported as separate line items, see note 22.

These financial statements were approved by the Board of Directors on 18 August 2020 and were signed on its behalf by:

Sir David McMurtry **Allen Roberts**
Directors

Consolidated statement of changes in equity
for the year ended 30 June 2020

Year ended 30 June 2019	Share capital £'000	Share premium £'000	Own shares held £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Other reserve £'000	Non-controlling interest £'000	Total £'000
Balance at 1 July 2018	14,558	42	–	12,665	(19,389)	540,485	(460)	(577)	547,324
Profit for the year	–	–	–	–	–	92,232	–	–	92,232
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension scheme liabilities	–	–	–	–	–	8,739	–	–	8,739
Foreign exchange translation differences	–	–	–	1,840	–	–	–	–	1,840
Relating to associates and joint ventures	–	–	–	72	–	–	–	–	72
Changes in fair value of cash flow hedges	–	–	–	–	(23,012)	–	–	–	(23,012)
Total other comprehensive income and expense	–	–	–	1,912	(23,012)	8,739	–	–	(12,361)
Total comprehensive income and expense	–	–	–	1,912	(23,012)	100,971	–	–	79,871
Share-based payments charge	–	–	–	–	–	–	158	–	158
Purchase of own shares	–	–	(404)	–	–	–	–	–	(404)
Dividends paid	–	–	–	–	–	(43,672)	–	–	(43,672)
Balance at 30 June 2019	14,558	42	(404)	14,577	(42,401)	597,784	(302)	(577)	583,277
Year ended 30 June 2020									
Profit for the year	–	–	–	–	–	288	–	–	288
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension scheme liabilities	–	–	–	–	–	(18,494)	–	–	(18,494)
Foreign exchange translation differences	–	–	–	2,965	–	–	–	–	2,965
Relating to associates and joint ventures	–	–	–	187	–	–	–	–	187
Changes in fair value of cash flow hedges	–	–	–	–	11,946	–	–	–	11,946
Total other comprehensive income and expense	–	–	–	3,152	11,946	(18,494)	–	–	(3,396)
Total comprehensive income and expense	–	–	–	3,152	11,946	(18,206)	–	–	(3,108)
Share-based payments charge	–	–	–	–	–	–	173	–	173
Dividends paid	–	–	–	–	–	(33,478)	–	–	(33,478)
Balance at 30 June 2020	**14,558**	**42**	**(404)**	**17,729**	**(30,455)**	**546,100**	**(129)**	**(577)**	**546,864**

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

Consolidated statement of cash flow
for the year ended 30 June 2020

	notes	2020 £'000	Restated* 2019 £'000
Cash flows from operating activities			
Profit for the year		**288**	92,232
Adjustments for:			
Depreciation of property, plant and equipment and right of use assets	10	**30,578**	22,597
Loss on sale of property, plant and equipment		**22**	148
Impairment of property, plant and equipment	10	**2,590**	1,155
Amortisation of development costs	11	**16,861**	15,144
Impairment of development costs	11	**15,881**	–
Amortisation of other intangibles	11	**1,566**	1,518
Loss/(profit) on disposal of other intangibles		**53**	(455)
Impairment of other intangibles	11	**1,600**	–
Impairment of goodwill	11	**808**	–
Share of profits from associates and joint ventures	12	**(841)**	(3,815)
Profit on disposal of investment in associate	12	**(1,053)**	–
Fair value gain on revaluation of investment in associate	12	**(2,775)**	–
Impairment of investment in associate	12	**257**	–
Remeasurement of defined benefit pension scheme liabilities from GMP equalisation	13	**–**	751
Financial income	5	**(913)**	(7,238)
Financial expenses	5	**4,840**	902
Losses/(gains) from the fair value of financial instruments	25	**21,609**	(6,081)
Share-based payment expense	14	**173**	158
Tax expense	8	**2,920**	17,712
		94,176	42,496
Decrease/(increase) in inventories		**23,529**	(18,463)
Decrease in trade and other receivables		**17,639**	30,028
Decrease in trade and other payables		**(11,297)**	(7,183)
Increase/(decrease) in provisions	17	**2,745**	(607)
		32,616	3,775
Defined benefit pension contributions	13	**(11,816)**	(6,831)
Income taxes paid		**(10,605)**	(25,183)
Cash flows from operating activities		**104,659**	106,489
Investing activities			
Purchase of property, plant and equipment	10	**(38,657)**	(56,792)
Sale of property, plant and equipment		**3,633**	4,713
Development costs capitalised	11	**(17,405)**	(18,091)
Purchase of other intangibles		**(3,338)**	(4,161)
Sale of other intangibles		**–**	2,000
Decrease/(increase) in bank deposits	15	**42,500**	(52,500)
Interest received	5	**835**	1,145
Dividends received from associates and joint ventures	12	**512**	614
Proceeds from sale of shares in associate	12	**986**	–
Cash flows from investing activities		**(10,934)**	(123,072)
Financing activities			
Increase in borrowings	19	**1,894**	10,486
Repayment of borrowings	19	**(1,136)**	(87)
Interest paid	5	**(549)**	(57)
Repayment of lease liabilities	22	**(4,896)**	–
Dividends paid	21	**(33,478)**	(43,672)
Purchase of own shares	21	**–**	(404)
Cash flows from financing activities		**(38,165)**	(33,734)
Net increase in cash and cash equivalents		**55,560**	(50,317)
Cash and cash equivalents at the beginning of the year		**54,326**	103,847
Effect of exchange rate fluctuations on cash held		**500**	796
Cash and cash equivalents at the end of the year	15	**110,386**	54,326

* 2019 cash and cash equivalents and bank deposits have been restated following a change in accounting policy, see note 1.

Notes (forming part of the financial statements)

1. Accounting policies

Basis of preparation

Renishaw plc (the Company) is a company incorporated in England and Wales. 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 and joint ventures. The parent company financial statements present information about the Company as a separate entity and not about the Group.

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). The parent company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. The consolidated financial statements are presented in Sterling, which is the Company's functional currency and the Group's presentational currency, and all values are rounded to the nearest thousand (£'000).

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.

Renishaw GmbH, Pliezhausen, Germany has chosen to exercise the right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of the Group include the financial statements of Renishaw GmbH, Pliezhausen, Germany.

Critical accounting judgements and estimation uncertainties

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 areas of key estimation uncertainty and critical accounting judgement that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are summarised below, with further details included within accounting policies as indicated.

Item	Key judgements (J) and estimates (E)	Page
Revenue recognition	J – Timing of satisfaction of performance obligations	110
Cash flow hedges	E – Estimates of highly probable forecasts of the hedged item	111
Intangibles	E – Estimates of useful life of intangible assets	112
Research and development costs	J – Whether a project meets appropriate criteria for capitalisation	112
Goodwill and capitalised development costs	E – Estimates of future cash flows for impairment testing	112
Inventories	E – Determination of net realisable inventory value	113
Defined benefit pension schemes	E – Valuation of defined benefit pension schemes' liabilities	114
Taxation	E – Estimates of future profits to utilise deferred tax assets	114

The impact of COVID-19 has been considered as part of the estimates and judgements above, and factored into sensitivity analyses included in the following notes. Global macroeconomic uncertainty preceding COVID-19, and furthered by COVID-19, has impacted the revenue, profit and cashflow forecasts which underpin most of the above estimates. The valuation of defined benefit pension schemes' liabilities are not affected by these forecasts, however COVID-19 has affected the key assumptions of discount rate and inflation rate. The timing of satisfaction of performance obligations has not been affected by COVID-19.

New, revised or changes to existing accounting standards

The following accounting standards have been applied for the first time, with effect from 1 July 2019, and have been adopted in the preparation of these financial statements.

IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 and related standards, and provides an accounting model under which substantially all leases are recognised on the balance sheet of the lessee. A 'right of use' asset is recognised, being the right to use the underlying asset of the lease, and a lease liability is also recognised on the balance sheet, being the obligation to make payments in respect of the use of the underlying asset.

The Group adopted IFRS 16 on 1 July 2019 using the modified retrospective transition approach (and has therefore not restated comparatives for the prior year) with the principal change being that leases previously classified as operating leases under IAS 17 were brought on to the balance sheet at 1 July 2019. The impact of IFRS 16 is disclosed later in this note.

In adopting IFRS 16 the Group took advantage of the following practical expedients permitted by the standard:

- The right of use assets were measured at an amount based on the lease liability at adoption, and initial direct costs incurred when obtaining leases were excluded from this measurement;

1. Accounting policies (continued)

- Reliance was placed on previous assessments of whether leases are onerous (the assessment of which determined that the impact of onerous leases was trivial); and
- Operating leases with a remaining lease term of less than 12 months at 1 July 2019 were accounted for as 'short-term leases'.

As IFRS 16 no longer distinguishes between operating leases and finance leases, operating lease commitments disclosed at 30 June 2019 were replaced with a lease liability and recognised at 1 July 2019, as follows:

	£'000
Operating lease commitments as disclosed at 30 June 2019	16,390
Less: effect of discounting	(149)
Less: recognition differences and assumptions	(1,994)
Total lease liability recognised at 1 July 2019	14,247

Recognition differences include leases now classified as low value or short-term and re-evaluations of non-cancellable lease terms according to IFRS 16. The weighted average incremental borrowing rate applied to the Group's lease liabilities recognised in the Consolidated balance sheet at 1 July 2019 was 2.4%.

The impact on the primary statements of adopting IFRS 16 at 1 July 2019 is summarised below:

Impact on the Consolidated balance sheet

	At 30 June 2020 £'000	At 1 July 2019 £'000
Right of use assets	**12,672**	14,550
Deferred tax assets	**139**	–
Non-current assets	**12,811**	14,550
Lease liabilities	**4,241**	4,799
Other payables	**203**	303
Current liabilities	**4,444**	5,102
Lease liabilities	**8,925**	9,448
Non-current liabilities	**8,925**	9,448
Total assets less total liabilities	**(558)**	–
Currency translation reserve	**10**	–
Retained earnings	**(568)**	–
Total equity	**(558)**	–

Right of use assets at 1 July 2019 consisted of £11,377,000 relating to property leases occupied for trading purposes, £3,013,000 relating to vehicle leases and a small amount relating to machinery leases.

Impact on the Consolidated income statement

The impact on the Consolidated income statement for the financial year ended 30 June 2020 is to increase operating profit by £62,000 and increase financial expenses by £766,000, therefore reducing profit before tax by £704,000. The aggregate of depreciation and interest expense will generally result in higher expenses in the earlier periods of leases than would have been the case under IAS 17.

Impact on the Consolidated cash flow statement

There is no change to net cash flow from the adoption of IFRS 16. Under IAS 17 operating lease payments were treated as operating cash outflows, however under IFRS 16 payments made at lease inception and subsequently (both principal and interest) are classified as financing outflows. The Group therefore shows both higher cash inflows from operating activities and higher cash outflows from financing activities under IFRS 16.

In addition to IFRS 16, the Group has adopted the following IFRS amendments, which have not had a material impact on amounts reported or disclosures in these financial statements:

- IFRS 17 'Insurance Contracts';
- IFRS 9 (amendments) – Prepayment Features with Negative Compensation;
- IAS 28 (amendments) – Long-term Interests in Associates and Joint Ventures;
- IAS 19 (amendments) – Plan Amendment, Curtailment or Settlement;
- IFRS 10 and IAS 28 (amendments) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Annual Improvements – Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs; and
- IFRIC 23 'Uncertainty over Income Tax Treatments'.

Notes continued

1. Accounting policies (continued)

Going concern

An overview of the Group's business activities, including a review of the key business risks that the Group face is given in the Strategic report on pages 1 to 49, together with the factors likely to affect its future development, performance and position. Details of the financial and liquidity positions are also given in the Financial review on pages 18 to 21 of the Strategic report, and note 20 to the financial statements sets out 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.

As explained in the Strategic report, and in note 26 Restructuring costs, changes were made to the Group's strategy for additive manufacturing and resulted in impairments to capitalised development costs, goodwill and property and equipment relating to this part of the business. The Board do not consider that this will have a significant adverse effect on the Group's profitability or liquidity in the period covered by either the going concern assessment or the viability statement, and have taken account of these strategic changes when preparing the forecast models. This consideration is also applicable to the impact on the 12-month forecast period of the impairment in 2020 of other capitalised development costs.

As at 30 June 2020 the Group has a strong balance sheet, with net current assets of £281.6m, including net cash and bank deposits of £120.4m. While the Group has secured eligibility to the Bank of England Covid Corporate Financing Facility (CCFF), no commercial papers have been issued and the Group does not anticipate making use of this facility. Access to the CCFF has not been taken into consideration in the downside scenarios discussed below.

Against the backdrop of the aforementioned strong financial position, as part of the Directors' consideration of the appropriateness of adopting the going concern basis in preparing the consolidated financial statements, severe but plausible scenarios have been considered that estimate the potential impact of the principal risks on the financial forecasts over the assessment period, as well as the potential impact of the COVID-19 pandemic.

Third-party research and publications were reviewed, in which the most severe scenario considered that a 'second wave' of the pandemic would be experienced in the remainder of the calendar year 2020, before easing from the start of the calendar year 2021. The Board's most severe scenario therefore assumed that lockdown measures and other COVID-19 related restrictions would reoccur in calendar year 2020, resulting in reduced demand for that period, particularly in the aerospace and automotive markets. Principal risks most relevant to short-term revenue, being supply chain dependencies and exchange rate fluctuations, were also assumed to crystallise in the first six months of the forecast period, reflecting the risks relating to Brexit and the impact on revenue of a 15% strengthening of Sterling. Other principal risks of industry fluctuations and economic and political uncertainty are reflected in the assumption that trading in the second six months of the forecast period would be comparable to the first half of financial year 2020.

From this combination of assumptions, a revenue forecast of c£350m was determined for the 12 months from the date of signing. In assessing liquidity for the going concern period, the other key assumptions under this scenario were a deterioration in debtor days to 85 days (worse than was experienced by the Group in the 2009 global financial crisis), continued funding of the UK defined benefit pension scheme in line with the agreed recovery plan, no reduction in the Group's operating expenses beyond the cost-reduction initiatives that are already underway, and the impact on costs of a 15% strengthening in Sterling against the major trading currencies of the Group. This scenario also assumes that the Group will conserve its cash by not paying dividends and by restricting capital expenditure to £10m per annum, a level which would support the Group's manufacturing facilities and IT infrastructure. No additional borrowings or financing are assumed in this severe scenario, and the cash flow forecast shows positive cash balances, net of working capital requirements, throughout the 12-month going concern period.

Reverse stress testing has also been applied to the model and was updated at the date of signing the Annual Report to reflect actual sales in July 2020. This stress testing demonstrated that the Group would retain a positive liquidity position until revenue decreased to c£169m for the 12 months to August 2021. The Board considers the possibility of this revenue forecast to be highly unlikely, and mitigating actions to further reduce operating costs would be put in place if actual trading in the period was consistent with this scenario.

As a result of the assessments undertaken, the Directors consider 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 a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

Basis of consolidation

Subsidiaries – Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Application of the equity method to associates and joint ventures – Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses.

1. Accounting policies (continued)

The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal obligations or made payments on behalf of an investee.

Transactions eliminated on consolidation – Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Separately disclosed items

The Directors consider that certain items should be separately disclosed to aid understanding of the Group's performance.

Gains and losses from the fair value of financial instruments are therefore separately disclosed in the Consolidated income statement, where these gains and losses relate to certain forward currency contracts that are not effective for hedge accounting. Restructuring costs are also separately disclosed where significant costs have been incurred in rationalising and reorganising our business as part of a Board-approved strategy, and relate to matters that do not frequently recur.

These items are also excluded from Adjusted profit before tax, Adjusted operating profit and Adjusted earnings per share measures, as explained in note 25 Alternative performance measures.

Alternative performance measures

The financial statements are prepared in accordance with adopted IFRS and applied in accordance with the provisions of the Companies Act 2006. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort year-on-year comparisons.

These are considered non-GAAP financial measures. We believe this information, along with comparable GAAP measurements, is useful to stakeholders in providing a basis for measuring our operational performance. The Board use these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our performance (see note 25).

Revenue

The Group generates revenue from the sale of metrology and healthcare goods, capital equipment and services. These can be sold both on their own and together.

a) Sale of goods, capital equipment and services

The Group's contracts with customers consist both of contracts with one performance obligation and contracts with multiple performance obligations.

For contracts with one performance obligation, revenue is measured at the transaction price, which is typically the contract value except for customers entitled to volume rebates, and recognised at the point in time when control of the product transfers to the customer. This point in time is typically when the products are made available for collection by the customer, collected by the shipping agent, or delivered to the customer, depending upon the shipping terms applied to the specific contract.

Contracts with multiple performance obligations typically exist where, in addition to supplying product, we also supply services such as user training, servicing and maintenance, and installation services. Where the installation service is simple, does not include a significant integration service and could be performed by another party then the installation is accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price is allocated to each performance obligation based on the relative stand-alone selling prices. The revenue allocated to each performance obligation is then recognised when, or as, that performance obligation is satisfied. For installation, this is typically at the point in time in which installation is complete. For training, this is typically the point in time at which training is delivered. For servicing and maintenance, the revenue is recognised evenly over the course of the servicing agreement except for ad-hoc servicing and maintenance which is recognised at the point in time in which the work is undertaken.

b) Sale of software

The Group provides software licences and software maintenance to customers, sold both on their own and together with associated products. Where the software licence and/or maintenance is provided as part of a contract that provides customers with software licences and other goods and services then the transaction price is allocated on the same basis as described in a) above.

The Group's software licences provide a right of use, and therefore revenue from software licences is recognised at the point in time in which the licence is supplied to the customer. Revenue from software maintenance is recognised evenly over the term of the maintenance agreement.

c) Programming contracts

Programming is typically a distinct performance obligation and revenue for this work is recognised at a point in time, being when the completed program is supplied to the customer.

Notes continued

1. Accounting policies (continued)

d) Extended warranties

The Group provides standard warranties to customers that address potential latent defects that existed at point of sale and as required by law (assurance-type warranties). In some contracts, the Group also provides warranties that extend beyond the standard warranty period and may be sold to the customer (service-type warranties).

Assurance-type warranties are accounted for by the Group under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Service-type warranties are accounted for as separate performance obligations and therefore a portion of the transaction price is allocated to this element, and then recognised evenly over the period in which the service is provided.

e) Contract balances

Contract assets represent the Group's right to consideration in exchange for goods and services that have been transferred to a customer, and mainly includes accrued revenue in respect of goods and services provided to a customer but not yet fully billed. Contract assets are distinct from receivables, which represent the Group's right to consideration that is unconditional.

Contract liabilities represent the Group's obligation to transfer goods or services to a customer for which the Group has either received consideration or consideration is due from the customer.

f) Disaggregation of revenue

The Group disaggregates revenue from contracts with customers between: goods, capital equipment and installation, and aftermarket services; reporting segment; and geographical location.

Management believe these categories best depict how the nature, amount, timing and uncertainty of the Group's revenue is affected by economic factors.

Key judgement – Timing of satisfaction of performance obligations

The majority of the Group's revenue is recognised at a point in time, and to determine that point an assessment is made as to when the customer obtains control of promised products or services. This assessment is made primarily by reference to the shipping terms applied to the specific contract for products that do not require customer acceptance.

Where the contract requires customer acceptance, management assess whether the Group can objectively determine that the criterion of the testing can be successfully met at the point of transferring the equipment to the customer. Where this can be objectively determined, customer acceptance testing is considered a formality and does not delay the recognition of revenue. Where this cannot be objectively determined, control of the product is not deemed to have transferred to the customer and therefore the portion of the transaction price that relates to this performance obligation is not recognised until the acceptance criteria are met.

For revenue recognised over time, such as servicing contracts, the Group recognises the revenue on a basis that depicts the Group's performance in transferring control of the goods or services to the customer, having assessed the nature of the promised goods or service. The Group applies the relevant output or input method consistently to similar performance obligations in other contracts.

Foreign currencies

Consolidation – Overseas subsidiaries' results are translated into Sterling at weighted average exchange rates for the year, which is effected by translating each overseas 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 rates prevailing at that date. Differences on exchange resulting from the translation of overseas assets and liabilities are recognised in Other comprehensive income and are accumulated in equity.

Transactions and balances – Monetary assets and liabilities denominated in foreign currencies are reported at the rates prevailing at the time, with any gain or loss arising from subsequent exchange rate movements being included as an exchange gain or loss in the Consolidated income statement. Foreign currency differences arising from transactions are recognised in the Consolidated income statement.

Financial instruments and fair value measurements

The Group measures financial instruments such as forward exchange contracts at fair value at each balance sheet date in accordance with IFRS 9 'Financial Instruments'. Fair value, as defined by IFRS 13 'Fair Value Measurement', is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Note 20, Financial instruments, provides detail on the IFRS 13 fair value hierarchy.

Trade and other current receivables are initially recognised at fair value and are subsequently held at amortised cost less any provision for bad and doubtful debts and expected credit losses according to IFRS 9. Long-term loans to associates and joint ventures are initially recognised at fair value and are subsequently held at amortised cost. Trade and other current payables are initially recognised at fair value and are subsequently held at amortised cost.

1. Accounting policies (continued)

Financial liabilities in the form of loans are initially recognised at fair value and are subsequently held at amortised cost. Financial liabilities are assessed for embedded derivatives and whether any such derivatives are closely related. If not closely related, such derivatives are accounted for at fair value in the Consolidated income statement.

Foreign currency derivative cash flow hedges

Foreign currency derivatives are used to manage risks arising from changes in foreign currency rates relating to overseas sales and foreign currency-denominated assets and liabilities. The Group does not enter into derivatives for speculative purposes. Foreign currency derivatives are stated at their fair value, being the estimated amount that the Group would pay or receive to terminate them at the balance sheet date, based on prevailing foreign currency rates.

Changes in the fair value of foreign currency derivatives which are designated and effective as hedges of future cash flows are recognised in Other comprehensive income and in the Cash flow hedging reserve, and subsequently transferred to the carrying amount of the hedged item or the Consolidated income statement. Realised gains or losses on cash flow hedges are therefore recognised in the Consolidated income statement within revenue in the same period as the hedged item.

Hedge accounting is discontinued when the hedging instrument expires or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is then transferred to the Consolidated income statement.

Changes in fair value of foreign currency derivatives, which are ineffective or do not meet the criteria for hedge accounting in IFRS 9, are recognised in the Consolidated income statement within Gains/losses from the fair value of financial instruments.

In addition to derivatives held for cash flow hedging purposes, the Group uses short-term derivatives not designated as hedging instruments to offset gains and losses from exchange rate movements on foreign currency-denominated assets and liabilities. Gains and losses from currency movements on underlying assets and liabilities, realised gains and losses on these derivatives, and fair value gains and losses on outstanding derivatives of this nature are all recognised in Financial income and expenses in the Consolidated income statement. See note 20 for further detail on financial instruments.

Key estimate – Estimates of highly probable forecasts of the hedged item

Derivatives are effective for hedge accounting to the extent that the hedged item is 'highly probable' to occur, with 'highly probable' indicating a much greater likelihood of occurrence than the term 'more likely than not'. Determining a highly probable sales forecast for Renishaw plc and Renishaw UK Sales Limited, being the hedged item, over a multiple year time period, requires judgement of the suitability of external and internal data sources and estimations of future sales. Relevant sensitivity analysis is included in note 20.

Cash and cash equivalents

During the FRC's review of our 2019 Annual Report we clarified that while we considered that certain bank deposits met the requirements of IAS 7 to be treated as cash equivalents, the expiry date of three of these short-term deposits exceeded three months. We have therefore amended our accounting policy to the following:

Cash and cash equivalents comprise cash balances, and deposits meeting the following criteria:

- deposits with an original maturity of less than three months; and
- deposits with an original maturity date of more than three months where the deposit can be accessed on demand without significant penalty for early withdrawal and where the original deposit amount is recoverable in full.

Bank overdrafts that are repayable on demand form part of cash and cash equivalents for the purposes of the Consolidated statement of cash flow.

This change in accounting policy has been applied retrospectively and therefore the comparatives in the Consolidated statement of cash flow have been amended to show a cash outflow of £52.5m in investing activities for the amounts placed on deposits exceeding three months and not accessible on demand, and the comparatives in the Consolidated balance sheet show £52.5m of Bank deposits separately from Cash and cash equivalents.

Pension scheme cash escrow account

The Company holds a pension scheme 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 scheme liabilities immediately upon enforcement of the charge over the account.

Goodwill and other intangible assets

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.

Notes continued

1. Accounting policies (continued)

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.

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 in the Consolidated income statement.

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

Key estimate – Estimates of useful life of intangible assets

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. Capitalised development costs are written off over five years, the period over which product demand forecasts can be reasonably predicted.

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 Group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable, and the Group 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 amortised over five years and is stated at cost less accumulated amortisation and less accumulated impairment losses. Capitalised development expenditure is removed from the balance sheet 10 years after being fully amortised.

Key judgement – Whether a project meets appropriate criteria for capitalisation

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.

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 two to 10 years.

Impairment of non-current assets

All non-current assets are tested for impairment whenever there is an indication that their carrying value may be impaired. An impairment loss is recognised in the Consolidated income statement to the extent that an asset's carrying value exceeds its recoverable amount, which represents the higher of the asset's net realisable value and its value-in-use. An asset's value-in-use represents the present value of the future cash flows expected to be derived from the asset or from the cash-generating unit to which it relates. The present value is calculated using a discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset concerned.

Goodwill and capitalised development costs are subject to an annual impairment test.

Key estimate – Estimates of future cash flows used for impairment testing

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 11). Similarly, determining whether capitalised development costs are impaired requires an estimation of their value-in-use which involves significant judgement. Relevant sensitivity analysis is included in note 11.

1. Accounting policies (continued)

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 25 years, Vehicles 3 to 4 years.

Inventory and work in progress

Inventory and work in progress is valued at the lower of actual cost on a first-in, first-out (FIFO) basis 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 that are required to bring inventories to their present location and condition. Overheads are absorbed into inventories on the basis of normal capacity or on actual hours if higher.

Key estimate – Determination of net realisable inventory value

Determining the net realisable value of inventory requires judgement, especially in respect of provisioning for slow moving and potentially obsolete inventory. Management use the higher of previous 12-month usage levels or demand from customer orders and manufacturing build plans as a basis for estimating the future annual demand of individual stock items. For most products and their components, provisions are typically made for quantities held in excess of three years' demand. A demand basis lower than three years is used for those products and related components where the sales history is more volatile. Where strategic purchases of critical components have been made, an outlook beyond three years is considered where appropriate.

Leases

As a lessee

At the lease commencement date the Group recognises a right of use asset for the leased item and a lease liability for any lease payments due.

Right of use assets are initially measured at cost, being the present value of the lease liability plus any initial costs incurred in entering the lease and less any lease incentives received. Right of use assets are subsequently depreciated on a straight-line basis from the commencement date to the earlier of i) the end of the useful life of the asset, or ii) the end of the lease term.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate of the applicable entity. The lease liability is subsequently measured at amortised cost using the effective interest method and is remeasured if there is a change in future lease payments arising from a change in an index or rate (such as an inflation-linked increase), or if there is a change in the Group's assessment of whether it will exercise an extension or termination option. When this happens there is also a corresponding adjustment to the right of use asset.

Where the Group enters into leases with a lease term of 12 months or less, these are treated as 'short-term' leases and are recognised on a straight-line basis as an expense in the Consolidated income statement. The same treatment applies to low-value assets, which are typically IT equipment and office equipment.

As a lessor

The Group acts as a lessor for Renishaw-manufactured plant and equipment and determines at inception whether the lease is a finance lease or an operating lease.

Where the Group transfers the risks and rewards of ownership of lease assets to a third party, the Group recognises a receivable in the amount of the net investment in the lease. The lease receivable is subsequently reduced by the principal received, while an interest component is recognised as financial income in the Consolidated income statement.

Where the Group retains the risks and rewards of ownership of lease assets, it continues to recognise the leased asset in Property, plant and equipment. Income from operating leases is recognised on a straight-line basis over the lease term and recognised as Revenue rather than Other revenue as such income is not material.

Employee benefits

The Group operates contributory pension schemes, largely for UK, Ireland and USA employees, which were of the defined benefit type up to 5 April 2007, 31 December 2007 and 30 June 2012 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. Investment assets of the defined benefit schemes are measured at fair value using the bid price of the unitised investments, quoted by the investment manager, at the reporting date. 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. Remeasurements arising from defined benefit schemes comprise actuarial gains and losses, the return on scheme assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in Other comprehensive income and all other expenses related to defined benefit schemes are included in the Consolidated income statement.

Notes continued

1. Accounting policies (continued)

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 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. To the extent that contributions payable will not be available as a refund after they are paid into the plan, a liability is recognised at the point the obligation arises, which is the point at which the minimum funding guarantee is agreed. Overseas-based employees are covered by state, defined benefit and private pension schemes in their countries of residence. Actuarial valuations of overseas pension schemes were not obtained, apart from Ireland and USA, because of the limited number of members. 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 and also for the annual performance bonus, if applicable.

Key estimate – Valuation of defined benefit pension schemes' liabilities

Determining the value of the future defined benefit obligation requires judgement in respect of the assumptions used to calculate liabilities and their present values. These include future mortality, discount rate and inflation. Management makes these judgements in consultation with independent actuaries. Details of the estimates and judgements in respect of the current year are given in note 13. Based on a review of the terms of the UK scheme trust deed, management has concluded that there are no likely circumstances which would result in the Company having an unconditional right to a refund in the event of a fund surplus. Relevant sensitivity analysis is included in note 13.

Share-based payments

The Group provides share-based payment arrangements to certain employees in accordance with the Renishaw plc deferred annual equity incentive plan (the Plan) (see the Governance section for further detail). The share awards are subject only to continuing service of the employee and are equity settled. The fair value of the awards at the date of grant, which is estimated to be equal to the market value, is charged to the Consolidated income statement on a straight-line basis over a three-year vesting period, with appropriate adjustments made to reflect expected or actual forfeitures. The corresponding credit is to Other reserve. The Renishaw Employee Benefit Trust (EBT) is responsible for purchasing shares on the open market on behalf of the Company to satisfy the Plan awards. Own shares held are recognised as an element in equity until they are transferred at the end of the vesting period, and such shares are excluded from earnings per share calculations.

Warranty provisions

The Group provides a warranty from the date of purchase, except for those products that are installed by the Group where the warranty starts from the date of completion of the installation. 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 Group financial statements, which is calculated on the basis of historical returns and internal quality reports.

Government grants

Government grants are recognised in the Consolidated income statement as a deduction against expenditure. Where grants are received in advance of the related expenses, they are initially recognised in the Consolidated balance sheet and released to match the related expenditure. Where grants are expected to be received after the related expenditure has occurred, and there is reasonable assurance that the entity will comply with the grant conditions, amounts are recognised to offset the expenditure and an asset recognised. Accordingly, amounts relating to the UK Coronavirus Job Retention Scheme are recognised as grants.

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 Other comprehensive income, 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.

Key estimate – Estimates of future profits to support the recognition of deferred tax assets

Deferred tax assets are recognised to the extent it is probable that future taxable profits (including the future release of deferred tax liabilities) will be available, against which the deductible temporary differences can be utilised, based on management's assumptions relating to the amounts and timing of future taxable profits. Estimates of future profitability on an entity basis are required to ascertain whether it is probable that sufficient taxable profits will arise to support the recognition of deferred tax assets relating to the corresponding entity. Relevant sensitivity analysis is included in note 9.

2. Segmental analysis

The Group manages its business in two segments, comprising metrology and healthcare products. The results of these are regularly reviewed by the Board to allocate resources to segments and to assess their performance. Within the operating segment of metrology, there are multiple product offerings with similar economic characteristics, and where the nature of the products and production processes and their customer bases are similar. More details of the Group's products and services are given in the Strategic report.

Year ended 30 June 2020	**Metrology £'000**	**Healthcare £'000**	**Total £'000**
Revenue	**475,203**	**35,012**	**510,215**
Depreciation, amortisation and impairment	**62,591**	**2,557**	**65,148**
Operating profit before losses from fair value of financial instruments	**31,188**	**1,737**	**32,925**
Share of profits from associates and joint ventures	**841**	**–**	**841**
Net financial expense	**–**	**–**	**(3,927)**
Losses from the fair value of financial instruments	**–**	**–**	**(26,631)**
Profit before tax	**–**	**–**	**3,208**

Year ended 30 June 2019	Metrology £'000	Healthcare £'000	Total £'000
Revenue	532,940	41,019	573,959
Depreciation, amortisation and impairment	37,714	2,700	40,414
Operating profit before gains from fair value of financial instruments	95,345	3,367	98,712
Share of profits from associates and joint ventures	3,815	–	3,815
Net financial income	–	–	6,336
Gains from the fair value of financial instruments	–	–	1,081
Profit before tax	–	–	109,944

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 following table shows the disaggregation of Group revenue by category:

	2020 £'000	2019 £'000
Goods, capital equipment and installation	**457,024**	519,782
Aftermarket services	**53,191**	54,177
Total Group revenue	**510,215**	573,959

Aftermarket services include repairs, maintenance and servicing, programming, training, extended warranties, and software licences and maintenance.

The analysis of revenue by geographical market was:

	2020 £'000	2019 £'000
APAC	**227,650**	240,115
EMEA	**167,253**	201,255
Americas	**115,312**	132,589
Total Group revenue	**510,215**	573,959

Revenue in the previous table has been allocated to regions based on the geographical location of the customer. Countries with individually material revenue figures in the context of the Group were:

	2020 £'000	2019 £'000
China	**102,840**	111,002
USA	**101,153**	113,235
Japan	**57,833**	63,650
Germany	**49,397**	60,916

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

Notes continued

2. Segmental analysis (continued)

The following table shows the analysis of non-current assets, excluding deferred tax and derivatives, by geographical region:

	2020 £'000	2019 £'000
UK	**186,249**	196,214
Overseas	**159,258**	140,164
Total non-current assets	**345,507**	336,378

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:

	2020 £'000	2019 £'000
Wages and salaries	**183,165**	193,035
Compulsory social security contributions	**21,373**	21,485
Contributions to defined contribution pension schemes	**21,103**	22,701
Government grants – employment support	**(4,532)**	–
Share-based payment charge	**173**	158
Total payroll costs	**221,282**	237,379

Amounts recognised as 'Government grants - employment support' mostly relate to the UK Coronavirus Job Retention Scheme. 2020 total payroll costs do not include redundancy costs relating to restructuring, see note 26.

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

	2020 Number	2019 Number
UK	**3,001**	3,126
Overseas	**1,796**	1,842
Average number of employees	**4,797**	4,968

Key management personnel have been assessed to be the Directors of the Company.

The total remuneration of the Directors was:

	2020 £'000	2019 £'000
Short-term employee benefits	**1,980**	2,810
Post-employment benefits	**136**	205
Share-based payment charge	**173**	158
Total remuneration of the Directors	**2,289**	3,173

Full details of Directors' remuneration are given in the Directors' remuneration report.

4. Cost of sales

Included in cost of sales are the following amounts:

	2020 £'000	2019 £'000
Production costs	**184,326**	200,050
Research and development expenditure	**66,614**	75,049
Other engineering expenditure	**15,755**	22,817
Gross engineering expenditure	**82,369**	97,866
Research and development expenditure capitalised (net of amortisation)	**(544)**	(2,947)
Research and development expenditure impaired (see note 11)	**9,881**	–
Research and development tax credit	**(4,399)**	(5,137)
Total engineering costs	**87,307**	89,782
Total cost of sales	**271,633**	289,832

Research and development expenditure includes the payroll costs, material costs and allocated overheads attributed to projects identified as being related to new products or processes. Other engineering expenditure includes the payroll costs, material costs and allocated overheads attributed to projects identified as being related to existing products or processes.

Research and development expenditure impaired excludes amounts relating to Restructuring costs, per note 26.

5. Financial income and expenses

Financial income	2020 £'000	2019 £'000
Currency gains	–	5,940
Fair value gains from one-month forward currency contracts (note 20)	–	76
Bank interest receivable	913	1,222
Total financial income	913	7,238

Financial expenses	2020 £'000	2019 £'000
Net interest on pension schemes' liabilities (note 13)	861	845
Currency losses	2,433	–
Fair value losses from one-month forward currency contracts (note 20)	154	–
Lease interest	765	–
Interest payable	627	57
Total financial expenses	4,840	902

Currency gains and losses relate to revaluations of foreign currency-denominated balances using latest reporting currency exchange rates. The gains recognised in 2019 largely related to a depreciation of Sterling relative to the US dollar affecting US dollar-denominated intragroup balances in the Company.

Certain intragroup balances were reclassified as 'net investments in foreign operations' during 2019, such that revaluations from currency movements on designated balances after this date accumulate in the Currency translation reserve in Equity. Additionally, from 1 January 2019, a policy of entering into rolling one-month forward currency contracts began, with fair value gains and losses being recognised in financial income or expenses, to offset currency movements on remaining intragroup balances. See note 20 for further details.

6. Profit before tax

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

	notes	2020 £'000	2019 £'000
Depreciation and impairment of property, plant and equipment and right of use assets	(a)	33,168	23,752
Amortisation and impairment of intangible assets	(a)	36,716	16,662
Loss on sale of property, plant and equipment	(b)	22	148
Profit on sale of other intangibles	(b)	–	(455)
Auditor:			
Audit of these financial statements	(b)	293	226
Audit of subsidiary undertakings pursuant to legislation	(b)	398	329
Other assurance	(b)	12	4
All other non-audit fees	(b)	3	1

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 and (b) within administrative expenses.

7. Earnings per share

Basic and diluted earnings per share are calculated on earnings of £288,000 (2019: £92,232,000) and on 72,778,904 shares (2019: 72,778,904 shares), being the number of shares in issue. The number of shares excludes 9,639 shares held by the EBT, which were purchased on 10 December 2018.

There is no difference between the weighted average earnings per share and the basic and diluted earnings per share.

For the calculation of adjusted earnings per share, per note 25, earnings of £288,000 (2019: £92,232,000) are adjusted by post-tax amounts for Fair value (gains)/losses on financial instruments not eligible for hedge accounting (reported in Revenue), Fair value (gains)/losses on financial instruments not eligible for hedge accounting (reported in Gains/(losses) from the fair value of financial instruments) and restructuring costs, amounting to £592,000 gain, £18,095,000 loss and £19,276,000 loss respectively.

Notes continued

8. Income tax expense

	2020 £'000	2019 £'000
Current tax:		
UK corporation tax on profits for the year	–	4,691
UK corporation tax – prior year adjustments	333	(622)
Overseas tax on profits for the year	9,236	11,980
Overseas tax – prior year adjustments	(89)	–
Total current tax	9,480	16,049
Deferred tax:		
Origination and reversal of temporary differences	(9,349)	2,719
Prior year adjustments	(185)	(882)
Derecognition of previously recognised tax losses and excess interest	2,953	–
Recognition of previously unrecognised tax losses	(1,127)	(55)
Effect on deferred tax for changes in tax rates	1,148	(119)
	(6,560)	1,663
Tax charge on profit	2,920	17,712

The tax for the year is higher (2019: lower) than the UK standard rate of corporation tax of 19% (2019: 19%).

The differences are explained as follows:

	2020 £'000	2019 £'000
Profit before tax	3,208	109,944
Tax at 19% (2019: 19%)	610	20,889
Effects of:		
Different tax rates applicable in overseas subsidiaries	(312)	(124)
UK patent box	–	(1,787)
Expenses not deductible for tax purposes	576	583
Companies with unrelieved tax losses	189	231
Share of profits of associates and joint ventures	(85)	(631)
Items with no tax effect	(596)	(203)
Prior year adjustments	58	(1,504)
Effect on deferred tax for change in tax rates	1,148	(119)
Recognition of previously unrecognised tax losses	(1,127)	(55)
Derecognition of previously recognised tax losses and excess interest	2,953	–
Utilisation of unrecognised losses	(399)	–
Other differences	(95)	432
Tax charge on profit	2,920	17,712
Effective tax rate	91.0%	16.1%

The Group's future effective tax rate (ETR) will mainly depend on the geographic mix of profits and whether there are any changes to tax legislation in the Group's most significant countries of operations. Whilst the UK patent box benefit normally has a significant impact on the ETR, UK losses in 2020 have resulted in £nil patent box benefit for 2020 (2019: £1,787,000 credit). In the Spring Budget 2020, the Government announced that from 1 April 2020 the UK corporation tax rate would remain at 19%, rather than reducing to 17% as previously enacted. This has resulted in a deferred tax charge of £1,059,000. A partial derecognition of deferred tax assets totalling £2,953,000 relating to US tax losses and excess interest, further contributed to the year-on-year increase in the ETR.

The deferred tax asset derecognition has arisen from uncertainty over the recoverability of a portion of previously recognised losses and excess interest against future taxable profits in our US business, as a consequence of recent macroeconomic uncertainty and AM restructuring (see note 26).

9. Deferred tax

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset and there is an intention to net settle the balances. After taking these offsets into account, the net position of £39,142,000 asset (2019: £29,316,000 asset) is presented as a £39,641,000 deferred tax asset (2019: £29,855,000 asset) and a £499,000 deferred tax liability (2019: £539,000 liability) in the Group's Consolidated balance sheet.

Where deferred tax assets are recognised, the Directors are of the opinion, based on recent and forecast trading, that the level of profits in current and future years make it more likely than not that these assets will be recovered.

9. Deferred tax (continued)

Balances at the end of the year were:

	2020			2019		
	Assets £'000	Liabilities £'000	Net £'000	Assets £'000	Liabilities £'000	Net £'000
Property, plant and equipment	**306**	**(14,234)**	**(13,928)**	184	(13,265)	(13,081)
Intangible assets	**–**	**(1,264)**	**(1,264)**	–	(2,494)	(2,494)
Intragroup trading (inventories)	**14,249**	**(289)**	**13,960**	16,686	–	16,686
Intragroup trading (fixed assets)	**2,071**	**–**	**2,071**	2,309	–	2,309
Defined benefit pension schemes	**11,951**	**(55)**	**11,896**	8,526	–	8,526
Derivatives	**6,344**	**–**	**6,344**	8,816	–	8,816
Tax losses	**14,077**	**–**	**14,077**	3,255	–	3,255
Other	**6,023**	**(37)**	**5,986**	5,927	(628)	5,299
Balance at the end of the year	**55,021**	**(15,879)**	**39,142**	45,703	(16,387)	29,316

Other deferred tax assets include timing differences relating to inventory provisions totalling £1,876,000, other provisions (including bad debt provisions) of £1,628,000, employee benefits relating to Renishaw KK of £731,000, and uniform capitalisation relating to Renishaw Inc of £729,000, with the remaining balance relating to a number of other temporary differences.

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

	2020 £'000	2019 £'000
Balance at the beginning of the year	**29,316**	27,240
IFRS 15 transition adjustment	**–**	372
Reallocation from current tax	**163**	340
Movements in the Consolidated income statement	**6,560**	(1,663)
Movement in relation to the cash flow hedging reserve	**(1,978)**	4,561
Movement in relation to the currency translation reserve	**(403)**	–
Movement in relation to the defined benefit pension schemes	**5,484**	(1,534)
Total movement in the Consolidated statement of comprehensive income and expense	**3,103**	3,027
Balance at the end of the year	**39,142**	29,316

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

	2020 £'000	2019 £'000
Property, plant and equipment	**(847)**	(4,369)
Intangible assets	**1,230**	945
Intragroup trading (inventories)	**(2,725)**	(708)
Intragroup trading (fixed assets)	**(238)**	(13)
Defined benefit pension schemes	**(2,114)**	(1,036)
Derivatives	**(494)**	(1,155)
Tax losses	**10,822**	1,400
Other	**926**	3,273
Total movement for the year	**6,560**	(1,663)

A deferred tax asset of £11,225,000 is recognised in respect of losses made in the Company in 2020. It is considered likely that the business will generate sufficient future taxable profits to recognise the deferred tax asset in full, as losses made in 2020 include a number of costs, such as restructuring costs per note 26, which are unlikely to reoccur in future years. Further deferred tax net assets in respect of losses of £2,852,000 have been recognised across other Group companies where it is considered likely that the business will generate sufficient future taxable profits.

Deferred tax assets have not been recognised in respect of tax losses carried forward of £20,930,000 (2019: £21,028,000), due to uncertainty over their offset against future taxable profits and therefore their recoverability, of which 98% is accounted for by Group companies in the US, Brazil, Canada, Switzerland and Australia. US and Canada losses, accounting for 65%, expire no earlier than 30 June 2035, Switzerland (17%) expire by 2023, while there are no limitations on the remainder.

In determining profit forecasts for each Group company, revenue forecasts have been estimated using consistently applied external and internal data sources, which is the key variable in the profit forecasts, while cost forecasts reflect cost reduction measures and AM restructuring undertaken during the year (see note 26). Sensitivity analysis indicates that a reduction of 5% to relevant revenue forecasts would result in an impairment to deferred tax assets recognised in respect of losses and intragroup trading (inventories) of less than £2,400,000, while an increase of 5% would result in additions to deferred tax assets in respect of tax losses not recognised of less than £1,100,000.

Notes continued

10. Property, plant and equipment

Year ended 30 June 2020	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1 July 2019	197,474	245,027	9,555	8,758	460,814
Additions	11,808	7,818	309	18,722	38,657
Transfers	15,948	5,169	–	(21,117)	–
Disposals	(297)	(10,061)	(1,305)	–	(11,663)
Currency adjustment	623	33	(33)	–	623
At 30 June 2020	**225,556**	**247,986**	**8,526**	**6,363**	**488,431**
Depreciation					
At 1 July 2019	31,893	158,567	6,877	–	197,337
Charge for the year	3,985	20,796	1,061	–	25,842
Impairment	–	2,590	–	–	2,590
Disposals	(386)	(6,389)	(1,235)	–	(8,010)
Currency adjustment	350	300	(27)	–	623
At 30 June 2020	**35,842**	**175,864**	**6,676**	**–**	**218,382**
Net book value					
At 30 June 2020	**189,714**	**72,122**	**1,850**	**6,363**	**270,049**
At 30 June 2019	165,581	86,460	2,678	8,758	263,477

At 30 June 2020, properties with a net book value of £83,200,000 (2019: £75,200,000) were subject to a fixed charge to secure the UK defined benefit pension scheme liabilities.

Additions to assets in the course of construction of £18,722,000 (2019: £8,690,000) comprise £12,836,000 (2019: £5,806,000) for freehold land and buildings and £5,886,000 (2019: £2,884,000) for plant and equipment.

Impairments in the year relate to restructuring costs described in note 26.

Year ended 30 June 2019	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1 July 2018	174,156	218,018	9,736	6,800	408,710
Additions	19,603	27,596	903	8,690	56,792
Transfers	2,846	3,886	–	(6,732)	–
Disposals	(1,520)	(6,016)	(1,241)	–	(8,777)
Currency adjustment	2,389	1,543	157	–	4,089
At 30 June 2019	197,474	245,027	9,555	8,758	460,814
Depreciation					
At 1 July 2018	30,776	138,576	6,801	–	176,153
Charge for the year	741	20,701	1,155	–	22,597
Impairment	–	1,155	–	–	1,155
Disposals	(106)	(2,628)	(1,182)	–	(3,916)
Currency adjustment	482	763	103	–	1,348
At 30 June 2019	31,893	158,567	6,877	–	197,337
Net book value					
At 30 June 2019	165,581	86,460	2,678	8,758	263,477
At 30 June 2018	143,380	79,442	2,935	6,800	232,557

11. Intangible assets

Year ended 30 June 2020	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences and intellectual property £'000	Total £'000
Cost					
At 1 July 2019	**20,227**	**13,823**	**150,042**	**20,827**	**204,919**
Additions	**–**	**1,986**	**17,405**	**1,352**	**20,743**
Disposals	**–**	**–**	**–**	**(140)**	**(140)**
Currency adjustment	**291**	**20**	**–**	**24**	**335**
At 30 June 2020	**20,518**	**15,829**	**167,447**	**22,063**	**225,857**
Amortisation					
At 1 July 2019	**8,220**	**11,260**	**108,954**	**17,429**	**145,863**
Charge for the year	**–**	**267**	**16,861**	**1,299**	**18,427**
Impairment	**808**	**1,600**	**15,881**	**–**	**18,289**
Disposals	**–**	**–**	**–**	**(87)**	**(87)**
Currency adjustment	**–**	**(22)**	**–**	**23**	**1**
At 30 June 2020	**9,028**	**13,105**	**141,696**	**18,664**	**182,493**
Net book value					
At 30 June 2020	**11,490**	**2,724**	**25,751**	**3,399**	**43,364**
At 30 June 2019	12,007	2,563	41,088	3,398	59,056

Year ended 30 June 2019	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences and intellectual property £'000	Total £'000
Cost					
At 1 July 2018	19,763	11,795	131,951	24,658	188,167
Additions	–	2,014	18,091	2,147	22,252
Disposals	–	–	–	(6,000)	(6,000)
Currency adjustment	464	14	–	22	500
At 30 June 2019	20,227	13,823	150,042	20,827	204,919
Amortisation					
At 1 July 2018	8,220	11,256	93,810	20,370	133,656
Charge for the year	–	18	15,144	1,500	16,662
Disposals	–	–	–	(4,455)	(4,455)
Currency adjustment	–	(14)	–	14	–
At 30 June 2019	8,220	11,260	108,954	17,429	145,863
Net book value					
At 30 June 2019	12,007	2,563	41,088	3,398	59,056
At 30 June 2018	11,543	539	38,141	4,288	54,511

Goodwill

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 cash generating units (CGUs), which are mainly 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 following table, only the goodwill relating to the acquisition of Renishaw Fixturing Solutions, LLC is expected to be subject to tax relief.

Notes continued

11. Intangible assets (continued)

The analysis of acquired goodwill on consolidation is:

	2020 £'000	2019 £'000
itp GmbH	**3,148**	3,092
Renishaw Mayfield S.A.	**2,039**	1,930
Renishaw Fixturing Solutions, LLC	**5,585**	5,453
Other smaller acquisitions	**718**	1,532
Total acquired goodwill	**11,490**	12,007

The recoverable amounts of acquired goodwill are based on value-in-use calculations. These calculations use cash flow projections based on either the financial business plans approved by management for the next five financial years, or estimated growth rates over the five years, which are set out below. The cash flows beyond this forecast are extrapolated to perpetuity using a nil growth rate on a prudent basis, to reflect the uncertainties over forecasting beyond five years.

The following pre-tax discount rates have been used in discounting the projected cash flows:

	2020 Discount rate	2019 Discount rate
itp GmbH	**8%**	12%
Renishaw Fixturing Solutions, LLC	**8%**	12%
Renishaw Mayfield S.A.	**15%**	15%

Discount rates for metrology CGUs (itp GmbH and Renishaw Fixturing Solutions, LLC) are based on a Group weighted average cost of capital. The healthcare CGU (Renishaw Mayfield S.A.) has a higher risk weighting, reflecting the less mature nature of this segment.

An increase of 5% in the discount rate would not result in an impairment on any of the CGUs. Management believes the likelihood of any increase in discount rates above 5% to be remote.

The following bases have been used in determining cash flow projections:

	2020 Basis of forecast	2019 Basis of forecast
itp GmbH	**5% growth rate**	5% growth rate
Renishaw Fixturing Solutions, LLC	**5 year business plan**	5 year business plan
Renishaw Mayfield S.A.	**5 year business plan**	5 year business plan

These forecast cash flows are considered prudent estimates based on management's view of the future and experience of past performance of the individual CGUs and are calculated at a disaggregated level.

The key judgement within these business plans is the forecasting of revenue growth, given that the cost bases of the businesses can be flexed in line with revenue performance. Given the average revenue growth assumptions included in the five-year business plans, management's sensitivity analysis involves a reduction of 10% in the forecast cash flows utilised in those business plans and therefore into perpetuity. For there to be an impairment there would need to be a reduction to these forecast cash flows of 53% for itp GmbH, 70% for Renishaw Fixturing Solutions, LLC and 67% for Renishaw Mayfield S.A. Management deems the likelihood of these reductions to be remote.

Internally generated development costs

The key assumption in determining the value-in-use for internally generated development costs is the forecast unit sales over five years, which is determined by management using their knowledge and experience with similar products and the sales history of products already available in the market. Resulting cash flow projections over five years, the period over which product demand forecasts can be reasonably predicted and internally generated development costs are written off, are discounted based on a Group weighted average cost of capital, being 8%.

Impairments of internally generated development costs in the year totalled £15,881,000 (2019: £nil), of which £9,881,000 was recognised in Cost of sales and £5,999,000 was recognised in Restructuring costs (see note 26) in the Consolidated income statement. Amounts recognised in Cost of sales primarily relate to metrology products of a capital nature, where the high-volume growth previously anticipated is now less predictable as a result of global macroeconomic uncertainty.

For the largest projects, comprising over 75% of the net book value at 30 June 2020, a 10% reduction to forecast unit sales, or an increase in the discount rate by 5%, would result in a further impairment of less than £1,000,000.

12. Investments in associates and joint ventures

The Group's investments in associates and joint ventures (all investments being in the ordinary share capital of the associate and joint ventures), whose accounting years end on 30 June, except where noted otherwise, were:

	Country of incorporation and principal place of business	**Ownership 2020 %**	Ownership 2019 %
RLS Merilna tehnika d.o.o. (joint venture)	Slovenia	**50.0**	50.0
Metrology Software Products Limited (joint venture)	England & Wales	**50.0**	50.0
HiETA Technologies Limited (31 December) (associate)	England & Wales	**33.3**	24.9

For the nature of the activities, see note C.42. Movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	**13,095**	9,822
Additions	**4,299**	–
Dividends received	**(512)**	(614)
Share of profits of associates and joint ventures	**841**	3,815
Impairment	**(1,306)**	–
Exchange differences	**187**	72
Balance at the end of the year	**16,604**	13,095

On 6 January 2020 a third party acquired shares in Renishaw's associate company, HiETA Technologies Limited (HiETA). As part of the transaction, Renishaw plc converted a loan to share capital in HiETA, disposed of a proportion of its shareholding, and the remaining shareholding was diluted following a share issue to the third party. This resulted in an addition to Renishaw's investments in associates and joint ventures of £4,299,000, which represents the converted loan of £1,524,000 and the fair value gain of £2,775,000 on the loan option, with the latter being recognised in the Consolidated income statement. Following the transaction, Renishaw plc has a 33.33% shareholding in HiETA.

A revision to HiETA's five-year business plan at 30 June 2020 in light of macroeconomic uncertainty resulted in a subsequent impairment to Renishaw's investment of £1,306,000 and an impairment in the long-term loan of £1,297,000. The residual carrying value of this long-term loan at 30 June 2020 is £2,500,000.

Other Long-term loans to associates and joint ventures of £318,000 relate to RLS Merilna tehnika d.o.o.

Long-term loans to associates and joint ventures are tested for impairment using discounted cash flow projections at each reporting period, according to five-year business plans approved by management, or where there are indicators of impairment.

In respect of HiETA, a 30% reduction in forecast cash flows would result in additional impairments to the investment and loan carrying values of £1,961,000 and £587,000 respectively, while an increase of 3% to the discount factor would result in additional impairments to the investment and loan carrying values of £552,000 and £333,000 respectively.

Summarised aggregated financial information for associates and joint ventures:

	Joint ventures		Associate	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Assets	**32,861**	30,570	**5,171**	3,083
Liabilities	**(5,053)**	(5,180)	**(7,494)**	(8,669)
Net assets/(liabilities)	**27,808**	25,390	**(2,323)**	(5,586)
Group's share of net assets/(liabilities)	**13,904**	12,695	**(767)**	(1,391)
Revenue	**23,899**	26,886	**1,926**	1,032
Profit/(loss) for the year	**3,068**	7,630	**(3,685)**	(1,980)
Group's share of profit/(loss) for the year	**1,534**	3,815	**(1,088)**	(493)

The aggregate of the Group's share of profit/(loss) for the year does not total to amounts recognised as share of profits of associates and joint ventures in the Consolidated income statement and the table above, with losses of £395,000 recognised in Administrative expenses as an impairment against loan amounts until the carrying value of Renishaw's investment in HiETA was in a positive position, following the investment noted above.

13. Employee benefits

The Group operates a number of pension schemes throughout the world. As noted in the accounting policies, actuarial valuations of foreign pension schemes are not obtained for the most part because of the limited number of members. The major scheme, which covers qualifying UK-based employees, is of the defined benefit type. This scheme, along with the Ireland and US defined benefit pension schemes, has ceased any future accrual for current members and these schemes are closed to new members. UK, Ireland and US employees are now covered by defined contribution schemes.

The total pension cost of the Group for the year was £21,103,000 (2019: £22,701,000), of which £136,000 (2019: £205,000) related to Directors and £5,253,000 (2019: £6,440,000) related to overseas schemes.

The latest full actuarial valuation of the UK defined benefit pension scheme was carried out as at 30 September 2018 and updated to 30 June 2020 by a qualified independent actuary. The mortality assumption used for 2020 is S2PMA and S2PFA tables, CMI (core) 2019 model with long-term improvements of 1% per annum.

Major assumptions used by actuaries for the UK, Ireland and US schemes were:

	30 June 2020			30 June 2019		
	UK scheme	**Ireland scheme**	**US scheme**	UK scheme	Ireland scheme	US scheme
Rate of increase in pension payments	**2.8%**	**1.3%**	**–**	3.3%	1.5%	–
Lump sum - assumed settlement rate	**–**	**–**	**0.8%**	–	–	1.3%
Discount rate	**1.5%**	**1.1%**	**2.8%**	2.3%	1.2%	3.3%
Inflation rate (RPI)	**2.8%**	**1.3%**	**–**	3.4%	1.5%	–
Inflation rate (CPI)	**2.2%**	**–**	**–**	2.4%	–	–
Retirement age	**64**	**65**	**65**	64	65	65

The life expectancies implied by the mortality assumption at age 65 are:

	2020 years	2019 years
Male currently aged 65	**21.4**	21.3
Female currently aged 65	**23.4**	23.2
Male currently aged 45	**22.4**	22.3
Female currently aged 45	**24.6**	24.4

The weighted average duration of the defined benefit obligation is around 24 years.

The assets and liabilities in the defined benefit pension schemes were:

	30 June 2020 £'000	**% of total assets**	30 June 2019 £'000	% of total assets
Market value of assets:				
Equities	**110,027**	**58**	111,209	61
Multi-asset funds	**54,822**	**29**	64,708	36
Bonds	**17,756**	**10**	3,135	2
Cash and other	**6,014**	**3**	2,536	1
	188,619	**100**	181,588	100
Actuarial value of liabilities	**(253,514)**	**–**	(233,458)	–
Deficit in the schemes	**(64,895)**	**–**	(51,870)	–
Deferred tax thereon	**11,896**	**–**	8,526	–

Equities are held in externally-managed funds and primarily relate to UK and US equities. Bonds relate to UK, US and Eurozone government-linked securities, again held in externally-managed funds. The fair values of these equity and fixed income instruments are determined using the bid price of the unitised investments, quoted by the investment manager, at the reporting date and therefore represent 'Level 2' of the fair value hierarchy defined in note 20.

Multi-asset funds are also held in externally-managed funds, with active asset allocation to diversify growth across asset classes such as equities, bonds and money-market instruments. The fair value of these funds is determined on a comparable basis to the equity and fixed income funds, and therefore are also 'Level 2' assets.

'Cash and other' investment assets were higher at the year end than in 2019 primarily due to the partial reallocation of investment assets in the US, with a portion of funds being temporarily transferred from previous holdings in to highly liquid assets at the year end, before being invested primarily in equities in the next financial year.

No scheme assets are directly invested in the Group's own equity.

The UK scheme is closed for future accrual and is expected to mature over the coming years, and therefore while the focus of the investment strategy remains on growth the trustees intend to start gradually de-risking the investments where appropriate.

13. Employee benefits (continued)

The overall target investment strategy for the period to 30 June 2020 was therefore to still hold 64% of investment assets in equities, 35% in diversified growth funds and 1% in index-linked gilts, excluding the investment of the £8.7m annual deficit contributions agreed as part of the 2019 funding arrangement. These contributions for the year ended 30 June 2020 were invested in a fund classified as 'Fixed income' as a short-term approach, and are expected to be invested in an externally-managed high lease-to-value property fund in the future.

Note C.37 gives the analysis of the UK defined benefit pension scheme. For the other schemes, the market value of assets at the end of the year was £25,681,000 (2019: £22,896,000) and the actuarial value of liabilities was £31,948,000 (2019: £30,027,000).

The movements in the schemes' assets and liabilities were:

Year ended 30 June 2020	**Assets £'000**	**Liabilities £'000**	**Total £'000**
Balance at the beginning of the year	181,588	(233,458)	(51,870)
Contributions paid	11,814	–	11,814
Interest on pension schemes	4,371	(5,232)	(861)
Remeasurement loss under IAS 19	(2,237)	(21,741)	(23,978)
Benefits paid	(6,917)	6,917	–
Balance at the end of the year	**188,619**	**(253,514)**	**(64,895)**

Year ended 30 June 2019	Assets £'000	Liabilities £'000	Total £'000
Balance at the beginning of the year	172,842	(240,220)	(67,378)
Contributions paid	6,831	–	6,831
Interest on pension schemes	4,902	(5,747)	(845)
Remeasurement loss from GMP equalisation	–	(751)	(751)
Remeasurement gain under IAS 19 and IFRIC 14	4,219	6,054	10,273
Benefits paid	(7,206)	7,206	–
Balance at the end of the year	181,588	(233,458)	(51,870)

The analysis of the amount recognised in the Consolidated statement of comprehensive income and expense was:

	2020 £'000	2019 £'000
Actuarial gain/(loss) arising from:		
Changes in demographic assumptions	**(682)**	2,937
Changes in financial assumptions	**(22,402)**	(22,941)
Experience adjustment	**1,648**	(4,677)
Return on plan assets excluding interest income	**(2,542)**	3,454
Adjustment to liabilities for IFRIC 14	**–**	31,500
Total amount recognised in the Consolidated statement of comprehensive income and expense	**(23,978)**	10,273

The cumulative amount of actuarial gains and losses recognised in the Consolidated statement of comprehensive income and expense was a loss of £124,782,000 (2019: loss of £100,804,000).

The total deficit of the Group's defined benefit pension schemes, on an IAS 19 basis, has increased from £51,870,000 at 30 June 2019 to £64,893,000 at 30 June 2020, primarily reflecting the net impact of decreases in the discount rate, RPI and CPI for the UK defined benefit scheme since 30 June 2019. The latest actuarial report prepared in September 2018 shows a deficit of £70,700,000, which is based on funding to self sufficiency and uses prudent assumptions. IAS 19 requires best estimate assumptions to be used, resulting in the IAS 19 deficit being lower than the actuarial deficit.

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

	Variation	Approximate effect on liabilities
UK – discount rate	Increase/decrease by 0.5%	-£24.0m/+£28.1m
UK – future inflation	Increase/decrease by 0.5%	+£23.3m/-£23.1m
UK – mortality	Increased life by one year	+£10.5m
UK – early retirement	One year earlier than assumed	+£5.8m

Notes continued

13. Employee benefits (continued)

A deficit funding plan for the UK defined benefit pension scheme was agreed with The Pensions Regulator in 2018, which superseded all previous arrangements. The Company agreed to pay £8,700,000 per annum into the scheme for five years with effect from 1 October 2018.

A number of UK properties owned by the Company with a book value of £83,200,000 at 30 June 2020 are subject to registered fixed charges and continue to provide security to the scheme under the plan. The Company also has an escrow bank account with a balance of £10,568,000 at the end of the year (2019: £10,490,000) which is subject to a registered floating charge. There is no scheduled release of funds back to the Company under the plan.

In the event a subsequent actuarial valuation results in the combined value of the properties and the escrow bank account exceeding 120% of the actuarial deficit, some of the contingent assets will be released back to the Company. Any remaining contingent assets will be released from charge when the deficit no longer exists.

The current agreement will continue until 30 June 2031 and any outstanding deficit paid at that time. The agreement will end sooner if the actuarial deficit (calculated on a self-sufficiency basis) is eliminated in the meantime.

The charges may be enforced by the trustees if one of the following occurs: (a) the Company does not pay funds into the scheme in line with the agreed plan; (b) an insolvency event occurs in relation to the Company; or (c) the Company does not pay any deficit at 30 June 2031.

The value of the guaranteed payments under the plan is lower than the IAS 19 pension scheme deficit at 30 June 2020 and as such, in accordance with IFRIC 14, no adjustment to the scheme's liabilities has been necessary. At 30 June 2019, the increase in liabilities under IFRIC 14 was also nil.

Under the Ireland defined benefit pension scheme deficit funding plan, a property owned by Renishaw (Ireland) Designated Activity Company is subject to a registered fixed charge to secure the Ireland defined benefit pension scheme's deficit.

14. Share-based payments

Deferred annual equity incentive plan

In accordance with the remuneration policy approved by shareholders at the 2017 AGM, the deferred annual equity incentive plan (the Plan) was implemented in relation to the financial year ending 30 June 2018. The 20 July 2018 Remuneration Committee meeting recommended plan rules that were adopted by a resolution of the Board on 24 July 2018. The Committee also approved the grant of awards under the Plan to the participating Executive Directors.

The number of shares to be awarded is calculated by dividing the relevant amount of annual bonus under the Plan by the average price of a share during a period determined by the Committee of not more than five dealing days ending with the dealing day before the award date. These shares must be purchased on the open market and cannot be satisfied by issuance of new shares or transfer of existing treasury shares.

An employee benefit trust (EBT) exists to purchase and hold such shares, until transferring to the employee, which will normally be on the third anniversary of the award date, subject to continued employment. Malus and clawback provisions can be operated by the Committee within five years of the award date. During the vesting period, no dividends are payable on the shares. However, upon vesting, employees will be entitled to additional shares or cash, equivalent to the value of dividends paid on the awarded shares during this period. See page 83 of the Directors' corporate governance report for further details of the Plan awards granted.

The total cost recognised in the 2020 Consolidated income statement in respect of the Plan was £173,000 (2019: £158,000).

No awards have been made in respect of 2020.

15. Cash and cash equivalents

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

	2020 £'000	Restated* 2019 £'000
Bank balances and cash in hand	**108,609**	49,897
Short-term deposits	**1,777**	4,429
Balance at the end of the year	**110,386**	54,326

The UK defined benefit pension scheme cash escrow account is shown separately within current assets.

* 2019 cash and cash equivalents figures have been restated, where the original expiry date of short-term deposits totalling £52,500,000 exceeded three months, see note 1. Accounting policies. Consequently, bank deposits amounting to £52,500,000 are shown separately within current assets at 30 June 2019. At 30 June 2020 bank deposits amounted to £10,000,000. This amount is held by the Company, maturing on 28 July 2020.

16. Inventories

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

	2020 £'000	2019 £'000
Raw materials	**37,717**	46,102
Work in progress	**18,737**	23,431
Finished goods	**49,043**	59,493
Balance at the end of the year	**105,497**	129,026

During the year, the amount of inventories recognised as an expense in the Consolidated income statement was £169,769,000 (2019: £185,344,000) and the amount of write-down of inventories recognised as an expense in the Consolidated income statement was £7,473,000 (2019: £1,276,000), which includes £4,910,000 related to restructuring costs, see note 26. At the end of the year, the gross cost of inventories which had provisions held against them totalled £21,133,000 (2019: £14,137,000).

17. Provisions

Warranty provision movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	**2,846**	3,453
Created during the year	**5,308**	2,236
Utilised in the year	**(2,563)**	(2,843)
	2,745	(607)
Balance at the end of the year	**5,591**	2,846

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. Included within the warranty provision created during the year is £3,400,000 (2019: £nil) where the warranty cost has been reassessed to be the cost of replacing certain AM machines where the business will not have the capability to honour the warranty on these machines going forward as a result of the Board's decision before the year end to fundamentally change the direction of the AM business. As we will not have the ability to repair or maintain these machines, the warranty cost reflects the cost of replacing these machines. These warranty costs are expected to be incurred in the next financial year.

18. Other payables

Balances at the end of the year were:

	2020 £'000	2019 £'000
Payroll taxes and social security	**5,833**	7,333
Other creditors and accruals	**28,539**	33,732
Total other payables	**34,372**	41,065

19. Borrowings

Third party borrowings at 30 June 2020 include a five year loan entered into on 31 May 2019 by Renishaw KK, with original principal of JPY 1,447,000,000 (£10,486,000), and a loan drawn down in stages throughout 2020 by Renishaw (Korea) Limited, amounting to KRW 2,835,636,000 (£1,894,000).

For the Renishaw KK loan, principal of JPY 12,000,000 is repayable each month, with a fixed interest rate of 0.81% also paid on monthly accretion. The residual principal at 31 May 2024 of JPY 739,000,000 can either be repaid in full at that time, or extended for another five years. For the Renishaw (Korea) Limited loan, repayment in full is required on completion of a new property, expected to be in the year ended 30 June 2022, with no interest payable.

Borrowings are held at amortised cost. There is no significant difference between the book value and fair value of borrowings, which is estimated by discounting contractual future cash flows, which represents level 2 of the fair value hierarchy defined in note 20.

Movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	**10,399**	–
Additions	**1,894**	10,486
Interest	**78**	3
Repayments	**(1,136)**	(90)
Currency	**308**	–
Balance at the end of the year	**11,543**	10,399

Notes continued

20. 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.

Fair value

There is no significant difference between the fair value of financial assets and financial liabilities and their carrying value in the Consolidated balance sheet. All financial assets and liabilities are held at amortised cost, apart from the forward foreign currency exchange contracts, which are held at fair value, with changes going through the Consolidated income statement unless subject to hedge accounting.

The fair values of the forward foreign currency exchange contracts have been calculated by a third party expert, discounting estimated future cash flows on the basis of market expectations of future exchange rates, representing level 2 in the IFRS 13 fair value hierarchy. The IFRS 13 level categorisation relates to the extent the fair value can be determined by reference to comparable market values. The classifications are: level 1 where instruments are quoted on an active market; level 2 where the assumptions used to arrive at fair value have comparable market data; and level 3 where the assumptions used to arrive at fair value do not have comparable market data.

Credit risk

The Group's liquid funds are substantially held with banks with high credit ratings and the credit risk relating to these funds is therefore limited. The Group carries a credit risk relating to non-payment of trade receivables by its customers. The Group's policy is that 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 the Group's financial assets at the year end is as follows:

	Trade & finance lease receivables		Other receivables		Cash and bank deposits	
Currency	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Pound Sterling	**9,293**	10,628	**16,974**	12,704	**75,052**	64,919
US Dollar	**33,358**	38,724	**946**	935	**7,096**	7,666
Euro	**15,607**	29,516	**1,663**	4,120	**6,324**	7,846
Japanese Yen	**20,416**	18,087	**337**	740	**4,553**	3,966
Other	**33,186**	26,196	**3,276**	5,962	**27,361**	22,429
	111,860	123,151	**23,196**	24,461	**120,386**	106,826

The above trade receivables, finance lease receivables, other receivables and cash are predominately held in the functional currency of the relevant entity, with the exception of £18,142,000 of US Dollar-denominated trade receivables being held in Renishaw (Hong Kong) Limited and £3,940,000 of Euro-denominated trade receivables being held in Renishaw UK Sales Limited, along with some foreign currency cash balances which are of a short-term nature.

Other receivables include mostly prepayments and indirect tax receivables. Prepayment balances are reviewed at each reporting period to confirm that prepaid goods or services are still expected to be received, while indirect tax balances are reviewed for recoverability.

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

	2020 £'000	2019 £'000
Past due 0–1 month	**11,703**	14,999
Past due 1–2 months	**4,510**	4,438
Past due more than 2 months	**15,495**	16,486
Balance at the end of the year	**31,708**	35,923

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

	2020 £'000	2019 £'000
Balance at the beginning of the year	**3,081**	3,301
Changes in amounts provided	**3,254**	292
Amounts utilised	**(370)**	(512)
Balance at the end of the year	**5,965**	3,081

20. Financial instruments (continued)

The Group applies the simplified approach when measuring the expected credit loss for trade receivables, with a provision matrix used to determine a lifetime expected credit loss.

For this provision matrix, trade receivables are grouped into credit risk categories, with category 1 being the lowest risk and category 5 the highest. Risk scores are allocated to the customer's country of operation, their type (such as distributor, end-user and OEM), their industry and the proportion of their debt that was past due at the year-end. These scores are then weighted to produce an overall risk score for the customer, with the lowest scores being allocated to category 1 and the highest scores to category 5.

The matrix then applies an expected credit loss rate to each category, with this rate being determined by adjusting the Group's historic credit loss rates to reflect forward-looking information. This includes management's assessment of the impact of COVID-19 and the associated global macroeconomic uncertainty and has resulted in an increase in the expected credit loss rate, and the expected credit loss allowance, compared to the prior year. These movements are shown in the table on page 128.

Where certain customers have been identified as having a significantly elevated credit risk these have been provided for on a specific basis. Both elements of expected credit loss are shown in the matrix below and have been shown separately so as not to distort the expected credit loss rate.

The Group has no material contract assets, and finance lease receivables are subject to the same approach as noted above for trade receivables.

Year ended 30 June 2020	Risk category 1 £'000	Risk category 2 £'000	Risk category 3 £'000	Risk category 4 £'000	Risk category 5 £'000	2020 Total £'000	2019 Total £'000
Gross trade receivables	714	39,931	64,908	5,187	302	111,042	113,848
Expected credit loss rate	1.24%	1.35%	1.42%	1.58%	1.69%	1.49%	0.19%
Expected credit loss allowance	9	541	922	82	5	1,559	220
Specific loss allowance	–	–	3,730	676	–	4,406	2,861
Total expected credit loss	9	541	4,652	758	5	5,965	3,081
Net trade receivables	705	39,390	67,038	4,429	297	105,077	116,929

The maximum exposure to credit risk is £259,200,000, comprising the Group's trade, finance and other receivables, cash and cash equivalents and derivative assets.

The maturities of non-current other receivables, being long-term loans to associates and joint ventures and derivatives, at the year end were:

	2020 £'000	2019 £'000
Receivable between one and two years	905	1,075
Receivable between two and five years	3,155	1,485
	4,060	2,560

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 uses monthly cash flow forecasts on a rolling 12-month basis to monitor cash requirements.

In respect of net cash and bank deposits, being £120,386,000, the carrying value approximates to fair value because of the short maturity of the deposits. Net cash is affected by interest rates that are either fixed or floating and based on LIBOR, which can change over time, affecting the Group's interest income. Of the net cash subject to floating interest rate charges, an increase of 1% in interest rates would result in an increase in interest income of approximately £1,200,000.

Changes in liabilities arising from financing activities

Movements during the year were:

	1 July 2019	Cash flows	Additions	Interest	Currency	30 June 2020
Lease liabilities	14,247	(4,896)	3,234	766	(185)	13,166
Borrowings	10,399	(1,136)	1,894	78	308	11,543
	24,646	(6,032)	5,128	844	123	24,709

There is no comparative for lease liabilities and the comparative for borrowings is disclosed in note 19.

20. Financial instruments (continued)

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

Year ended 30 June 2020	Carrying amount £'000	Effect of discounting £'000	Gross maturities £'000	Contractual cash flows Up to 1 year £'000	1–2 years £'000	2–5 years £'000
Trade payables	**16,998**	**–**	**16,998**	**16,998**	**–**	**–**
Other payables	**34,372**	**–**	**34,372**	**34,372**	**–**	**–**
Borrowings	**11,543**	**226**	**11,769**	**1,149**	**3,034**	**7,586**
Forward exchange contracts	**63,648**	**–**	**63,648**	**22,546**	**29,220**	**11,882**
	126,561	**226**	**126,787**	**75,065**	**32,254**	**19,468**

Year ended 30 June 2019	Carrying amount £'000	Effect of discounting £'000	Gross maturities £'000	Up to 1 year £'000	1–2 years £'000	2–5 years £'000
Trade payables	21,513	–	21,513	21,513	–	–
Other payables	41,065	–	41,065	41,065	–	–
Borrowings	10,399	310	10,709	1,120	1,115	8,474
Forward exchange contracts	54,147	–	54,147	18,920	12,626	22,601
	127,124	310	127,434	82,618	13,741	31,075

Borrowings relate to loans in Renishaw KK and Renishaw (Korea) Limited, see note 19 for further detail.

Contract liabilities

Movements during the year were:

	Extended warranties £'000	Maintenance contracts £'000	Volume rebates £'000	Point in time performance obligations £'000	Total £'000
Balance at the beginning of the year	**1,226**	**2,668**	**678**	**1,059**	**5,631**
Released during the year	**(950)**	**(1,299)**	**(675)**	**(878)**	**(3,802)**
New items added	**316**	**1,668**	**182**	**1,934**	**4,100**
Currency	**9**	**38**	**–**	**–**	**47**
Balance at the end of the year	**601**	**3,075**	**185**	**2,115**	**5,976**

Contract liabilities relating to volume rebates are the rebate agreements treated as a distinct performance obligation rather than variable consideration.

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied at the end of the year amounts to £7,416,000, of which £1,489,000 is not expected to be recognised in the next 12 months.

Market risk

As noted in the Strategic report 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 most manufacturing being undertaken in the UK, Ireland and India.

The Group enters into US Dollar, Euro and Japanese Yen derivative financial instruments to manage its exposure to foreign currency risk, including:

i. forward foreign currency exchange contracts to hedge a significant proportion of the Group's forecasted US Dollar, Euro and Japanese Yen revenues over the next three and a half years;

ii. foreign currency option contracts, entered into alongside the forward contracts above until May 2018 as part of the Group hedging strategy, are ineffective for cash flow hedging purposes. Note 25, 'Alternative performance measures', gives an adjusted measure of profit before tax to reflect the original intention that these derivatives were entered into for hedging purposes. The final option contract will mature in November 2021; and

iii. one-month forward foreign currency exchange contracts to offset the gains/losses from exchange rate movements arising from foreign currency-denominated intragroup balances of the Company.

For both the Group and the Company, the following table details the fair value of these forward foreign currency derivatives according to their accounting treatment, and according to the categorisations of instruments noted in the previous market risk section.

20. Financial instruments (continued)

	2020 Nominal value £'000	2020 Fair value £'000	2019 Nominal value £'000	2019 Fair value £'000
Forward currency contracts in a designated cash flow hedge (i)				
Non-current derivative assets	**78,527**	**1,133**	36,152	319
Current derivative assets	**19,467**	**283**	37,060	340
Current derivative liabilities	**154,045**	**(11,415)**	198,339	(18,749)
Non-current derivative liabilities	**290,499**	**(24,925)**	671,442	(34,967)
	542,538	**(34,924)**	942,993	(53,057)
Amounts recognised in the Consolidated statement of comprehensive income and expense	**–**	**13,924**	–	(27,573)
Forward currency contracts ineffective as a cash flow hedge (i)				
Current derivative liabilities	**93,962**	**(10,030)**	–	–
Non-current derivative liabilities	**153,585**	**(16,021)**	–	–
	247,547	**(26,051)**	–	–
Amounts recognised in Gains/(losses) from the fair value of financial instruments in the Consolidated income statement	**–**	**(24,361)**	–	–
Foreign currency options ineffective as a cash flow hedge (ii)				
Non-current derivative assets	**–**	**108**	–	991
Current derivative assets	**–**	**3,394**	–	2,365
Current derivative liabilities	**–**	**(122)**	–	(104)
Non-current derivative liabilities	**–**	**(155)**	–	(260)
	–	**3,225**	–	2,992
Amounts recognised in Gains/(losses) from the fair value of financial instruments in the Consolidated income statement	**–**	**2,021**	–	1,081
Forward currency contracts not in a designated cash flow hedge (iii)				
Current derivative assets	**5,127**	**80**	26,671	73
Current derivative liabilities	**62,549**	**(979)**	19,463	(67)
	67,676	**(899)**	46,134	6
Amounts recognised in Financial income in the Consolidated income statement	**–**	**(154)**	–	76
Total forward contracts and options				
Non-current derivative assets	**78,527**	**1,242**	36,152	1,310
Current derivative assets	**24,594**	**3,758**	63,731	2,778
Current derivative liabilities	**310,556**	**(22,546)**	217,802	(18,920)
Non-current derivative liabilities	**444,085**	**(41,102)**	671,442	(35,227)
	857,762	**(58,648)**	989,127	(50,059)

In addition to amounts noted above as recognised in Gains/(losses) from the fair value of financial instruments in the Consolidated income statement, totalling £22,340,000 net loss, an additional loss of £4,291,000 was recognised in Gains/(losses) from the fair value of financial instruments relating to ineffective portions of forward currency contracts which matured during the year. Therefore, the total amounts recognised in Gains/(losses) from the fair value of financial instruments in the Consolidated income statement amounts to £26,631,000.

20. Financial instruments (continued)

The amounts of foreign currencies relating to these forward contracts and options are, in Sterling terms:

	2020		2019	
	Nominal value £'000	Fair value £'000	Nominal value £'000	Fair value £'000
US Dollar	596,032	(56,562)	678,323	(43,689)
Euro	159,221	409	187,833	(3,501)
Japanese Yen	102,509	(2,495)	122,971	(2,868)
	857,762	(58,648)	989,127	(50,059)

The following are the exchange rates which have been applicable during the financial year:

	2020			2019		
Currency	Average forward contract rate	Year end exchange rate	Average exchange rate	Average forward contract rate	Year end exchange rate	Average exchange rate
US Dollar	1.37	1.24	1.26	1.39	1.27	1.29
Euro	1.09	1.10	1.14	1.12	1.12	1.13
Japanese Yen	136	134	136	139	138	144

For the Group's foreign currency forward contracts and options at the balance sheet date, if Sterling appreciated by 5% against the US Dollar, Euro and Japanese Yen, this would increase pre-tax equity by £25,800,000 and increase profit before tax by £12,000,000, while a depreciation of 5% would decrease pre-tax equity by £28,500,000 and decrease profit before tax by £18,300,000.

Hedging

In relation to the forward currency contracts in a designated cash flow hedge, the hedged item is a layer component of forecast sales transactions. Forecast transactions are deemed highly probable to occur and Group policy is to hedge at least 75% of net foreign currency exposure for USD, EUR and JPY. The hedged item creates an exposure to receive USD, EUR or JPY, while the forward contract is to sell USD, EUR or JPY and buy GBP. Therefore, there is a strong economic relationship between the hedging instrument and the hedged item. The hedge ratio is 100%, such that, by way of example, £10m nominal value of forward currency contracts are used to hedge £10m of forecast sales. Fair value gains or losses on the forward currency contracts are offset by foreign currency gain or losses on the translation of USD, EUR and JPY based sales revenue, relative to the forward rate at the date the forward contracts were arranged. Foreign currency exposures in HKD and USD are aggregated and only USD forward currency contracts are used to hedge these currency exposures. Sources of hedge ineffectiveness according to IFRS 9 Financial Instruments include: changes in timing of the hedged item; reduction in the amount of the hedged sales considered to be highly probable; a change in the credit risk of Renishaw or the bank counterparty to the forward contract; and differences in assumptions used in calculating fair value.

During 2020, global macroeconomic uncertainty resulted in a reduction to the 'highly probable' revenue forecasts of Renishaw plc and Renishaw UK Sales Limited, being the hedged item, which has resulted in proportions of forward contracts failing hedge effectiveness testing, with nominal value amounting to £247,547,000.

Accumulated fair value losses on forward currency contracts ineffective as a cash flow hedge amounting to £24,361,000 were recycled from the Cash flow hedging reserve to the Consolidated income statement to the extent that the hedged item was no longer 'expected to occur', in accordance with IFRS 9.6.5.12.

Based on forward currency contracts outstanding at 30 June 2020, a reduction of 10% to the highly probable revenue forecasts of the hedged item would result in an additional nominal value of £16,600,000 of forward currency contracts becoming ineffective, with an additional £1,565,000 loss recycled to the Consolidated income statement.

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, while ensuring the security of the Group is 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.

In light of the increased global macroeconomic uncertainty experienced in the first half of the year, and with redundancy programmes in progress, the Directors elected to waive their right to the 2020 interim dividend. Following the outbreak of the COVID-19 pandemic, and according to the Board's priority of conserving cash and managing the Group in a prudent manner through this period of uncertainty, the interim dividend payable during the year was then cancelled, and no final dividend is declared in respect of the year. The Board will review its position on dividends during the next fiscal year with the intention of reinstating its progressive dividend policy as soon as it is appropriate to do so.

21. Share capital and reserves

Share capital

	2020 £'000	2019 £'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.

Dividends paid

Dividends paid comprised:

	2020 £'000	2019 £'000
2019 final dividend paid of 46.0p per share (2018: 46.0p)	**33,478**	33,483
Interim dividend paid of nil per share (2019: 14.0p)	**–**	10,189
Total dividends paid	**33,478**	43,672

No final dividend is proposed in respect of the current financial year (2019: £33,482,729).

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the foreign operations and currency movements on intragroup loan balances classified as net investments in foreign operations from December 2018 (see note 5).

Movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	**14,577**	12,665
Gain on net assets of foreign currency operations	**996**	1,218
Gain on intragroup loans classified as net investments in foreign operations	**2,373**	827
Tax on translation of net investments in foreign operations	**(403)**	(205)
Gain in the year relating to subsidiaries	**2,966**	1,840
Currency exchange differences relating to associates and joint ventures	**186**	72
Balance at the end of the year	**17,729**	14,577

Cash flow hedging reserve

The cash flow hedging reserve, for both the Group and the Company, 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 in Other comprehensive income and expense and accumulated in Equity, and are recycled through the Consolidated income statement and Company income statement when the hedged item affects the income statement, or when the hedging relationship ceases to be effective. See note 20 for further detail.

Movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	**(42,401)**	(19,389)
Losses on contract maturity recognised in revenue during the year	**16,216**	19,782
Losses transferred to the Consolidated income statement during the year	**24,361**	–
Deferred tax transferred to the Consolidated income statement	**(4,629)**	–
Revaluations during the year	**(26,653)**	(47,355)
Deferred tax movement	**2,651**	4,561
Balance at the end of the year	**(30,455)**	(42,401)

Other reserve

The other reserve relates to additional investments in subsidiary undertakings and share-based payments charges according to IFRS 2 in relation to the Plan.

Movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	**(302)**	(460)
Share-based payments charge	**173**	158
Balance at the end of the year	**(129)**	(302)

Notes continued

21. Share capital and reserves (continued)

Own shares held

The EBT is responsible for purchasing shares on the open market on behalf of the Company to satisfy the Plan awards, see note 14 for further detail. Own shares held are recognised as an element in equity until they are transferred at the end of the vesting period.

Movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	(404)	–
Acquisition of own shares	–	(404)
Balance at the end of the year	(404)	(404)

On 10 December 2018, 9,639 shares were purchased on the open market by the EBT at a price of £41.66, costing a total of £404,348.

Non-controlling interest

Movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	(577)	(577)
Share of profit for the year	–	–
Balance at the end of the year	(577)	(577)

The non-controlling interest represents the minority shareholdings in Renishaw Diagnostics Limited – 7.6%.

22. Leases and right of use assets

Leases as lessor

The Group acts as lessor for Renishaw manufactured plant and equipment on both an operating and finance lease basis.

Operating leases

Where the Group retains the risks and rewards of ownership of leased assets, it continues to recognise the leased asset in property, plant and equipment, while the lease payments made during the term of the operating lease are recognised in revenue (2020: £1,183,000 and 2019: £1,231,000). Operating leases are on one to five year terms. The total of future minimum lease payments receivable under non-cancellable operating leases were:

	2020 £'000	2019 £'000
Receivable in less than one year	742	804
Receivable between one and five years	152	700
Total future minimum lease payments receivable	894	1,504

Finance leases

Where the Group transfers the risks and rewards of ownership of leased assets to a third party, the Group recognises a receivable in the amount of the net investment in the lease in Finance lease receivables. The lease receivable is subsequently reduced by the principal received, while an interest component is recognised as financial income in the Consolidated income statement. Standard contract terms are up to five years and there is a nominal residual value receivable at the end of the contract. The total future lease payments are split between the principal and interest amounts below:

	2020			2019		
	Gross investment £'000	Interest £'000	Net investment £'000	Gross investment £'000	Interest £'000	Net investment £'000
Receivable in less than one year	2,113	131	1,982	1,348	118	1,230
Receivable between one and five years	5,118	317	4,801	5,469	477	4,992
Total future minimum lease payments receivable	7,231	448	6,783	6,817	595	6,222

Finance lease receivables are now identified as separate line items in the Consolidated balance sheet. 2019 figures have been reclassified to recognise £4,992,000 as Finance lease receivables in non-current assets and £1,230,000 as Finance lease receivables in current assets, reducing Trade receivables by the total amount of £6,222,000.

22. Leases and right of use assets (continued)

Leases as lessee

The Group acts as lessee for land and buildings and vehicles in certain subsidiaries and from 1 July 2019 recognises leases as a liability in the Consolidated balance sheet, with a corresponding amount recognised as a right of use asset.

Total amounts recognised in the Consolidated income statement include depreciation expense of right of use assets of £4,736,000, interest expense on lease liabilities of £766,000, and expenses relating to short-term and low-value leases of £80,000, totalling £5,582,000. Total cash outflows for leases amounted to £4,896,000, while non-cash additions to right of use assets and lease liabilities amounted to £3,234,000.

Lease liabilities are analysed as below:

	2020		2019	
	Leasehold property £'000	**Vehicles £'000**	Leasehold property £'000	Vehicles £'000
Due in less than one year	**3,011**	**1,325**	3,338	1,442
Due between one and five years	**4,754**	**1,130**	5,211	2,309
Due in more than five years	**7,182**	**–**	4,090	–
Total future minimum lease payments payable	**14,947**	**2,455**	12,639	3,751
Effect of discounting	**(4,189)**	**(47)**	n/a	n/a
Lease liability	**10,758**	**2,408**	n/a	n/a

Right of use assets are analysed as below:

Year ended 30 June 2020	Leasehold property £'000	Vehicles £'000	Total £'000
Net book value			
At 1 July 2019	**11,537**	**3,013**	**14,550**
Additions	**2,270**	**779**	**3,049**
Depreciation	**(3,351)**	**(1,385)**	**(4,736)**
Currency adjustment	**(169)**	**(22)**	**(191)**
At 30 June 2020	**10,287**	**2,385**	**12,672**

23. Capital commitments

Authorised and committed capital expenditure at the end of the year, for which no provision has been made in the Financial statements, were:

	2020 £'000	2019 £'000
Property	**640**	18,087
Plant and equipment	**1,621**	3,995
Intangibles (software)	**3,854**	280
Total committed capital expenditure	**6,115**	22,362

24. Related parties

Associates, joint ventures and other related parties had the following transactions and balances with the Group:

	Joint ventures		Associate	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Purchased goods and services from the Group during the year	**837**	908	**526**	913
Sold goods and services to the Group during the year	**17,160**	21,290	**–**	1
Paid dividends to the Group during the year	**512**	614	**–**	–
Amounts owed to the Group at the year end	**87**	167	**3,227**	424
Amounts owed by the Group at the year end	**3,103**	1,933	**–**	–
Loans owed to the Group at the year end	**955**	1,250	**2,500**	6,144

There were no bad debts relating to related parties written off during the year (2019: £nil).

By virtue of their long-standing voting agreement, Sir David McMurtry (Executive Chairman 36.23% shareholder) and John Deer (Non-executive Deputy Chairman, together with his wife, 16.72%), are the ultimate controlling party of the Group. See page 87 of the Governance report for further details in relation to this. The only significant transactions between the Group and these parties are in relation to their respective remuneration, as detailed on pages 80 to 86 of the Governance report.

Notes continued

25. Alternative performance measures

In accordance with Renishaw's alternative performance measures (APMs) policy and ESMA Guidelines on Alternative Performance Measures (2015), APMs are defined as - Revenue at constant exchange rates, Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit.

Revenue at constant exchange rates is defined as revenue recalculated using the same rates as were applicable to the previous year and excluding forward contract gains and losses.

Revenue at constant exchange rates:	**2020 £'000**	2019 £'000
Statutory revenue as reported	**510,215**	573,959
Adjustment for forward contract losses	**12,054**	19,782
Adjustment to restate current year at previous year exchange rates	**(6,821)**	–
Revenue at constant exchange rates	**515,448**	593,741
Year-on-year revenue growth at constant exchange rates	**-13.2%**	

Year-on-year revenue growth at constant exchange rates for 2019 was -6.8%.

Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit are defined as the profit before tax, earnings per share and operating profit after excluding costs relating to business restructuring, and gains and losses in fair value from forward currency contracts which did not qualify for hedge accounting and which have yet to mature.

Restructuring costs reported separately in the Consolidated income statement have also been excluded from adjusted measures, on the basis that they relate to matters that do not frequently recur. See note 26 for further detail.

From 2017, the gains and losses from the fair value of financial instruments not effective for cash flow hedging have been excluded from statutory profit before tax, statutory earnings per share and statutory operating profit in arriving at Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit to reflect the Board's intent that the instruments would provide effective hedges. This is classified as 'Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)' in the following reconciliations. The amounts shown as reported in revenue represent the amount by which revenue would change had all the derivatives qualified as eligible for hedge accounting.

Gains and losses which recycle through the Consolidated income statement as a result of contracts deemed ineffective during 2020, as described in note 20, are also excluded from adjusted profit measures, on the basis that all forward contracts are still expected to be effective hedges for Group revenue, while the potentially high volatility in fair value gains and losses relating to these contracts will otherwise cause confusion for users of the financial statements wishing to understand the underlying trading performance of the Group. This is classified as 'Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)' in the following reconciliations.

The Board considers these alternative performance measures to be more relevant and reliable in evaluating the Group's performance.

Adjusted profit before tax:	**2020 £'000**	2019 £'000
Statutory profit before tax	**3,208**	109,944
Restructuring costs	**23,797**	–
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i):		
– reported in revenue	**(731)**	(5,001)
– reported in (gains)/losses from the fair value of financial instruments	**(2,021)**	(1,081)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii):		
– reported in (gains)/losses from the fair value of financial instruments	**24,361**	–
Adjusted profit before tax	**48,614**	103,862

Adjusted earnings per share:	**2020 pence**	2019 pence
Statutory earnings per share	**0.4**	126.7
Restructuring costs	**26.5**	–
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i):		
– reported in revenue	**(0.8)**	(5.6)
– reported in (gains)/losses from the fair value of financial instruments	**(2.2)**	(1.2)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii):		
– reported in (gains)/losses from the fair value of financial instruments	**27.1**	–
Adjusted earnings per share	**51.0**	119.9

25. Alternative performance measures (continued)

Adjusted operating profit:	2020 £'000	2019 £'000
Statutory operating profit	**6,294**	99,793
Restructuring costs	**23,797**	–
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i):		
– reported in revenue	**(731)**	(5,001)
– reported in (gains)/losses from the fair value of financial instruments	**(2,021)**	(1,081)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii):		
– reported in (gains)/losses from the fair value of financial instruments	**24,361**	–
Adjusted operating profit	**51,700**	93,711

Adjustments to the segmental operating profit:

Metrology	2020 £'000	2019 £'000
Operating profit before loss from fair value of financial instruments	**31,188**	95,345
Restructuring costs	**23,797**	–
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i):		
– reported in revenue	**(688)**	(4,745)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii):		
– reported in revenue	**(4,036)**	–
Adjusted metrology operating profit	**50,261**	90,600

Healthcare	2020 £'000	2019 £'000
Operating profit before loss from fair value of financial instruments	**1,737**	3,367
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i):		
– reported in revenue	**(43)**	(256)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii):		
– reported in revenue	**(255)**	–
Adjusted healthcare operating profit	**1,439**	3,111

26. Restructuring costs

During the year the Board introduced its *Fit for the future* strategy, which incorporated the rationalisation and reorganisation of certain operating activities, particularly relating to the additive manufacturing (AM) business, and cost control measures which included a UK compulsory redundancy programme.

For the changes in the AM business, there has been a rationalisation in the AM product range to focus on the Group's multi-laser platform, and therefore restructuring costs include the impairment of capitalised development costs, goodwill, and plant and equipment where these relate to technologies that are not being taken forward in the AM business. Write-downs in the carrying value of inventories for these AM products have also been reported in restructuring costs, as has the increase in warranty provision that directly arises from the reassessed warranty costs for certain machines that the business will not have the capability to repair and therefore where the warranty will be honoured by replacing the machines. Part of the impairment of capitalised development costs relate to technologies which will be taken forward by the Group but where economic benefits are not expected to be realised in the next five years. The costs of the UK compulsory redundancy programme, arising from a reorganisation of the business, are also reported in restructuring costs.

The Board considers that the costs relating to these restructuring activities should be reported separately in the Consolidated income statement in order to aid users' understanding. The table below shows the analysis of these costs:

	£'000
Redundancy costs (a)	6,281
Impairment of capitalised research and development costs (b)	5,999
Impairment of goodwill (c)	405
Impairment of property, plant and equipment (a)	2,590
Increase in inventory provisions (b)	4,910
Increase in warranty provisions (b)	3,400
Other expenses (c)	212
Total restructuring costs	23,797

These costs would be found under the following headings in the Consolidated income statement if they had not been separately identified in Restructuring costs: (a) within cost of sales, distribution costs and administrative expenses; (b) within cost of sales; and (c) within administrative expenses.

Company balance sheet
at 30 June 2020

	notes	2020 £'000	Restated* 2019 £'000
Assets			
Property, plant and equipment	C.28	**144,319**	147,164
Right of use assets		**1,857**	–
Intangible assets	C.29	**27,371**	47,113
Investments in subsidiaries	C.30	**288,548**	288,548
Investments in associates and joint ventures	C.31	**2,999**	1,468
Long-term loans to Group undertakings		**96,234**	21,143
Long-term loans to associates and joint ventures		**2,818**	750
Deferred tax assets	C.32	**18,509**	5,037
Derivatives	20	**1,242**	1,311
Total non-current assets		**583,897**	512,534
Current assets			
Inventories	C.33	**60,313**	68,935
Trade receivables	C.34	**63,523**	55,979
Short-term loans to Group undertakings		**4,083**	107,363
Short-term loans to associates and joint ventures		**318**	6,644
Current tax		**2,850**	3,797
Other receivables		**16,783**	15,033
Derivatives	20	**3,758**	2,778
Pension scheme cash escrow account	13	**10,568**	10,490
Bank deposits		**10,000**	52,500
Cash and cash equivalents		**71,576**	11,122
Total current assets		**243,772**	334,641
Current liabilities			
Trade payables		**9,163**	11,383
Short-term loans from Group undertakings		**59,507**	51,996
Provisions	C.35	**1,681**	2,382
Lease liabilities		**40**	–
Derivatives	20	**22,546**	18,920
Other payables	C.36	**43,952**	66,284
Total current liabilities		**136,889**	150,965
Net current assets		**106,883**	183,676
Non-current liabilities			
Employee benefits	C.37	**58,628**	44,739
Lease liabilities		**1,841**	–
Derivatives	20	**41,102**	35,227
Total non-current liabilities		**101,571**	79,966
Total assets less total liabilities		**589,209**	616,244
Equity			
Share capital	C.38	**14,558**	14,558
Share premium		**42**	42
Own shares held	21	**(404)**	(404)
Cash flow hedging reserve	21	**(30,455)**	(42,401)
Retained earnings		**605,137**	644,291
Other reserve	21	**331**	158
Total equity		**589,209**	616,244

The Company reported a profit for the financial year ended 30 June 2020 of £12,861,000 (2019: £28,478,000).

*2019 cash and cash equivalents and bank deposits have been restated following a change in accounting policy, see note 1.

These financial statements were approved by the Board of Directors on 18 August 2020 and were signed on its behalf by:

Sir David McMurtry **Allen Roberts**

Directors

Company statement of changes in equity
for the year ended 30 June 2020

Year ended 30 June 2019	Share capital £'000	Share premium £'000	Own shares held £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Other reserve £'000	Total £'000
Balance at 1 July 2018	14,558	42	–	(19,389)	649,594	–	644,805
Profit for the year	–	–	–	–	28,478	–	28,478
Other comprehensive income and expense (net of tax)							
Remeasurement of defined benefit pension scheme liabilities	–	–	–	–	9,891	–	9,891
Changes in fair value of cash flow hedges	–	–	–	(23,012)	–	–	(23,012)
Total other comprehensive income and expense				(23,012)	9,891		(13,121)
Total comprehensive income and expense	–	–	–	(23,012)	38,369	–	15,357
Share-based payments charge	–	–	–	–	–	158	158
Purchase of own shares	–	–	(404)	–	–	–	(404)
Dividends paid	–	–	–	–	(43,672)	–	(43,672)
Balance at 30 June 2019	–	–	(404)	(42,401)	644,291	158	616,244
Year ended 30 June 2020							
Profit for the year	–	–	–	–	12,861	–	12,861
Other comprehensive income and expense (net of tax)							
Remeasurement of defined benefit pension scheme liabilities	–	–	–	–	(18,537)	–	(18,537)
Changes in fair value of cash flow hedges	–	–	–	11,946	–	–	11,944
Total other comprehensive income and expense	–	–	–	11,946	(18,537)	–	(6,591)
Total comprehensive income and expense	–	–	–	11,946	(5,676)	–	6,270
Share-based payments charge	–	–	–	–	–	173	173
Dividends paid	–	–	–	–	(33,478)	–	(33,478)
Balance at 30 June 2020	**14,558**	**42**	**(404)**	**(30,455)**	**605,137**	**331**	**589,209**

Notes to the Company financial statements

C.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 were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (adopted IFRS), but makes amendments where necessary in order to comply with the Companies Act 2006.

The Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes
- Comparative period reconciliations for share capital, tangible fixed assets and intangible fixed assets
- Disclosures in respect of transactions with wholly-owned subsidiaries
- Disclosures in respect of capital management
- The effects of new but not yet effective IFRS
- Disclosures in respect of the compensation of key management personnel

As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures'.

The financial statements have been prepared on the historical cost basis, except for the fair value of financial instruments. Historical cost is based on the fair value of the consideration given in exchange for the assets. The principal accounting policies are set out below.

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

Critical accounting judgements and estimation uncertainties

The areas of key estimation uncertainty and critical accounting judgement that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year for the Company are consistent with those of the Group, as summarised on page 106.

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 Strategic report, where details of the financial and liquidity positions are also given. In addition, note 20 to 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. With strong net cash and bank deposit balances, the Group has considerable financial resources at its disposal and the Directors have considered the current financial projections which have been sensitised to reflect plausible downside scenarios as a result of the COVID-19 pandemic and its impact on the global economy (further detail is provided in the Group's Going concern accounting policy on page 108). The Company has secured eligibility to the Bank of England Covid Corporate Financing Facility however, due to the terms of eligibility of the programme, the Company is unable to rely on eligibility alone in its going concern assessment as no commercial papers have been issued.

As a result of the assessments undertaken, the Directors consider that the Company 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 a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

Investments

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

Property, plant and equipment, and depreciation

Property, plant and equipment 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 25 years
Motor vehicles – 3 to 4 years
No depreciation is provided on freehold land.

Inventories

Inventories are valued at the lower of actual cost on a FIFO basis and net realisable value. Cost comprises direct materials and labour plus overheads applicable to the stage of manufacture reached.

Accounting policies (continued)

Research and development

Expenditure on research activities is recognised in the 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.

Taxation

The charge for taxation is based on the Company's profit for the year. 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.

Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered.

Employee benefits

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

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

Pension scheme assets in the defined benefit scheme are measured at fair value 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. Where a guarantee is in place in relation to a pension scheme deficit, liabilities are reported in accordance with IFRIC 14. To the extent that contributions payable will not be available as a refund after they are paid into the plan, a liability is recognised at the point the obligation arises, which is the point at which the minimum funding guarantee is agreed.

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, if applicable.

Derivative financial instruments

In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for speculative 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 at fair value, being the estimated amount that the Company would pay or receive to terminate them at the balance sheet date based on prevailing foreign currency rates. Changes in the fair value of foreign currency derivatives which are designated and effective as hedges of future cash flows are recognised in Other comprehensive income and in the currency hedging reserve, and subsequently transferred to the carrying amount of the hedged item or the income statement. The ineffective part of any gain or loss is recognised in the income statement immediately.

Other financial instruments

Loans to associates and joint ventures are initially recognised at fair value and are subsequently held at amortised cost.

Loans to Group undertakings are initially recognised at fair value and are subsequently held at amortised cost using the effective interest rate method. Where such intercompany loans are repayable on demand the Company determines whether any impairment provision is required by assessing the company's ability to repay the loan. Where it is determined that a recipient company does not have the capacity to repay the loan at the balance sheet date, or the loan is not repayable on demand, an expected credit loss model is used to calculate the impairment provision required.

Trade and other current receivables are initially recognised at fair value and are subsequently held at amortised cost less any provision for bad and doubtful debts. Trade and other current payables are initially recognised at fair value and are subsequently held at amortised cost.

Warranty on the sale of products

The Company provides a warranty from the date of purchase, except for those products that are installed by the Company where the warranty starts from the date of completion of the installation. 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.

Foreign currencies

Transactions in foreign currencies are translated at the rate of exchange prevailing 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 prevailing at that date. Foreign exchange differences arising on such translation are recognised in the income statement.

Notes to the Company financial statements continued

C.28. Property, plant and equipment

Year ended 30 June 2020	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1 July 2019	**96,536**	**183,326**	**4,513**	**8,758**	**293,133**
Additions	**–**	**384**	**115**	**16,219**	**16,718**
Transfers	**15,948**	**5,169**	**–**	**(21,117)**	**–**
Disposals	**–**	**(7,241)**	**(676)**	**–**	**(7,917)**
At 30 June 2020	**112,484**	**181,638**	**3,952**	**3,860**	**301,934**
Depreciation					
At 1 July 2019	**18,564**	**124,041**	**3,364**	**–**	**145,969**
Charge for the year	**1,857**	**13,833**	**530**	**–**	**16,220**
Impairments	**–**	**1,130**	**–**	**–**	**1,130**
Released on disposals	**–**	**(5,035)**	**(669)**	**–**	**(5,704)**
At 30 June 2020	**20,421**	**133,969**	**3,225**	**–**	**157,615**
Net book value					
At 30 June 2020	**92,063**	**47,669**	**727**	**3,860**	**144,319**
At 30 June 2019	77,972	59,285	1,149	8,758	147,164

At 30 June 2020, properties with a net book value of £83,200,000 (2019: £75,200,000) were subject to a fixed charge to secure the UK defined benefit pension scheme liabilities. See note 13 for additional information.

Additions to assets in the course of construction comprise:

	2020 £'000	2019 £'000
Freehold land and buildings	**10,452**	5,806
Plant and equipment	**5,767**	2,697
	16,219	8,503

C.29. Intangible assets

Year ended 30 June 2020	Goodwill £'000	Internally generated development costs £'000	Software licences and intellectual property £'000	Total £'000
Cost				
At 1 July 2019	**9,305**	**150,300**	**22,660**	**182,265**
Additions	**–**	**17,297**	**3,430**	**20,727**
Disposals	**–**	**(5,199)**	**(866)**	**(6,065)**
At 30 June 2020	**9,305**	**162,398**	**25,224**	**196,927**
Depreciation				
At 1 July 2019	**9,305**	**109,212**	**16,635**	**135,152**
Charge for the year	**–**	**16,730**	**1,319**	**18,049**
Impairment	**–**	**15,881**	**1,600**	**17,481**
Disposals	**–**	**(1,037)**	**(89)**	**(1,126)**
At 30 June 2020	**9,305**	**140,786**	**19,465**	**169,556**
Net book value				
At 30 June 2020	**–**	**21,612**	**5,759**	**27,371**
At 30 June 2019	–	41,088	6,025	47,113

C.30. Investments in subsidiaries

	2020 £'000	2019 £'000
Balance at the beginning of the year	**288,548**	290,362
Additions	**–**	186
Impairment	**–**	(2,000)
Balance at the end of the year	**288,548**	288,548

Details of the Company's subsidiaries are given in note C.41.

C.31. Investments in associates and joint ventures

Movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	**1,468**	1,468
Additions	**4,299**	–
Impairment	**(2,768)**	–
Balance at the end of the year	**2,999**	1,468

Details of the Company's associates and joint ventures are given in note C.42.

C.32. Deferred tax

Balances at the end of the year were:

	2020			2019		
	Assets £'000	Liabilities £'000	Net £'000	Assets £'000	Liabilities £'000	Net £'000
Property, plant and equipment	**–**	**(9,787)**	**(9,787)**	–	(9,171)	(9,171)
Intangible assets	**–**	**(693)**	**(693)**	–	(2,494)	(2,494)
Defined benefit pension scheme	**11,139**	**–**	**11,139**	7,606	–	7,606
Derivatives	**6,344**	**–**	**6,344**	8,816	–	8,816
Losses	**11,225**	**–**	**11,225**	–	–	–
Other	**281**	**–**	**281**	280	–	280
Balance at the end of the year	**28,989**	**(10,480)**	**18,509**	16,702	(11,665)	5,037

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset and there is an intention to net settle the balances. After taking these offsets into account, the net position of £18,509,000 asset (2019: £5,037,000 asset) is presented as a £18,509,000 deferred tax asset (2019: £5,037,000 asset) in the Company's balance sheet. Where deferred tax assets are recognised, the Directors are of the opinion, based on recent and forecast trading, that the level of profits in current and future years make it more likely than not that these assets will be recovered.

Movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	**5,037**	4,848
Movements during the year	**13,472**	189
Balance at the end of the year	**18,509**	5,037

C.33. Inventories

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

	2020 £'000	2019 £'000
Raw materials	**24,257**	25,947
Work in progress	**17,934**	22,652
Finished goods	**18,122**	20,336
Balance at the end of the year	**60,313**	68,935

Notes to the Company financial statements continued

C.34. Trade receivables

An analysis of trade receivables at the end of the year was:

	2020 £'000	2019 £'000
Trade receivables	**179**	400
Amounts owed by Group undertakings	**63,344**	55,579
Balance at the end of the year	**63,523**	55,979

C.35. Provisions

Provisions comprised:

	2020 £'000	2019 £'000
Warranty provision	**1,681**	2,382

Movements during the year were:

	2020 £'000	2019 £'000
Balance at the beginning of the year	**2,382**	2,900
Created in the year	**1,772**	2,324
Utilised in the year	**(2,472)**	(2,842)
	(700)	(518)
Balance at the end of the year	**1,681**	2,382

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.

C.36. Other payables

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

	2020 £'000	2019 £'000
Amounts owed to Group undertakings	**32,480**	47,927
Amounts owed to associated undertakings and joint ventures	**297**	177
Other taxes and social security	**2,460**	3,350
Other creditors and accruals	**8,715**	14,830
Balance at the end of the year	**43,952**	66,284

C.37. Employee benefits

The Company operated a defined benefit pension scheme, which, at 5 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 13 regarding details of charges relating to the UK defined benefit pension scheme liabilities.

The total pension cost of the Company for the year was £15,289,000 (2019: £15,769,000), of which £136,000 (2019: £205,000) related to Directors. The latest full actuarial valuation of the scheme was carried out at 30 September 2018 and updated to 30 June 2020 by a qualified independent actuary.

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

	30 June 2020	30 June 2019	30 June 2018
Rate of increase in pension payments	**2.8%**	3.3%	3.3%
Discount rate	**1.5%**	2.3%	2.8%
Inflation rate (RPI)	**2.8%**	3.4%	3.4%
Inflation rate (CPI)	**2.2%**	2.4%	2.4%
Retirement age	**64**	64	64

The mortality assumption adopted for 2020 is S2PMA and S2PFA tables, CMI (core) 2019 model with long-term improvements of 1% per annum.

The weighted average duration of the defined benefit scheme obligation is around 24 years.

C.37. Employee benefits (continued)

The assets and liabilities in the scheme were:

	30 June 2020 £'000	% of total assets	30 June 2019 £'000	% of total assets
Market value of assets:				
Equities	**101,676**	**62**	104,098	65
Multi-asset fund	**52,286**	**32**	50,337	32
Bonds	**7,637**	**5**	1,721	1
Cash and other	**1,341**	**1**	2,536	2
	162,940	**100**	158,692	100
Actuarial value of liabilities	**(221,566)**	**–**	(203,431)	–
Deficit in the scheme	**(58,626)**	**–**	(44,739)	–
Deferred tax thereon	**11,139**	**–**	7,606	–

All equities have quoted prices in active markets in the UK, North America, Europe, Asia Pacific, Japan and emerging markets.

The movements in the scheme were:

Year ended 30 June 2020	**Assets £'000**	**Liabilities £'000**	**Total £'000**
Deficit in scheme at the beginning of the year	**158,692**	**(203,431)**	**(44,739)**
Contributions	**11,005**	**–**	**11,005**
Interest on pension scheme	**3,703**	**(4,605)**	**(902)**
Remeasurement loss	**(4,031)**	**(19,959)**	**(23,990)**
Benefits paid	**(6,429)**	**6,429**	**–**
Deficit in scheme at the end of the year	**162,940**	**(221,566)**	**(58,626)**

Year ended 30 June 2019	Assets £'000	Liabilities £'000	Total £'000
Deficit in scheme at the beginning of the year	151,777	(212,656)	(60,879)
Contributions	5,831	–	5,831
Interest on pension scheme	4,235	(4,987)	(752)
Remeasurement loss from GMP equalisation	–	(751)	(751)
Remeasurement gain under IAS 19 and IFRIC 14	3,717	8,095	11,812
Benefits paid	(6,868)	6,868	–
Deficit in scheme at the end of the year	158,692	(203,431)	(44,739)

The analysis of the amount recognised in the Statement of comprehensive income and expense was:

	2020 £'000	2019 £'000
Actuarial gain/(loss) arising from:		
– Changes in demographic assumptions	**(656)**	2,515
– Changes in financial assumptions	**(20,951)**	(20,911)
– Experience adjustment	**1,648**	(5,009)
Return on plan assets excluding interest income	**(4,031)**	3,717
Adjustment to liabilities for IFRIC 14	**–**	31,500
Total recognised in the Statement of comprehensive income and expense	**(23,990)**	11,812

C.38. Share capital

	2020 £'000	2019 £'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.

Notes to the Company financial statements continued

C.39. Related parties

During the year, related parties, these being the Group's associates and joint ventures (see note 12), had the following transactions and balances with the Company:

	Joint ventures		Associate	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Purchased goods and services from the Company during the year	**48**	78	**–**	–
Sold goods and services to the Company during the year	**1,917**	2,808	**–**	1
Paid dividends to the Company during the year	**100**	200	**–**	–
Amounts owed by the Company at the year end	**297**	177	**–**	–
Loans owed to the Company at the year end	**955**	1,250	**2,500**	6,144

All transactions were on an arm's length basis. There were no bad debts relating to related parties written off during the year (2019: £nil).

C.40. Capital commitments

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

	2020 £'000	2019 £'000
Authorised and committed	**5,357**	10,213

C.41. Subsidiary undertakings

The following are the subsidiary undertakings of Renishaw plc as at 30 June 2020, all of which are wholly-owned and held by a subsidiary undertaking, unless otherwise stated. The country in which each subsidiary has its registered/principal office is its domicile and country of incorporation. The accounting year-end for each subsidiary undertaking is 30 June unless otherwise stated. The shareholdings in all the subsidiary undertakings are in the ordinary share capital of those undertakings. The principal activities for all the subsidiary undertakings are those of the Company, as set out in the Other statutory and regulatory disclosures on page 87, except as indicated below:

D Dormant company
H Holding company
T Travel agency
* 31 March year end
^ 31 December year end
† Ordinary-A shares
‡ Ordinary-C shares

Company	Registered Office
Owned by Renishaw plc	
MTT Investments Limited[D]	New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR United Kingdom
Renishaw Advanced Materials Limited[D]	
Renishaw International Limited[H]	
Renishaw Medical Limited[D]	
Renishaw PT Limited[D]	
Renishaw Software Limited[D]	
Renishaw Transducer Systems Limited[D]	
Renishaw UK Sales Limited	
Wotton Travel Limited[T]	
Measurement Devices Limited[D]	Research Park North, Riccarton, Edinburgh, Scotland, EH14 4AP United Kingdom
Renishaw Diagnostics Limited[†‡] (92.4%)	
Renishaw Tehnicni Inženiring d.o.o.	4th Floor, Faculty of Electrical Engineering, University of Ljubljana, Tržaška cesta 25, Ljubljana, 1000 Slovenia
Renishaw Neuro Solutions Limited	Wotton Road, Charfield, Wotton-under-Edge, Gloucestershire, GL12 8SP United Kingdom

C.41. Subsidiary undertakings (continued)

Company	Registered Office
Owned by MTT Investments Limited	
MTT Technologies Limited[D]	New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR United Kingdom
Owned by MTT Technologies Limited	
MTT Technologies srl[D]	Piazza Virgilio, 4, 20123 Milano Italy
Owned by Renishaw International Limited	
itp GmbH	Rathausstraße 75-79, 66333, Völklingen Germany
OOO Renishaw^	Kantemirovskaya Ulitsa, 58, 115477, Moskva, Russian Federation
Renishaw (Austria) GmbH	Industriestraße 9, Top 4.5, 2353, Guntramsdorf Austria
Renishaw (Canada) Limited	2196 Dunwin Drive, Mississauga, Ontario, L5L 1C7 Canada
Renishaw (Hong Kong) Limited	Ever Gain Plaza Tower 2, 28/F, 88 Container Port Road, Kwai Chung Hong Kong
Renishaw (Ireland) DAC	Swords Business Park, Mountgorry, Swords, County Dublin, K67 FX67 Ireland
Renishaw (Israel) Limited	HaTnufa Street 3, Kraytek Building, PO Box 4, Yokne'am Illit, 2069204 Israel
Renishaw (Korea) Limited	RM#1314, Woolim e-Biz Center, 28 Digital-ro 33-gil, Guro-gu, Seoul Republic of Korea
Renishaw AB	Biskop Henriks väg 2, 176 76, Järfälla Sweden
Renishaw AG	Stachelhofstrasse 2, 8854, Siebnen, Schübelbach Switzerland
Renishaw ApS	c/o Azets Insight A/S, Lyskær 3CD, Lyskær 3, 2730, Herlev Denmark
Renishaw Benelux BV	Nikkelstraat 3, 4823 AE, Breda Netherlands
Renishaw GmbH (5.1% owned by Renishaw plc)	Karl-Benz Straße 12, 72124, Pliezhausen Germany
Renishaw Healthcare, Inc.	c/o C T Corporation System (Chicago), 208 South LaSalle Street, Suite 814, Cook County, Chicago IL 60604 United States
Renishaw Hungary Kft	Gyár utca 2, Budaörs, 2040 Hungary
Renishaw Ibérica S.A.U.	Gavà Park, Carrer de la Recerca, 7, Gavà, 08850, Barcelona Spain
Renishaw K.K.	4 Chome-29-8 Yotsuya, Shinjuku-ku, Tokyo, 160-0004 Japan
Renishaw Latino Americana Ltda.^	Calçada dos Cravos, 141, Alphaville Comercial, Barueri, São Paulo, 06453-053 Brazil

Notes to the Company financial statements continued

C.41. Subsidiary undertakings (continued)

Company	Registered Office
Renishaw Metrology Systems Limited*	S.No.283, Hissa no.2, S.No.284, Hissa no.2 & 3A, Raisoni Industrial Estate, Village Mann, Taluka Mulshi, Pune, 411057 India
Renishaw México S. de R.L. de C.V.^ (0.001% owned by Renishaw, Inc.)	Iridium 5004, Parque Industrial Milenium, Apodoca, Nuevo León, 66600 Mexico
Renishaw Oceania Pty Limited	c/o KPMG, Tower Two, Collins Square, 727 Collins Street, Docklands VIC 3008 Australia
Renishaw Oy	c/o WaBuCo Oy, Energiakuja 3, Helsinki, 00180 Finland
Renishaw S.A.S.	15 Rue Albert Einstein, 77420, Champs-sur-Marne France
Renishaw S.p.A.	Via dei Prati 5, 10044 Pianezza, Torino Italy
Renishaw s.r.o.	Olomoucká 1164/85, Brno-Černovice, Brno, 627 00 Czech Republic
Renishaw Sp. z o.o.	ul. Osmańska 12, 02-823, Warszawa Poland
Renishaw SRL (0.1% owned by Renishaw UK Sales Limited)	Section A.2.13, 2nd Floor, Building A, Central Business Park, Calea Şerban Vodă 133, Bucureşti, 040205 Romania
Renishaw Teknoloji Çözümleri LŞ	Turgut Özal Blv. No:193, Şerifali Mahallesi, Dudullu Osb, Ümraniye, İstanbul, 34775 Turkey
Renishaw US Holdings, Inc.[H]	c/o The Corporation Trust Company, 1209 Orange Street - Corporation Trust Center, New Castle County, Wilmington DE 19801 United States
Renishaw, Inc.	c/o C T Corporation System (Chicago), 208 South LaSalle Street, Suite 814, Cook County, Chicago IL 60604 United States
Owned by Renishaw (Hong Kong) Limited	
Renishaw (Malaysia) Sdn. Bhd.	Upper Penthouse, Wisma RKT, 2, Jalan Raja Abdullah, Chow Kit, 50300 Kuala Lumpur, Wilayah Persekutuan Malaysia
Renishaw (Shanghai) Management Company Limited^	288 Jiang Chang San Lu, Zhabei Qu, Shanghai, 20436 China
Renishaw (Shanghai) Trading Company Limited^	286 Jiang Chang San Lu, Zhabei Qu, Shanghai, 20436 China
Renishaw (Singapore) PTE Limited	988 Toa Payoh North, #06-07/08, 319002 Singapore
Renishaw (Taiwan) Inc	2F. No. 2, Jingke 7th Road, Nantun District, Taichung, 40852 Taiwan

C.41. Subsidiary undertakings (continued)

Company	Registered Office
Owned by Renishaw US Holdings, Inc.	
Renishaw Fixturing Solutions, LLC	c/o The Corporation Company, 40600 Ann Arbor Road East, Suite 201, Plymouth, MI, 48170 United States
Renishaw Properties, Inc.	c/o The Corporation Trust Company, 1209 Orange Street - Corporation Trust Center, New Castle County, Wilmington DE 19801 United States
Owned by Renishaw (Ireland) DAC	
Renishaw Mayfield SA	Rue de Lausanne 43B, 1110, Morges Switzerland
Owned by Renishaw Mayfield SA	
Renishaw Mayfield SARL	31 Rue Ampère, 69680, Chassieu France
Owned by Renishaw Medical Limited	
Renishaw Medical AM Solutions Limited[D]	New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR United Kingdom

C.42. Associated undertakings and joint ventures

The following are the associated undertakings and joint ventures of Renishaw plc at 30 June 2020. The country in which each entity has its registered/principal office is its domicile and country of incorporation. The accounting year end for each associate undertaking and joint venture is 30 June unless otherwise stated. The shareholdings in all the associated undertakings are in the ordinary share capital of those undertakings unless otherwise stated. The principal activities for all the associate undertakings and joint ventures are those of the Company, as set out in the Other statutory and regulatory disclosures on page 87.

† Ordinary-A shares

^ 31 December year-end

Company	Registered Office
Owned by Renishaw plc	
HiETA Technologies Limited^† (33.33%)	Bristol & Bath Science Park, Dirac Crescent, Emersons Green, Bristol, BS16 7FR United Kingdom
Metrology Software Products Limited (50%)	6F Greensfield Court, Alnwick, Northumberland, NE66 2DE United Kingdom
Owned by Renishaw International Limited	
RLS Merilna tehnika d.o.o. (50%)	Poslovna cona Žeje pri Komendi, Pod vrbami 2, Komenda, 1218 Slovenia

10 year financial record

Results	note 2020 £'000	note 2019 £'000	note 2018 £'000	note 2017 £'000	note 2016 £'000	2015 £'000	note 2014 £'000	note 2013 £'000	2012 £'000	note 2011 £'000
Overseas revenue	**482,784**	539,915	580,940	509,212	404,472	469,221	331,682	326,213	313,007	273,989
UK and Ireland revenue	**27,431**	34,044	30,567	27,595	22,752	25,499	23,816	20,668	18,885	14,761
Total revenue	**510,215**	573,959	611,507	536,807	427,224	494,720	355,498	346,881	331,892	288,750
Operating profit	**51,700**	93,711	143,045	108,733	86,952	143,924	70,388	79,071	83,188	79,286
Profit before tax	**48,614**	103,862	145,081	109,079	87,475	144,196	70,106	79,193	86,046	80,410
Taxation	**11,547**	16,557	20,942	12,819	14,880	22,850	10,720	15,046	17,008	16,345
Profit for the year	**37,067**	87,305	124,139	96,260	72,595	121,346	59,386	64,147	69,038	64,065

Capital employed	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'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	**532,264**	568,677	533,994	429,214	366,785	413,918	336,163	262,119	227,799	187,118
Total equity	**546,864**	583,277	548,594	443,814	381,385	428,518	350,763	276,719	242,399	201,718

Statistics	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Overseas revenue as a percentage of total revenue	**94.6%**	94.1%	95.0%	94.9%	94.7%	94.8%	93.3%	94.0%	94.3%	94.9%
Adjusted earnings per share	**51.0p**	119.9p	170.5p	132.4p	100.4p	167.5p	82.3p	88.9p	95.6p	88.5p
Proposed dividend	**0.0p**	60.0p	60.0p	52.0p	48.0p	46.5p	41.2p	40.0p	38.5p	35.0p

Note

The results and adjusted earnings per share for the years 2011, 2013, 2014, 2016, 2017, 2018, 2019, and 2020 exclude certain items. These were: 2011 – reversal of impairment write-down (£1.7m); 2013 – gain on deferred consideration settlement (£2.9m); 2014 – profit on disposal of shareholding in Delcam plc (£26.3m); and 2016 (£25.8m pre tax loss), 2017 (£8.0m pre tax gain), 2018 (£10.1m pre tax gain), 2019 (£6.1m pre tax gain) and 2020 (£21.6m pre tax loss) – gains and losses from financial instruments not effective for cash flow hedging, and 2020 – restructuring costs (£23.8m). No years prior to 2016 have been adjusted for gains and/or losses from financial instruments not effective for cash flow hedging.

Additional information

Organisations which received significant charitable donations over £2,000 in 2019/20

- Sassoon General Hospital, India
- Jeevan Jyot Mandal, India
- Pune Marathi Garanthalay, India
- Zilla Parishad School Mahalunge, India
- Apal Ghar, India
- Indian Herpetological Societies' Wild Animal Rescue & Rehabilitation Center, India
- Namdeorao Mohol Vidya & Krida Pratishthan, India
- Abhijat Education Society, India
- Zilla Parishad School Sangawade, India
- Hinjewadi Police Station, India
- Gloucestershire Arthritis Trust, UK
- Children in Need 2019, UK
- Age UK
- King Edward Memorial (KEM) Hospital, India
- Janakalyan Rakta Pedhi (blood bank), India

Task Force on Climate-related Financial Disclosures

Renishaw continues to be committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

We recognise climate change as one of the biggest threats the world faces, and one which could pose challenges and opportunities to our business including our supply chain and operations. We believe that disclosing these climate related risks is an important step in demonstrating our understanding of them and assists in our efforts to mitigate them.

This is our second disclosure to address the TCFD recommendations and we expect this to develop and evolve over time.

Governance

The Board has appointed Allen Roberts, Group Finance Director, as the Director responsible for CR. Allen, has in turn, appointed Ben Goodare, Head of Corporate Responsibility to chair the CR Committee. This Committee is responsible for managing our impact on climate change, as well as the risks that climate change may pose to our business. The Committee meets six times during the year and receives regular updates on our progress against commitments and performance.

Strategy

Our CR Committee has overall responsibility for CR strategy within the Group. We are committed to achieving net zero carbon emissions by 2050 at the latest and are investigating options to allow us to do this sooner.

We are starting to look at the carbon impact of our products both in manufacture and in use, and are hoping to have completed our first life cycle assessment within the next reporting period, which will allow us to begin quantifying improvements in the design of next generation machinery.

Risk management

The identification and management of climate-related risks follows our established risk management process. Key elements of the risk management process are set out on pages 26 to 28.

Metrics and targets

We have reduced our operational emissions from 2014/15 levels by 63% to the end of this reporting period, and are on track to achieve a 100% reduction by 2050. To help us meet our targets, we continue to move our purchased electricity to 100% from renewable sources and have invested heavily in solar PV at sites across the UK, our Indian manufacturing site and other sites like Turin, Italy and Michigan, USA. More details on climate change metrics and targets are disclosed on pages 17, 46 and 47.

Additional information continued

Greenhouse gas emissions

	2020[e]	2019[a, c]	2018[a]	2017[a]	2016[a]
Scope 1					
Gas consumption	**771.69**	752.71	845.05	886.30	771.82
Owned transport	**2,286.45**	2,694.60	2,463.30	2,241.78	2,492.30
Generator diesel	**35.56**	37.99	34.95	28.67	26.38
Heating oil	**279.03**	220.80	188.00	231.48	234.00
Fugitive emissions	**274.92**	353.92	206.42	266.00	305.73
Out of scope (bio-fuel blend)	**73.37**	75.98	49.76	78.21	60.85
Total Scope 1 (tCO_2e)	**3,647.65**	4,060.02	3,737.72	3,654.23	3,830.24
Scope 2					
Purchased heat	**11.19**	5.98	13.29	4.50	19.88
Location-based					
Electricity	**10,272.67**	11,991.00	14,307.00[b]	15,746.08	17,003.42
Total Scope 2 (tCO_2e)	**10,283.86**	11,996.98	14,320.29	15,750.57	17,023.30
Market-based					
Electricity[g]	**3,883.33**	4,091.00	8,053.00[b]	13,016.00[b]	21,329.12[b]
Total Scope 2 (tCO_2e)	**3,894.52**	4,096.98	8,066.29	13,020.50	21,349.01
Total statutory GHG emissions[d, f] (tCO_2e) market-based	**7,542.18**	8,157.00	11,804.00	16,674.73	25,179.25
Normalised statutory GHG emissions by revenue (market-based tCO_2e/£m)	**14.78**	14.21	19.30	31.06	58.94
Scope 3					
Business travel	**2,491.02**	3,927.08	3,246.61	2,638.79	4,717.04
Product distribution	**8,100.76**	11,191.63	14,313.13	11,048.65	9,534.18
Raw material purchase[i]	**1,333.92**	2,265.05	1,492.79	1,517.53	1,260.40
Waste	**63.63**	78.09	71.00	67.40	73.20
Post and communications[j]	**918.06**	1,067.77	857.33	773.11	774.00
WTT and T&D total[h]	**3,885.96**	4,454.25	4,706.69	4,964.78	5,352.59
Out of scope (bio-fuel blend)	**10.06**	3.99	3.57	3.99	29.49
Total significant scope 3 (tCO_2e)	**16,793.35**	22,983.88	24,687.55	21,010.26	21,711.41
Total GHG emissions[f] (tCO_2e) market-based	**24,335.52**	31,140.88	36,491.55	37,684.99	46,890.65
Normalised total GHG emissions by revenue (market-based tCO_2e/£m)	**47.70**	54.25	59.68	70.20	109.76

[a] thinkstep was engaged to provide independent limited assurance over the greenhouse gas emissions data from the years 2015/16, 2016/17, 2017/18 and 2018/19. A limited level of assurance was applied. The verification engagement was performed in accordance with the GHG Protocol Corporate Standard (2004) verification requirements and ISO 14064-3. thinkstep has issued an unqualified opinion over the selected data. thinkstep's full assurance statements are available at: www.renishaw.com/CSR.

[b] Location-based electricity has been restated for 2017/18 and market-based for 2015/16, 2016/17 and 2017/18 due to an error discovered in the use of conversion factors in previous reports.

[c] 2018/19 figures have been restated due to improvements in our methodology, updated GHG conversion factors and replacing the calculation used for the June 2018 data last year – see footnote e.

[d] Statutory emissions are Scope 1 and 2 as required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

[e] To facilitate the timely capture of information, this disclosure uses internally reported data from July to May and the June data is given as an average of the previous three months. This will be restated next year if a material difference is seen.

[f] Renishaw uses the market-based method for calculating Scope 2 emissions for our total emissions to account for our efforts in generating and purchasing low-carbon energy. The location-based method is provided for disclosure only and all intensity, net and gross emissions shown are calculated using scope 2 market-based method.

[g] Market-based electricity is used where it is available to us. This is currently only within the UK and Europe. Where market-based factors are not available residual grid mix factors and location-based factors are used in their place.

[h] Well to Tank and Transmission and Distribution losses total use location-based conversion factors for calculations.

[i] Raw material purchase figures are based on metal purchased by weight in the UK and office paper purchased across the UK. We are exploring how to increase the scope of this data to include other raw materials.

[j] This is based on post and communications used within the UK and we are exploring how to increase the scope of this data to overseas operations in the future.

Independent assurance statement

Greenhouse gas verification statement

thinkstep was commissioned by Renishaw plc to verify its greenhouse gas (GHG) data, covering the financial year ending 30 June 2019 (1 July 2018 – 30 June 2019).

The reviewed GHG data includes all scope 1 and scope 2 emissions, as well as limited scope 3 emissions.

The corporate carbon footprint considered all of Renishaw's material locations around the world. In addition, Renishaw's scope 3 emissions data from business travel (air travel, rail travel and road travel in employee-owned vehicles) was reviewed. The review considered the greenhouse gases CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, and NF_3.

The Renishaw GHG inventory calculation followed the "Financial Control" approach (organisational boundary).

A limited level of assurance was applied. The verification engagement was performed in accordance with the GHG Protocol Corporate Standard (2004) verification requirements and ISO14064-3.

Renishaw was assessed against the GHG Protocol Corporate Standard (2004) reporting requirements (scope 1 and 2 emissions), and the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

Assurance conclusion

Based on the process and procedures conducted, there is no evidence that the Renishaw GHG inventory: is not materially correct; is not a fair representation of Renishaw's GHG data and information; and has not been prepared in accordance with the GHG Protocol. The assurance results were as follows:

Scope 1 emissions: 4,060.02 tonnes CO_2-equivalent

Scope 2 emissions – Location-Based: 11,996.98 tonnes CO_2-equivalent

Scope 2 emissions – Market-Based: 4,096.98 tonnes CO_2-equivalent.

Commentary

- The GHG inventory is based on measured and estimated activity data. Estimates are calculated and included where measured data is not available or is not yet available, following the guidance specified in Renishaw's carbon management documentation.
- Certain minor emissions sources were excluded from Renishaw's reported emissions (e.g. small Group sales offices). This had no material impact on the overall emissions profile.

Independence

This is the fifth year that thinkstep has undertaken a verification and provided an opinion statement with regard to Renishaw's scope 1 and scope 2 GHG emissions data. The thinkstep staff that have undertaken work on this assurance engagement provide no consultancy services to Renishaw plc. Our processes are designed to ensure that the work we undertake is free from bias and conflict of interest.

Limitations of assurance statement

The findings presented here are not intended to be used as advice or as the basis for any decisions, including, without limitation, financial or investment decisions.

Additional information continued

Glossary

AFM	– atomic force microscopy
AGM	– Annual General Meeting
AM	– additive manufacturing (3D printing)
APAC	– Asia Pacific
APMs	– alternative performance measures
Brexit	– UK exit from the EU
Governance Code	– UK Corporate Governance Code 2018
the Code	– Group Business Code
Company	– Renishaw plc
CAD	– computer aided design
CMM	– co-ordinate measuring machine
CNC	– computer numerically controlled
CPI	– consumer price index
CR	– corporate responsibility
CRM	– customer relationship management
DEFRA	– Department for Environment, Food & Rural Affairs
DTR	– the FCA's Disclosure Guidance and Transparency Rules
EBT	– Employee Benefit Trust
EMEA	– Europe, Middle East and Africa
EPS	– earnings per share
ERP	– enterprise resource planning
EU	– European Union
EUR	– Euro
EY	– Ernst & Young LLP
FCA	– Financial Conduct Authority
FRC	– Financial Reporting Council
FX	– foreign exchange
GBP	– Great British Pound or Pound Sterling
GDNF	– Glial Cell Line-Derived Neurotrophic Factor
GHG	– greenhouse gas
Group	– Renishaw plc and its subsidiaries
H&S	– health and safety
HKD	– Hong Kong Dollar
HR	– human resources
IEA	– International Energy Agency
IFRS	– International Financial Reporting Standards
IPCC	– Intergovernmental Panel on Climate Change
KPI(s)	– key performance indicator(s)
kW	– kilowatt – an amount of power equal to 1,000 watts
kWh	– kilowatt hour – an amount of energy equivalent to delivering 1 kW of power for an hour
LIBOR	– London inter-bank offered rate
LR	– the FCA's Listing Rules
M&A	– mergers and acquisitions
MRO	– maintenance, repair and overhaul
NCI	– non-controlling interest
OCI	– other comprehensive income
P&L	– profit and loss account
PBT	– profit before tax
PV	– photovoltaic
RIS	– Regulatory Information Service
R&D	– research and development
RCC	– Renishaw Charities Committee
RIDDOR	– Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013
Scope 1	– Direct GHG emissions occur from sources that are owned or controlled by the company, for example, emissions from combustion in owned or controlled boilers, generators, vehicles, etc
Scope 2	– GHG emissions from the generation of purchased electricity consumed by the company
Scope 3	– Indirect GHG emissions are a consequence of the activities of the company, but occur from sources not owned or controlled by the company
SEEG	– stereoelectroencephalography
SEM	– scanning electron microscopy
STEM	– science, technology, engineering and mathematics
tCO_2e	– tonnes of carbon dioxide equivalent
TCFD	– Task Force on Climate-related Financial Disclosures
thinkstep	– thinkstep ltd
TPR	– The Pensions Regulator
TSR –	– total shareholder return, calculated as change in share price, assuming dividends are immediately reinvested
UK	– The United Kingdom of Great Britain and Northern Ireland
USD/US$	– United States Dollar
USA	– United States of America

Trade marks

The following registered and unregistered trade marks, which are owned by Renishaw plc and its subsidiaries, appear throughout this Annual Report.

ATOM DX™ inVia™ neurolocate™ neuromate® REVO® Virsa™

Shareholder information

Ordinary shares

The Company has one class of ordinary 20p shares listed on the London Stock Exchange under code RSW, ISIN number GB0007323586.

Registrars

For all enquiries about shareholders' holdings, transfer and registration of shares and changes of name and address, contact the Company's registrars, Equiniti Limited:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2169 (UK callers)
+44 121 415 7047 (international callers)

Website: www.shareview.co.uk

Calls are charged at the standard geographic rate. Calls outside the UK will be charged at the applicable international rate. Lines are open from 9:00am to 5:00pm (UK time), Monday to Friday (excluding English and Welsh public holidays).

AGM

The 2020 AGM will be convened electronically in accordance with the provisions of the Corporate Insolvency and Governance Act 2020 on Wednesday 30 September 2020 at 12 noon. The Notice of Meeting is set out in a separate circular to shareholders. This year's AGM will be a closed meeting and shareholders will not be permitted to attend. However, shareholders will be able to submit questions prior to the meeting and are encouraged to vote by proxy either electronically or by post. Further details are set out in the Notice of Meeting.

Financial reports

The Annual Report and copies of previous financial reports are available at www.renishaw.com/investor. The half-year results and the preliminary announcement of the full-year results are published on our website promptly after they have been released through a Regulatory Information Service.

Electronic communications

All shareholder communications, including the Company's Annual Report, are made available on the Renishaw website and you may opt to receive email notifications informing you when shareholder communications are available to view and download rather than receiving paper copies through the post. Receiving communications electronically provides certain advantages to shareholders and Renishaw, including accessing documents more quickly, reduce our environmental impact and reducing the cost of printing and delivery of documents. If you would like to sign up for this service, visit Equiniti's Shareview Portfolio website. You may change the way you receive communications at any time by contacting Equiniti.

Dividend mandate

Shareholders can arrange to have their dividends paid directly into their bank or building society account by completing a bank mandate form. This is the most secure and efficient method of payment. A mandate form can be obtained from Equiniti or you will find one on your last dividend confirmation.

Financial calendar

Annual General Meeting

30 September 2020

Half year

31 December 2020

Half-year results

February 2021

Trading update

May 2021

Interim dividend (provisional)

April 2021

Registration details and Company Secretary

General Counsel & Company Secretary

Jacqueline Conway

Registered office

New Mills
Wotton-under-Edge
Gloucestershire
GL12 8JR

Telephone: +44 (0)1453 524524
Email: companysecretary@renishaw.com
Website: www.renishaw.com/investor

Registered number

01106260 (England and Wales)

Auditor and corporate advisors

Auditor

Ernst & Young LLP

Solicitors

Norton Rose Fulbright LLP
Burges Salmon LLP

Corporate broker

UBS

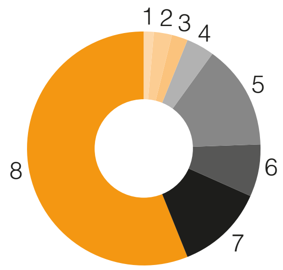
Principal bankers

Lloyds Bank plc

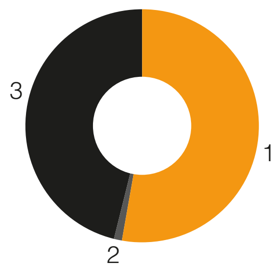
Shareholder information continued

Shareholder profile

Shareholdings	%
1 1 – 5,000	1.49
2 5,001 – 25,000	2.64
3 25,001 – 50,000	2.12
4 50,001 – 100,000	3.90
5 100,001 – 500,000	14.46
6 500,001 – 1,000,000	7.31
7 1,000,001 – 3,000,000	12.06
8 more than 3,000,000	56.02



Shareholdings	%
1 Directors	52.98
2 Individuals	1.15
3 Institutions	45.87



Share fraud

We are aware some of our shareholders have received unsolicited calls or correspondence, offering to buy or sell their shares for a price in excess of the current market price. The callers can be very persuasive and extremely persistent and often have professional websites and telephone numbers to support their activities. These callers will sometimes imply a connection to Renishaw and provide incorrect or misleading information. Please be aware this is likely to be a scam – the safest thing to do is hang up.

Dealing with an unauthorised firm means you will not be eligible for compensation under the Financial Services Compensation Scheme. If you receive any unsolicited investment advice the Financial Conduct Authority (FCA) advises the following:

- make sure you get the correct name of the person and organisation and make a record of any other information they give;
- check they are properly authorised by the FCA before getting involved by visiting www.fca.org.uk/firms/financial-services-register and contacting the firm using the details on the register;
- the FCA also maintains a list of unauthorised overseas firms who are targeting or have targeted UK investors and any approach from such firms should be reported to the FCA so the information can be kept updated; and
- report the matter to the FCA on their consumer helpline 0800 111 6768 (overseas callers dial +44 207 066 1000) or using the share fraud reporting form available at www.fca.org.uk/consumers/report-scam-us.

If you have already paid money to share fraudsters contact Action Fraud on 0300 123 2040 (overseas callers dial +44 300 123 2040) or their online fraud reporting tool at www.actionfraud.police.uk/reporting-fraud-and-cyber-crime. Action Fraud will be particularly interested if you sent money to a bank account or other type of money transfer.

Remember: if it sounds too good to be true it probably is.

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