

Interim report 2019

Renishaw plc

31st January 2019

Interim report 2019 - for the six months ended 31st December 2018

Highlights

<u>Continuing operations</u>	6 months to 31st December 2018	6 months to 31st December 2017	Year ended 30th June 2018
Revenue (£m)	296.7	279.5	611.5
Adjusted ¹ profit before tax (£m)	59.6	62.3	145.1
Adjusted ¹ earnings per share (pence)	69.3	72.7	170.5
Dividend per share (pence)	14.0	14.0	60.0
Statutory profit before tax (£m)	61.6	66.2	155.2
Statutory earnings per share (pence)	71.5	77.0	181.8

¹Note 13, 'Alternative performance measures', defines how adjusted profit before tax and earnings per share are calculated.

Chairman's and Chief Executive's statement

We are pleased to report our Group results for the six months to 31st December 2018. Unless otherwise stated these results are based on continuing operations.

Highlights

- First half year revenue of £296.7m, compared with previous year of £279.5m.
- Revenue growth of 6%; 4% at constant exchange rates.
- First half year adjusted¹ profit before tax of £59.6m, compared with adjusted previous year of £62.3m.
- First half year statutory profit before tax of £61.6m, compared with £66.2m last year.
- Cash balances of £100.5m, compared with £103.8m at 30th June 2018.

Trading results

Continuing operations	First half 2019	First half 2018	Change	Change at constant exchange rates
Group revenue	£296.7m	£279.5m	+6%	+4%
Comprising:				
Far East	£126.4m	£125.2m	+1%	-1%
Americas	£65.4m	£58.8m	+11%	+9%
Europe	£76.8m	£71.8m	+7%	+7%
UK and Ireland	£17.7m	£14.7m	+20%	+20%
Other	£10.4m	£9.0m	+15%	+17%

Revenue for the six months ended 31st December 2018 was £296.7m, compared with £279.5m for the corresponding period last year, an increase of 6%, with an underlying growth of 4% at constant exchange rates. Aside from the Far East, we experienced revenue growth in all regions as set out above. At constant exchange rates, revenue in the Far East was 1% below the corresponding period last year, largely as a result of a slow down in demand for our encoder products and from large end-user manufacturers of consumer electronic products. In our metrology business we have experienced strong growth in both our additive manufacturing and measurement and automation product lines and in the healthcare business we have seen strong growth in our spectroscopy product line.

Adjusted profit before tax for the first half year was £59.6m compared with £62.3m last year. The current year has benefitted from a £5.3m currency gain, primarily in respect of intra-group balances. To mitigate future income statement volatility a number of intra-group loans have been reclassified as permanent investments.

Statutory profit before tax for the first half year was £61.6m, compared with £66.2m last year. Adjusted earnings per share were 69.3p, compared with 72.7p last year. Statutory earnings per share were 71.5p, compared with 77.0p last year.

Metrology

Revenue from our metrology business for the first six months was £277.7m, compared with £264.3m last year. Adjusted operating profit was £52.2m, compared with £63.2m for the comparable period last year. Whilst we have experienced strong growth in our additive manufacturing and measurement and automation product lines, the metrology business revenue and profitability have been impacted by the slow down in demand highlighted above.

Healthcare

Revenue from our healthcare business for the first six months was £19.0m, compared with £15.2m last year, and as mentioned above we have seen strong growth in our spectroscopy product line. The business broke even in the first half of this year compared to an adjusted operating loss of £1.9m in the corresponding period last year.

Continued investment for long-term growth

Over recent years we have invested in infrastructure and the recruitment of high calibre people to support growth opportunities. We maintain our long-standing commitment to research and development, with net engineering expenditure of £47.7m for the period compared with £39.1m last year. We are now well placed to benefit from these investments and are not planning a significant headcount increase in the second half of the year.

Capital expenditure for the first half year was £19.6m. Expenditure on property totalled £5.6m for the period, including the commencement of an extension to our Innovation Centre in Wotton-under-Edge, Gloucestershire. Expenditure on plant and equipment for the period was £13.6m as we continued to expand our manufacturing capacity, mainly in the UK, and continued to invest in our global IT and distribution infrastructure. We are well advanced in establishing a new European distribution facility at our existing Irish location to address the potential implications of the UK leaving the European Union.

Working capital

Net cash balances at 31st December 2018 were £100.5m, compared with £69.1m at 31st December 2017 and £103.8m at 30th June 2018.

Inventory balances at 31st December 2018 were £122.5m, an increase of £11.9m since 30th June 2018. The increase has arisen primarily due to increased trading levels, expected future demand and a strategic decision to increase certain inventory lines in preparation for potential supply chain delays that could arise as a result of the UK's decision to leave the European Union.

Directors and employees

The workforce at the end of December 2018 was 4,941, a net increase of 79 since June 2018, including the current year graduate and apprentice intake. The directors thank employees for their valued support and contribution as the Group continues to develop and expand.

In July 2018, we announced the appointment of Catherine Glickman as an independent non-executive director and Chair of the Remuneration Committee with effect from 1st August and that Catherine would join both the Nomination and Audit Committees. We also announced that Kath Durrant would be stepping down as an independent non-executive director and chair of the Remuneration Committee with effect from 31st July.

UK defined benefit pension scheme

Following further engagement with The Pension Regulator, the Company and trustees have agreed the terms of a new deficit funding plan for the Company's UK defined benefit pension scheme. The Company has agreed to pay £8.7m per annum into the scheme for five years with effect from 1st October 2018. Under the terms of the current agreement the Company pays approximately £4m per year.

For further information regarding the new deficit funding plan, including details of changes to the floating charge over the escrow bank account, see note 11, 'Employee benefits'.

Dividend

The Board has approved an interim dividend of 14.0 pence net per share which will be paid on 8th April 2019 to shareholders on the register on 8th March 2019.

Outlook

Notwithstanding current economic uncertainties, the Board remains confident in the future prospects of the Group. We expect full year revenue to be in the range of £635m to £665m and adjusted profit before tax to be in the range of £140m to £160m. Statutory profit before tax is expected to be in the range of £146m to £166m.

Investor Day

An Investor Day is being held on 14th May 2019 and registration details will be published in due course.

Sir David McMurtry
CBE, RDI, FRS, FREng, CEng, FIMechE
Executive Chairman
31st January 2019

Will Lee
Chief Executive

¹Note 13, 'Alternative performance measures', defines how adjusted profit before tax and earnings per share are calculated.

Consolidated income statement

Unaudited

		6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Audited Year ended 30th June 2018 £'000
Continuing operations	Notes			
Revenue	3	296,670	279,458	611,507
Cost of sales		(148,521)	(134,494)	(284,889)
Gross profit		148,149	144,964	326,618
Distribution costs		(63,766)	(59,162)	(121,352)
Administrative expenses		(29,002)	(24,098)	(56,911)
Gains/(losses) from the fair value of financial instruments		(1,230)	3,508	4,834
Operating profit		54,151	65,212	153,189
Financial income	4	5,713	308	653
Financial expenses	4	(454)	(946)	(1,587)
Share of profits from associates and joint ventures		2,185	1,584	2,970
Profit before tax		61,595	66,158	155,225
Income tax expense	5	(9,572)	(10,076)	(22,870)
Profit for the period from continuing operations		52,023	56,082	132,355
Profit for the period from discontinued operations	6	-	791	582
Profit for the period		52,023	56,873	132,937
Profit attributable to:				
Equity shareholders of the parent company		52,023	56,855	132,924
Non-controlling interest		-	18	13
Profit for the period		52,023	56,873	132,937
Dividend per share arising in respect of the period	10	pence 14.0	pence 14.0	pence 60.0
Earnings per share from continuing operations (basic and diluted)	7	71.5	77.0	181.8
Earnings per share from discontinued operations (basic and diluted)	7	-	1.09	0.8

Consolidated statement of comprehensive income and expense

Unaudited

	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Audited Year ended 30th June 2018 £'000
Profit for the period	52,023	56,873	132,937
Other items recognised directly in equity:			
Items that will not be reclassified to the Consolidated income statement:			
Remeasurement of defined benefit pension scheme liabilities	13,254	(2,908)	(3,813)
Deferred tax on remeasurement of defined benefit pension scheme liabilities	(2,230)	646	783
Total for items that will not be reclassified	11,024	(2,262)	(3,030)
Items that may be reclassified to the Consolidated income statement:			
Foreign exchange translation differences	1,934	(1,764)	2,107
Comprehensive income and expense of associates and joint ventures	(121)	46	48
Effective portion of changes in fair value of cash flow hedges, net of recycling	(23,686)	27,918	14,470
Deferred tax on effective portion of changes in fair value of cash flow hedges	4,058	(5,186)	(2,810)
Total for items that may be reclassified	(17,815)	21,014	13,815
Total other comprehensive income and expense, net of tax	(6,791)	18,752	10,785
Total comprehensive income and expense for the period	45,232	75,625	143,722
Attributable to:			
Equity shareholders of the parent company	45,232	75,607	143,709
Non-controlling interest	-	18	13
Total comprehensive income and expense for the period	45,232	75,625	143,722

Consolidated balance sheet

Unaudited

		At 31st December 2018 £'000	At 31st December 2017* £'000	Audited At 30th June 2018 £'000
	Notes			
Assets				
Property, plant and equipment	8	239,984	228,306	232,557
Intangible assets	9	56,342	54,881	54,511
Investments in associates and joint ventures		11,514	8,434	9,822
Long-term loans to associates and joint ventures		3,322	3,933	4,207
Deferred tax assets		29,073	19,725	27,428
Derivatives	12	2,066	11,153	9,578
Total non-current assets		342,301	326,432	338,103
Current assets				
Inventories		122,476	99,076	110,563
Trade receivables		127,811	116,882	154,587
Contract assets		477	-	-
Current tax		3,124	1,194	730
Other receivables		24,426	18,917	21,988
Derivatives	12	3,092	802	1,368
Pension scheme cash escrow account	11	10,451	12,877	10,413
Cash and cash equivalents		100,504	69,127	103,847
Total current assets		392,361	318,875	403,496
Current liabilities				
Trade payables		23,698	16,461	25,232
Contract liabilities		4,952	-	-
Current tax		7,131	5,764	9,256
Provisions		2,952	3,064	3,453
Derivatives	12	30,222	19,264	22,478
Other payables		29,282	27,965	47,979
Total current liabilities		98,237	72,518	108,398
Net current assets		294,124	246,357	295,098
Non-current liabilities				
Employee benefits	11	52,566	67,817	67,378
Deferred tax liabilities		188	183	188
Derivatives	12	24,928	14,104	17,041
Total non-current liabilities		77,682	82,104	84,607
Total assets less total liabilities		558,743	490,685	548,594
Equity				
Share capital		14,558	14,558	14,558
Share premium		42	42	42
Own shares held		(404)	-	-
Currency translation reserve		14,478	8,792	12,665
Cash flow hedging reserve		(39,017)	(8,317)	(19,389)
Retained earnings		570,051	476,642	541,755
Other reserve		(388)	(460)	(460)
Equity attributable to the shareholders of the parent company		559,320	491,257	549,171
Non-controlling interest		(577)	(572)	(577)
Total equity		558,743	490,685	548,594

*31st December 2017 deferred tax has been reclassified between assets and liabilities to reflect the right of offset, see note 5.

Consolidated statement of changes in equity

Unaudited

	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 1st July 2017	14,558	42	-	10,510	(31,049)	450,803	(460)	(590)	443,814
Profit for the period	-	-	-	-	-	56,855	-	18	56,873
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	(2,264)	-	-	(2,264)
Foreign exchange translation differences	-	-	-	(1,764)	-	-	-	-	(1,764)
Relating to associates and joint ventures	-	-	-	46	-	-	-	-	46
Changes in fair value of cash flow hedges	-	-	-	-	22,732	-	-	-	22,732
Total other comprehensive income and expense	-	-	-	(1,718)	22,732	(2,264)	-	-	18,750
Total comprehensive income and expense	-	-	-	(1,718)	22,732	54,591	-	18	75,623
Transactions with owners recorded in equity									
Dividends paid	-	-	-	-	-	(28,752)	-	-	(28,752)
Balance at 31st December 2017	14,558	42	-	8,792	(8,317)	476,642	(460)	(572)	490,685
Profit for the period	-	-	-	-	-	76,069	-	(5)	76,064
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	(766)	-	-	(766)
Foreign exchange translation differences	-	-	-	3,871	-	-	-	-	3,871
Relating to associates and joint ventures	-	-	-	2	-	-	-	-	2
Changes in fair value of cash flow hedges	-	-	-	-	(11,072)	-	-	-	(11,072)
Total other comprehensive income and expense	-	-	-	3,873	(11,072)	(766)	-	-	(7,965)
Total comprehensive income and expense	-	-	-	3,873	(11,072)	75,303	-	(5)	68,099
Transactions with owners recorded in equity									
Dividends paid	-	-	-	-	-	(10,190)	-	-	(10,190)
Balance at 30th June 2018 as reported	14,558	42	-	12,665	(19,389)	541,755	(460)	(577)	548,594
Adjustment for IFRS 15	-	-	-	-	-	(1,268)	-	-	(1,268)
Balance at 1st July 2018 restated	14,558	42	-	12,665	(19,389)	540,487	(460)	(577)	547,326
Profit for the period	-	-	-	-	-	52,023	-	-	52,023
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	11,024	-	-	11,024
Foreign exchange translation differences	-	-	-	1,934	-	-	-	-	1,934
Relating to associates and joint ventures	-	-	-	(121)	-	-	-	-	(121)
Changes in fair value of cash flow hedges	-	-	-	-	(19,628)	-	-	-	(19,628)
Total other comprehensive income and expense	-	-	-	1,813	(19,628)	11,024	-	-	(6,791)
Total comprehensive income and expense	-	-	-	1,813	(19,628)	63,047	-	-	45,232
Transactions with owners recorded in equity									
Dividends paid	-	-	-	-	-	(33,483)	-	-	(33,483)
Share-based payments charge	-	-	-	-	-	-	72	-	72
Purchase of own shares	-	-	(404)	-	-	-	-	-	(404)
Balance at 31st December 2018	14,558	42	(404)	14,478	(39,017)	570,051	(388)	(577)	558,743

Consolidated statement of cash flow

Unaudited

	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Audited Year ended 30th June 2018 £'000
Cash flows from operating activities			
Profit for the period	52,023	56,873	132,937
Adjustments for:			
Amortisation of development costs	7,027	6,059	12,483
Amortisation of other intangibles	908	788	2,142
Impairment of goodwill	-	-	1,559
Depreciation	11,436	12,758	26,140
Loss/(profit) on sale of property, plant and equipment	79	(160)	37
Profit on sale of other intangibles	(455)	-	-
Remeasurement of defined benefit pension scheme liabilities from GMP equalisation	751	-	-
Gains from the fair value of financial instruments	(1,970)	(3,857)	(10,143)
Share of profits from associates and joint ventures	(2,185)	(1,584)	(2,970)
Financial income	(5,713)	(308)	(653)
Financial expenses	454	946	1,587
Share based payment expense	72	-	-
Tax expense	9,572	10,261	22,870
	19,976	24,903	53,052
Decrease/(increase) in inventories	(11,913)	(11,379)	(22,866)
Decrease/(increase) in trade and other receivables	26,404	13,174	(25,921)
(Decrease)/increase in trade and other payables	(15,980)	(11,160)	17,770
(Decrease)/increase in provisions	(501)	104	493
	(1,990)	(9,261)	(30,524)
Defined benefit pension contributions	(2,747)	(2,532)	(4,471)
Income taxes paid	(13,618)	(5,015)	(18,882)
Cash flows from operating activities	53,644	64,968	132,112
Investing activities			
Purchase of property, plant and equipment	(19,643)	(16,050)	(34,852)
Development costs capitalised	(8,200)	(7,160)	(14,602)
Purchase of other intangibles	(2,620)	(383)	(1,700)
Sale of other intangibles	2,001	-	-
Sale of property, plant and equipment	3,241	1,571	2,889
Interest received	446	308	653
Dividends received from associates and joint ventures	614	507	507
Payments (to)/from pension scheme escrow account (net)	(38)	(27)	2,437
Cash flows from investing activities	(24,199)	(21,234)	(44,668)
Financing activities			
Interest paid	(16)	(292)	(338)
Dividends paid	(33,483)	(28,752)	(38,942)
Purchase of own shares	(404)	-	-
Cash flows from financing activities	(33,903)	(29,044)	(39,280)
Net (decrease)/increase in cash and cash equivalents	(4,458)	14,690	48,164
Cash and cash equivalents at the beginning of the period	103,847	51,942	51,942
Effect of exchange rate fluctuations on cash held	1,115	2,495	3,741
Cash and cash equivalents at the end of the period	100,504	69,127	103,847

Responsibility statement

The condensed set of financial statements is the responsibility of, and has been approved by, the Directors. We confirm that to the best of our knowledge:

- As required by DTR 4.2 of the Disclosure Rules and Transparency Rules, the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole. The Interim report has been prepared in accordance with IAS 34, 'Interim Financial Reporting', as issued by the International Accounting Standards Board and as adopted by the EU.
- The Interim report includes a fair review of the information required by:
 - (a) DTR 4.2.7 of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8 of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

On behalf of the Board

Allen Roberts FCA
Group Finance Director
31st January 2019

Notes

1. Basis of preparation

The Interim Report, which includes the condensed consolidated financial statements for the six months ended 31st December 2018, was approved by the Directors on 31st January 2019.

The condensed consolidated financial statements for the six months ended 31st December 2018 were prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) as issued by the International Accounting Standards Board and as adopted by the European Union, and apply the same accounting policies, presentation and methods of calculation as were applied in the preparation of the Group's consolidated financial statements for the year ended 30th June 2018, except for income taxes which are accrued using the forecast tax rate for the financial year, and except for the adoption of new accounting standards as set out below.

The condensed consolidated financial statements included in this Report have not been audited and do not constitute the Group's statutory accounts as defined in section 434 of the Companies Act 2006. The information relating to the year ended 30th June 2018 is an extract from the Group's published Annual Report for that year, which has been delivered to the Registrar of Companies, and on which the auditor's report was unqualified and did not contain any emphasis of matter or statements under section 498(2) or 498(3) of the Companies Act 2006.

The Group has considerable financial resources at its disposal, and having considered the current financial projections, the Directors believe that the Group is well placed to manage its business risks successfully. Having made appropriate enquiries, the Directors are satisfied that, at the time of approving the unaudited condensed consolidated financial statements, it is appropriate to continue to adopt a going concern basis of accounting.

Given the nature of some forward-looking information included in this report, which the Directors have given in good faith, this information should be treated with due caution.

2. New accounting standards and policies

a) IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 was adopted by the Group on 1st July 2018, using the modified retrospective transition method. This means that the comparatives for the six months ended 31st December 2017 and the year ended 30th June 2018 have not been restated, and the impact of transition has been reflected as an adjustment to Retained Earnings as at 1st July 2018 as shown in the Consolidated statement of changes in equity. For the majority, by volume and value, of the Group's contracts with customers there are no recognition or measurement differences between the new Standard and IAS 18, and therefore the impact of transition to the Group's revenue, profits and net assets is not material.

IFRS 15 applies a five-step model to the accounting for revenue from contracts with customers, based upon the principle that the Group should recognise revenue in a way that depicts the transfer of promised goods or services ('performance obligations') to customers, in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The revenue is apportioned to performance obligations using their relative stand-alone selling prices.

The Group's performance obligations vary between contracts but typically can consist of the supply of goods, capital equipment and software licences, and the provision of installation, training, servicing, maintenance and programming.

Changes in accounting policy

The Group's new accounting policy under IFRS 15 is set out below, with the main changes being:

i) Volume rebates and early settlement discounts

For the small number of volume rebate agreements entered in to by the Group, these arrangements give rise to 'variable consideration' under IFRS 15 and therefore now impact reported revenue. Previously some of these agreements had been treated as marketing incentives and had therefore been recorded within cost of sales.

Early settlement discounts offered as customary business practice in some jurisdictions are now also recorded as a reduction to revenue rather than a cost of sale.

There is no profit impact arising from these changes.

ii) Extended warranties

IFRS 15 distinguishes warranties between 'assurance-type' and 'service-type'. Whilst the Group's policy was previously to defer revenue from the sale of extended warranties and recognise it evenly over the term of the extended warranty period, the requirement of IFRS 15 to identify service-type warranties as a separate performance obligation and apportion part of the contract value to the warranty based upon its relative stand-alone selling price, results in more revenue being deferred for extended warranties than under the previous policy.

In addition, some warranties are provided to customers that exceed the standard warranty period but are assessed by management as being assurance-type in nature, as they only address potential latent defects that existed at point of sale and do not include any additional services for the customer. Accordingly, they will continue to be accounted for by the Group under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

iii) Contract balances

IFRS 15 requires contract balances to be separately presented.

Contract assets are recognised when revenue for a customer contract is recognised in excess of the amounts received or receivable from a customer, and therefore contract assets mainly include accrued revenue in respect of goods and services provided to a customer but not yet fully billed. Contract assets are distinct from receivables.

Contract liabilities are recognised when amounts received or receivable from a customer exceed the revenue recognised for that contract and therefore mainly consists of deferred income.

New accounting policy

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 as bundled packages.

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 assessment of which is documented below in Critical accounting judgements. 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 as a bundled package with associated products. Where the software licence and/or maintenance is provided as part of a bundled package 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.

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 continue to be 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 fulfilment costs

Contract fulfilment costs are recognised as an asset when they directly relate to a contract, will be used to fulfil one or more performance obligations in a contract in the future, and are expected to be recoverable. Contract fulfilment costs for the Group therefore typically relate to contracts in which programming is a distinct performance obligation and the associated labour costs have been incurred but the program has not yet been provided to the customer. Such assets are amortised to the income statement when the corresponding performance obligation is fulfilled.

f) 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.

g) Disaggregation of revenue

The Group disaggregates revenue from contracts with customers between

- goods, capital equipment and installation, and aftermarket services
- reporting segment
- geographical location

Management believe these categories best depicts how the nature, amount, timing and uncertainty of the Group's revenue is affected by economic factors.

Critical accounting judgements and estimation uncertainties

i) Revenue recognition – 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 faithfully 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.

The point at which control of performance obligations is transferred to customers under IFRS 15 is the same as under IAS 18 for the majority of our contracts with customers.

Transition adjustments

The cumulative effect of adopting IFRS 15 has been recognised as an adjustment to opening Retained Earnings. The reduction of £1,269,000 relates primarily to the impact of more revenue being allocated to extended warranties under IFRS 15 than as under IAS 18, and therefore an increase in the amount of revenue deferred at 30th June 2018 for such warranties that span this date.

	Balances at June 30th 2018 £'000	IFRS 15 adjustment £'000	Restated balances at July 1st 2018 £'000
Consolidated balance sheet extract			
Non-current assets			
Deferred tax assets	27,428	372	27,800
Current liabilities			
Contract liabilities	-	1,640	1,640
Equity			
Retained earnings	541,755	(1,268)	540,487
- related to Revenue	-	(1,640)	-
- related to Income tax expense	-	372	-

Comparison to previous revenue recognition standard

As noted earlier in 'Changes to accounting policies' the Group now accounts for all volume rebates and early settlement discounts within Revenue rather than Cost of Sales. This reclassification, together with the net movement in deferred extended warranties referred to above, accounts for the majority of the difference between the results for the period as reported under IFRS 15 and how they would have been reported under IAS 18.

	Balances at December 31st 2018 per IFRS 15 £'000	IFRS 15 Adjustment £'000	Balances at December 31st 2018 per IAS 18 £'000
Consolidated income statement extract			
Revenue	296,670	1,137	297,807
Cost of sales	(148,521)	(728)	(149,249)
Gross profit	148,149	409	148,558
Operating profit	54,151	409	54,560
Profit before tax	61,596	409	62,005
Income tax expense	(9,572)	(92)	(9,664)
Profit for the period from continuing operations	52,023	317	52,340
Consolidated balance sheet extract			
Non-current assets			
Deferred tax assets	29,073	167	29,240
Current assets			
Contract assets	477	(152)	325
Current tax	3,124	(259)	2,865
Current liabilities			
Contract liabilities	4,952	(561)	4,391
Equity			
Retained earnings	570,051	317	570,368

b) IFRS 9 'Financial Instruments'

IFRS 9 was adopted by the Group on 1st July 2018. The Standard introduced new requirements for the classification and measurement of financial assets, impairment of financial assets and hedge accounting. For the classification and measurement requirements, no changes have arisen from IFRS 9, while for the new impairment requirements, the Group recognises an 'expected credit loss' (ECL) for trade receivables under the Standard's 'simplified approach'. IFRS 9 does not impact hedge accounting in the Group's financial statements because all hedging relationships that were eligible under IAS 39 remain eligible under IFRS 9 and the change in fair value of foreign currency contracts continues to hedge movements in the forward currency rate. No adjustments have been made in respect of IFRS 9 to the Group's opening reserves at 1st July 2018 as an impact assessment concluded that the ECL impairment adjustment was immaterial to the Group by considering historic credit loss rates, determining that there are no indicators that the historic loss rates will change significantly and applying expected loss rates to opening balances.

c) IFRS 16 'Leases'

IFRS 16 is effective for accounting periods beginning on or after 1st January 2019 and will be adopted by the Group for the financial year commencing 1st July 2019. Where the Group acts as a lessor, the accounting treatment is substantially unchanged. Where the Group acts as a lessee, the new standard will eliminate the classification of leases as either operating or finance leases and instead the Group will recognise a right of use (ROU) asset and a lease liability for all leases (except for low-value assets and leases less than 12 months), similar to the accounting for finance leases under IAS 17.

At 31st December 2018 ROU assets and an equal lease liability of £8,563,000 would have been recognised by the Group under the new standard, of which £7,123,000 relates to property and £1,339,000 relates to vehicles. Depreciation on the ROU assets will then be charged to profit and loss on a straight line basis over the lower of the asset's useful life or the life of the lease contract, while interest will be accreted to the lease liability across the same period. The aggregate of depreciation and interest expense will generally result in higher expenses in the earlier periods of a lease, however this is not expected to be material for the Group.

d) Employee share plan

In accordance with the remuneration policy approved by shareholders at the 2017 AGM, the Renishaw plc deferred annual equity incentive plan (the Plan) was implemented in relation to the financial year ending 30th June 2018. The 20th July 2018 Remuneration Committee (the Committee) meeting recommended Plan rules that were adopted by a resolution of the Board on 24th July 2018. The Committee also approved awards under the Plan to the participating Executive Directors, subject to the Plan rules being adopted and the approval by the Board of the Annual report and accounts. The deferred 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 the 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 Renishaw plc 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 not included in Earnings per share calculations.

3. Segmental information

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 of the 2018 Annual report.

Whilst future revenue is difficult to predict given that the Group's outstanding order book is typically around one month's worth of revenue value, larger consumer electronics orders in the Far East within the metrology segment typically fall in the first or last quarter of the financial year. In addition, the Group typically experiences lower demand in August and December, and so revenue and operating profits are typically lower in the first half of the year. This information is provided to allow for a better understanding of the results, and management do not believe that the business is 'highly seasonal' in accordance with IAS 34.

6 months to 31st December 2018	Metrology £'000	Healthcare £'000	Total £'000
Revenue	277,717	18,953	296,670
Depreciation and amortisation	18,468	903	19,371
Operating profit before losses from fair value of financial instruments	55,171	211	55,382
Share of profits from associates and joint ventures	2,185	-	2,185
Net financial gain/(expense)	-	-	5,259
Losses from the fair value of financial instruments	-	-	(1,230)
Profit before tax	-	-	61,596
6 months to 31st December 2017			
Revenue	264,307	15,151	279,458
Depreciation and amortisation	18,561	1,044	19,605
Operating profit/(loss) before gains from fair value of financial instruments	63,561	(1,857)	61,704
Share of profits from associates and joint ventures	1,584	-	1,584
Net financial expense	-	-	(638)
Gains from the fair value of financial instruments	-	-	3,508
Profit before tax	-	-	66,158
Year ended 30th June 2018			
Revenue	575,839	35,668	611,507
Depreciation and amortisation	38,690	2,075	40,765
Operating profit before gains from fair value of financial instruments	147,841	541	148,355
Share of profits from associates and joint ventures	2,970	-	2,970
Net financial expense	-	-	(934)
Gains from the fair value of financial instruments	-	-	4,834
Profit before tax	-	-	155,225

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:

	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
Goods, capital equipment and installation	269,569	256,404	564,254
Aftermarket services	27,101	23,054	47,253
Total group revenue	296,670	279,458	611,507

Aftermarket services include repairs, maintenance and servicing, programming, training, extended warranties, and software licences and maintenance.

The following table shows the analysis of revenue by geographical market:

	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
Far East, including Australasia	126,435	125,166	280,759
Continental Europe	76,832	71,763	154,179
North, South and Central America	65,412	58,791	126,638
United Kingdom and Ireland	17,645	14,737	30,566
Other regions	10,346	9,001	19,365
Total group revenue	296,670	279,458	611,507

Revenue in the above 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:

	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
China	65,246	68,144	150,183
USA	54,961	49,934	108,118
Japan	33,212	28,822	60,855
Germany	31,477	29,031	64,394

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

4. Financial income and expenses

	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
Financial income			
Currency gains	5,267	-	-
Interest receivable	446	308	653
Total financial income	5,713	308	653
Financial expenses			
Interest on pension schemes' liabilities	438	654	1,249
Bank interest payable	16	292	338
Total financial expenses	454	946	1,587

Currency gains relates to revaluations of foreign currency denominated balances using latest reporting currency exchange rates. The gain recognised in the six months to 31st December 2018 largely relates to a depreciation of sterling relative to the dollar affecting dollar denominated intra-group balances in the Company (Renishaw plc). In previous reporting periods, such movements were recognised in Administrative expenses (6 months to 31st December 2017: £313,000 gain; year ended 30th June 2018: £604,000 loss).

Certain intragroup balances were reclassified as net investments in foreign operations on 3rd December 2018, such that revaluations from future currency movements on designated balances will accumulate in the Currency translation reserve in Equity.

5. Taxation

The income tax expense in the Consolidated income statement has been estimated at a rate of 15.5% (December 2017: 15.2%), based on management's best estimate of the full year effective tax rates by geographical unit applied to half year profits.

Deferred tax assets and liabilities have been calculated based on the rate expected to be applicable when the relevant items are expected to reverse.

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 £28,885,000 asset (December 2017: £19,542,000 asset) is presented as a £29,073,000 deferred tax asset (December 2017: £17,725,000 asset) and a £188,000 deferred tax liability (December 2017: £183,000 liability) in the Consolidated balance sheet.

6. Discontinued operations

In October 2016, the Group announced that it had decided to discontinue operations at Renishaw Diagnostics Limited and in June 2017, to discontinue the spatial measurement business. Financial information relating to discontinued operations is set out below.

	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
Revenue	-	3,708	4,326
Expenses	-	(2,732)	(3,664)
Profit before tax	-	976	662
Tax expense	-	(185)	(80)
Profit for the period from discontinued operations	-	791	582
Cash flow			
Profit for the period		791	582
Adjustments for operating activities	-	950	(250)
Cash flows generated from operating activities	-	1,741	332
Net increase in cash and cash equivalents from discontinued operations	-	1,741	332

7. Earnings per share

The earnings per share on continuing operations for the six months ended 31st December 2018 is calculated on earnings of £52,023,000 (December 2017: £56,064,000) and on 72,778,904 shares (December 2017: 72,788,543 shares), being the number of shares in issue during the period. This excludes 9,639 shares held by the Renishaw Employee Benefit Trust (EBT), which were purchased on 10th December 2018.

The earnings per share on continuing operations for the year ended 30th June 2018 is calculated on earnings of £132,342,000 and on 72,788,543 shares, being the number of shares in issue during that year.

The earnings per share on discontinued operations for the six months ended 31st December 2018 is calculated on earnings of nil (December 2017: £3,872,000 loss) and on 72,788,543 shares, being the number of shares in issue during the period.

The earnings per share on discontinued operations for the year ended 30th June 2018 is calculated on profits of £582,000 and on 72,788,543 shares, being the number of shares in issue during that year.

8. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1st July 2018	174,156	218,018	9,736	6,800	408,710
Additions	3,153	10,491	472	5,528	19,644
Transfers	3,015	3,355	-	(6,370)	-
Disposals	(1,401)	(2,677)	(952)	-	(5,030)
Currency adjustment	2,343	1,327	122	-	3,792
At 31st December 2018	181,266	230,514	9,378	5,958	427,116
Depreciation					
At 1st July 2018	30,776	138,576	6,801	-	176,153
Charge for the period	1,761	9,008	667	-	11,436
Released on disposals	(97)	(702)	(818)	-	(1,617)
Currency adjustment	439	638	83	-	1,160
At 31st December 2018	32,879	147,520	6,733	-	187,132
Net book value					
At 31st December 2018	148,387	82,994	2,645	5,958	239,984
At 30th June 2018	143,380	79,442	2,935	6,800	232,557

Additions to assets in the course of construction of £5,528,000 (December 2017: £5,353,000) comprise £2,445,000 (December 2017: £3,208,000) for freehold land and buildings and £3,083,000 (December 2017: £2,145,000) for plant and equipment.

At the end of the period, assets in the course of construction, not yet transferred, of £5,958,000 (December 2017: £7,065,000) comprise £2,361,000 (December 2017: £3,479,000) for freehold land and buildings and £3,597,000 (December 2017: £3,586,000) for plant and equipment.

9. Intangible assets

	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences and intellectual property £'000	Total £'000
Cost					
At 1st July 2018	19,763	11,795	131,951	24,658	188,167
Additions	-	1,930	8,200	690	10,820
Disposals	-	-	-	(6,000)	(6,000)
Currency adjustment	481	2	-	28	511
At 31st December 2018	20,244	13,727	140,151	19,376	193,498
Amortisation					
At 1st July 2018	8,220	11,256	93,810	20,370	133,656
Charge for the period	-	15	7,027	893	7,935
Released on disposal	-	-	-	(4,455)	(4,455)
Currency adjustment	-	(1)	-	21	20
At 31st December 2018	8,220	11,270	100,837	16,829	137,156
Net book value					
At 31st December 2018	12,024	2,457	39,314	2,547	56,342
At 30th June 2018	11,543	539	38,141	4,288	54,511

10. Dividends

	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
Dividends paid during the period were:			
2018 final dividend of 46.0p per share (2017: 39.5p)	33,483	28,752	28,752
2018 interim dividend of 14.0p	-	-	10,190
Total dividends paid during the period	33,483	28,752	38,942

An interim dividend for 2019 of £10,190,000 (14.0p net per share) will be paid on 8th April 2019 to shareholders on the register on 8th March 2019, with an ex-div date of 7th March 2019.

11. Employee benefits

The Group operates a number of pension schemes throughout the world. The major scheme, which covers the UK-based employees, was of the defined benefit type. This scheme, along with the Ireland and USA defined benefit schemes, has ceased any future accrual for current members and all these schemes are now closed to new members. UK, Ireland and USA employees are now covered by defined contribution schemes.

The draft Triennial actuarial valuation of the UK defined benefit scheme as at 30th September 2018 has been updated to 31st December 2018 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31st December 2018	At 31st December 2017	At 30th June 2018
Discount rate	2.9%	2.6%	2.8%
Inflation rate – RPI	3.5%	3.5%	3.4%
Inflation rate – CPI	2.5%	2.5%	2.4%
Retirement age	64	64	64

The assets and liabilities in the defined benefit schemes were:

	At 31st December 2018 £'000	At 31st December 2017 £'000	At 30th June 2018 £'000
Market value of assets	163,084	176,176	172,842
Actuarial value of liabilities under IAS 19	(215,649)	(224,493)	(208,720)
	(52,565)	(48,317)	(35,878)
Increase in liability under IFRIC 14	-	(19,500)	(31,500)
Deficit in the schemes	(52,565)	(67,817)	(67,378)
Deferred tax thereon	8,549	11,238	11,096

The movements in the schemes' assets and liabilities were:

	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
Balance at the beginning of the period	(67,378)	(66,787)	(66,787)
Contributions paid	2,747	2,532	4,471
Interest on pension schemes ¹	(438)	(654)	(1,249)
Remeasurement gain/(loss) from GMP equalisation ²	(751)	-	-
Remeasurement gain/(loss) under IAS 19 ³	(16,688)	392	11,487
Change in remeasurement gain/(loss) under IFRIC 14 ³	29,943	(3,300)	(15,300)
Balance at the end of the period	(52,565)	(67,817)	(67,378)

¹Reported in Financial expenses. ²Reported in Administrative expenses. ³Reported in Other Comprehensive income and expense.

Following further engagement with The Pension Regulator, the Company and trustees have agreed the terms of a new deficit funding plan for the UK defined benefit pension scheme which will supersede all previous arrangements once formal agreements are concluded in early 2019. The Company has agreed to pay £8,700,000 per annum into the scheme for five years with effect from 1st October 2018. Under the terms of the current agreement the Company pays all monthly pensions payments and lump sum payments, and transfer payments up to a limit of £1,000,000 in each year. Once the new agreement is finalised, all such payments will be met by the scheme which will be effective as of 1st October 2018.

A number of UK properties owned by the Company and valued in 2018 at £69,000,000 are subject to registered fixed charges under the current plan and will continue to provide security to the scheme under the new plan. The Company also has an escrow bank account with a balance of £10,451,000 at 31st December 2018 which is subject to a registered floating charge. Under the current plan, the funds were to be released back to the Company over a period of five years. There is no scheduled release of funds back to the Company under the new plan.

In the event a subsequent valuation results in the combined value of the properties and the escrow bank account exceeding 120% of the actuarial deficit, some or all of the funds in the escrow bank account may be released back to the Company and one or more of the properties may be released from the fixed charge. All properties and the escrow bank account will be released from charge when the deficit no longer exists.

In line with the current agreement, the new agreement will continue until 30th June 2031, but may end sooner if the actuarial deficit (calculated on a self-sufficiency basis) is eliminated in the meantime. At 30th June 2031 the Company will be obliged to pay any deficit at that time.

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 30th June 2031.

The value of the guaranteed payments under the new plan is lower than the IAS 19 pension scheme deficit at 31st December 2018 and as such, in accordance with IFRIC 14, no adjustment to the scheme's liabilities has been necessary. At 30th June 2018, the increase in liabilities under IFRIC 14 was £31,500,000.

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.

No scheme assets are directly invested in the Group's own equity.

The total deficit of the Group's defined benefit pension schemes, on an IAS 19 basis, has increased from £35,878,000 at 30th June 2018 to £52,565,000 at 31st December 2018, primarily resulting from a fall in the market value of assets of £9,759,000.

On 26th October 2018, the High Court reached a judgment in relation to Lloyds Banking Group's defined benefit pension schemes which concluded that the schemes should be amended to equalise pension benefits for men and women as regards guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to most other defined benefit pension schemes and are relevant to the Company's UK defined benefit pension scheme. Following discussions between the Company, the trustees and their respective advisors, we have estimated incremental liabilities to be £751,000, which have been recognised in the Income Statement in Administrative expenses in the six months ended 31st December 2018. The estimate has increased the scheme's liabilities by 0.4% and is based on the C2 method which has been approved by the courts and likely to be the most commonly used approach. However, given the recent date of the judgement, the Company and Trustees along with their respective advisors, have not yet determined the most appropriate method to achieve the equalisation of benefits.

12. Financial instruments

There is no significant difference between the fair value of financial assets and financial liabilities and their book value in the consolidated balance sheet. All financial assets and liabilities are held at amortised cost, apart from the forward exchange contracts, which are held at fair value, with changes going through the Consolidated income statement unless subject to hedge accounting.

The fair values of the forward 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. There were no transfers between levels during any period disclosed.

13. Alternative performance measures

Alternative performance measures are – 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	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000
Statutory revenue as reported	296,670	279,458
Adjustment for forward contract losses	7,009	11,569
Adjustment to restate at previous year exchange rates	(201)	-
Revenue at constant exchange rates	303,478	291,027
Year on year revenue growth at constant exchange rates	4.3%	

Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit - These measures are defined as the profit before tax, earnings per share and operating profit after excluding gains and losses in fair value from forward currency contracts which did not qualify for hedge accounting.

The gains and losses from 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. The Board consider these alternative performance measures to be more relevant and reliable in evaluating the Group's performance.

The amounts shown below as reported in revenue represent the amount by which revenue would change had all the derivatives qualified as eligible for hedge accounting.

Adjusted profit before tax	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
Statutory profit before tax	61,596	66,158	155,225
Fair value (gains)/losses on financial instruments not eligible for hedge accounting			
- reported in revenue	(3,200)	(349)	(5,310)
- reported in (gains)/losses from the fair value of financial instruments	1,230	(3,508)	(4,834)
Adjusted profit before tax	59,626	62,301	145,081

Adjusted earnings per share	6 months to 31st December 2018 pence	6 months to 31st December 2017 pence	Year ended 30th June 2018 pence
Statutory earnings per share	71.5	77.0	181.8
Fair value (gains)/losses on financial instruments not eligible for hedge accounting			
- reported in revenue	(3.6)	(0.4)	(5.9)
- reported in (gains)/losses from the fair value of financial instruments	1.4	(3.9)	(5.4)
Adjusted earnings per share	69.3	72.7	170.5

Adjusted operating profit	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
Statutory operating profit	54,151	65,212	153,189
Fair value (gains)/losses on financial instruments not eligible for hedge accounting			
- reported in revenue	(3,200)	(349)	(5,310)
- reported in (gains)/losses from the fair value of financial instruments	1,230	(3,508)	(4,834)
Adjusted operating profit	52,181	61,355	143,045

Adjustments to segmental operating profit:

Metrology	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
Operating profit before gain/loss from fair value of financial instruments	55,171	63,561	147,841
Fair value (gains)/losses on financial instruments not eligible for hedge accounting - reported in revenue	(2,998)	(334)	(5,066)
Adjusted metrology operating profit	52,173	63,227	142,775
Healthcare	6 months to 31st December 2018 £'000	6 months to 31st December 2017 £'000	Year ended 30th June 2018 £'000
Operating loss before gain/loss from fair value of financial instruments	211	(1,857)	514
Fair value (gains)/losses on financial instruments not eligible for hedge accounting - reported in revenue	(202)	(15)	(244)
Adjusted healthcare operating profit	9	(1,872)	270

14. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Full details of the Group's other related party relationships, transactions and balances are given in the Group's Annual report and accounts for the year ended 30th June 2018. There have been no material changes in these relationships in the period up to the end of this Report.

No related party transactions have taken place in the first six months of the financial year that have materially affected the financial position or the performance of the Group during that period.

15. Principal risks and uncertainties

A number of potential risks and uncertainties exist which could have an impact on the Group's performance. The Group has processes in place for identifying, evaluating and managing principal risks. These risks, together with a description of our approach to mitigating them, are set out on pages 32 to 37 of the Annual report and accounts 2018, which is available on the Group's website at www.renishaw.com.

We continue to monitor the current economic uncertainties, particularly those arising from trading conditions between the US and China. If prolonged, this could have an adverse impact on group revenue as a result of reduced demand for products manufactured by our customers, particularly in China.

Following the referendum in June 2016 and the subsequent triggering of Article 50 in March 2017, the UK is scheduled to leave the European Union on 29th March 2019 ("Brexit"). The decision has led to a higher level of uncertainty surrounding trading conditions, particularly between the UK and the EU. In the year ended 30th June 2018, 25% of group revenue resulted from trading with the EU.

Renishaw has a Brexit steering group which assesses and monitors the potential impact on the Group and which manages the implementation of mitigation plans.

To date, the following Brexit risks have been identified as having an actual and/or potential impact on our business:

- Economic conditions: increased uncertainty including the specific impacts on growth, inflation, interest and currency rates
- Laws and regulations: potential changes to UK and EU-based law and regulation including product approvals, patents and import/export tariffs
- Talent: mobility of the workforce and availability of talent
- Short term supply chain disruption: potential changes in customer buying patterns, delays in customs and border clearances and uncertainty over UK and EU product approvals

With a strong direct presence in the EU, the Board believes that Renishaw is well placed to respond to changes to future trading arrangements between the EU and the UK. The establishment of a distribution warehouse in Ireland is in progress which, if required, will significantly reduce the number of direct shipments from the UK to the EU post Brexit. Inventory holdings of certain components and finished goods are being increased above standard levels and located within the EU to mitigate the risk of delays in customs and border clearances. The Group has also assessed the potential cost impact of World Trade Organisation tariffs coming into force for exports from the UK and imports into the UK, and the resultant cost of these potential tariffs is not expected to be material to the Group's results.

Other than set out above, the Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual report and accounts 2018 and confirm that they remain relevant for the second half of the financial year.

Financial calendar

Record date for 2019 interim dividend	8th March 2019
2019 interim dividend payment date	8th April 2019
Investor day	14th May 2019
Announcement of 2019 full year results	1st August 2019
Publication of 2019 Annual report	Late August 2019
Annual general meeting	24th October 2019
2019 provisional final dividend payment date	31st October 2019

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