# Directors' Corporate Governance Report

## Effective leadership for all stakeholders

**Sir David Grant**
Senior Independent Director

This year, we further developed our strategy in the context of global challenges and opportunities, Board changes, and a focus on succession planning. We made good progress in launching our Net Zero commitment, and have focused on our employees, ensuring we remain a competitive and attractive employer. Importantly, we have continued to embed our values in all that we do.

### Board changes

We renewed our work on Board succession planning this year. We welcomed Juliette Stacey as a Non-executive Director and Chair of the Audit Committee with effect from 1 January 2022. Juliette also joined the Nomination and Remuneration Committees. We appointed Stephen Wilson as a Non-executive Director from 1 June 2022. He also joins the Audit, Nomination and Remuneration Committees. These appointments have brought new perspectives and experience to our Board. While Juliette brings a strong finance and leadership background, Stephen has extensive business leadership experience, including strategic, financial, and business development experience in sectors relevant to Renishaw. We look forward to their contribution to the Board and the Group as a whole. I would also like to take this opportunity to thank John Jeans and Carol Chesney, who stepped down this year having served as very effective Non-executive Directors for a number of years.

### Sustainability commitments

With climate change and environmental sustainability becoming increasingly prevalent concerns, I am particularly pleased to see that we have set ourselves a new Net Zero commitment. To achieve that commitment, we will need to reduce our emissions by 90% compared to our FY2020 baseline. To that end, we are aiming to achieve Net Zero for Scope 1 and 2 by 2028 and in Scope 3 by 2050 at the latest. We also accepted the Risk Committee's recommendation to elevate climate change from an emerging risk to a new principal risk.

### Embedding our values

Our values underpin our purpose of Transforming Tomorrow Together. These principles guide the way we behave and the decisions we make, both as a business and individual employees.

In order to embed our values across the business and ensure our employees understand what they mean for them, Will Lee launched our global communications campaign. We also held a number of values workshops in different global regions.

These helped us to understand how our values would be perceived by our employees, and to ensure that everyone's views were considered. We engaged with a wide spectrum of employees and also gave our senior managers separate workshops to help them communicate our values to their teams. Alongside the campaign and workshops, we provided our employees with supporting materials on our employee intranet.

### A culture driven by our purpose

We are strongly committed to ensuring everyone at Renishaw acts with integrity. To help them do that, it is vital that we maintain a strong culture which aligns with our purpose, strategy, and values. Our culture and ethics are enshrined in our Group Business Code and Anti-Bribery Policy, which can be found at: **www.renishaw.com/businesscode** and **www.renishaw.com/en/renishaw-anti-bribery-policy--16236**. We plan to introduce a new Code of Conduct next year, to support our growing business in light of the latest laws and regulations.

We continue to work on robustly assessing and mitigating our principal risks via our Risk Committee, with a particular focus this year on our people in light of the enhanced level of this risk. See pages 39–49 for more information.

Our confidential global hotline service, 'Speak Up', is there for people to raise any concerns about suspected unlawful or unethical behaviour. The Board monitors the operation of our whistleblowing policy and we consider every concern raised through the service. See page 78 for more information.

## Further developing our relationships with stakeholders

As a Board, we're mindful of our many stakeholders and we endeavour to consider all of them in our discussions. Travel and communication constraints during the pandemic restricted some of our regular stakeholder engagements. However, as pandemic constraints eased, we have enjoyed increasingly helpful engagements – and more frequently face-to-face. Here are some of our highlights:

- **People:** Non-executive Director and designated employee engagement ambassador, Catherine Glickman, gives the Board helpful feedback from workforce engagement activities. Catherine brings our employees' views into the boardroom through her attendance at meetings with employee groups. This year, Catherine mentored members of the Senior Leadership Team and provided anonymous feedback to the Board on a variety of topics, including career development. Diane Canadine, our Head of Group HR, also regularly updates the Board. We've created working groups, which are looking at how we reward and retain our people, how we review performance, and how we support career progression. These groups are facilitated by up-to-date information from an external pay review provider. Further information on workforce engagement can be found on pages 52–55.
- **Customers:** As always, we take a particularly close interest in our customers, the challenges they face and how best we can support them. The Board receives regular updates on conversations that Will Lee and senior colleagues have with our customers. This year, these reports have helped us understand how well we managed through the pandemic and various global events from the perspective of our customers.
- **Shareholders:** Despite the continuing uncertainty around COVID-19, we were glad to welcome shareholders back for our 2021 AGM. To safeguard our shareholders, employees, the Board, and the wider community, only shareholders and their proxies were allowed to attend, with socially distanced seating arrangements. At our May 2022 Investor Day, our leaders gave presentations on our strategy and commitment to sustainability, including our journey to Net Zero. We also held workshops on a range of topics including finance and individual flagship product development projects. These workshops gave opportunities for investors to gain more in-depth understanding of the business and to ask detailed questions. Feedback on the event was very positive, and we look forward to welcoming our shareholders back for our 2022 AGM. Further details are on page 64.

## Our effectiveness

As detailed in the Nomination Committee report, we conducted an internal evaluation of our Board and its Committees. This allowed us to reflect on how we've improved over the last year, but also highlighted areas which we can develop further over the next year. I have particularly appreciated the high quality of Board papers this year, and look forward to increasing the breadth of stakeholders in attendance at Board meetings to help us continue to improve our focus on strategic matters.

## Diversity and inclusion

Diversity and inclusion remains and important area of focus for us, and we have grown a network of more than 70 diversity and inclusion champions across the UK. We have also committed to the UK government's Disability Confident scheme. The purpose of this scheme is to encourage organisations like Renishaw to think differently about disability and take steps to improve the recruitment, retention, and development of disabled people. As part of our commitment, we are ensuring recruitment processes are inclusive and accessible, as well as developing current procedures to support existing employees.

Supported by the Board, members of our Senior Leadership Team attended Inclusive Leadership training, hosted by the Employers Network for Equality & Inclusion (enei). This created an opportunity for more of the business to develop a broader understanding and education on diversity, inclusion, and related matters.

As a Board, we've engaged with diversity and inclusion throughout the year in several ways, including:

- after the success of the 2020 National Inclusion Week (an external awareness event run by Inclusive Employers, dedicated to celebrating inclusion and taking action to create inclusive workplaces), we supported the 'Continue the Conversation' theme for 2021. We hosted several awareness days, and shared videos of employees and senior leaders discussing protected characteristics and topics such as disability, LGBTQIA+, racial discrimination, women in engineering, and mental health. In 2022, we have supported the focus on how inclusion drives understanding in the workplace;
- approving the Group's membership to enei and WISE – external professional diversity and inclusion networks – to further demonstrate our commitment and develop our awareness on diversity and inclusion externally; and
- approving the recruitment of a diversity and inclusion advisor, who will look to grow our diversity and inclusion strategy and network globally, to ensure we are fit for the future.

We have noted the recent amendments to the Listing Rules and Disclosure Guidance and Transparency Rules regarding increased diversity disclosures on boards and executive management, and will report against these new requirements in next year's Annual Report. In the meantime, we continue our support of the aspirations of gender and ethnic diversity as set out in the FTSE Women Leaders Review and Parker Review respectively, with our search underway for a further independent Non-executive Director; succession planning continues to be a key activity for the Board, with a focus on diversity.

# Directors' Corporate Governance Report continued

## Board of Directors


### 1. Sir David McMurtry N*

Executive Chairman

**Appointed** September 1975

**Areas of expertise**

Strategy, product development, engineering, science/ 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 the long-term sustainable success of the Company and all aspects of the business.
- Strategic vision, and technical and industry knowledge.

**External appointments**

- None

### 2. John Deer

Non-executive Deputy Chairman

**Appointed** July 1974

**Areas of expertise**

Manufacturing, strategy, international

**Contribution, skills and experience**

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

**External appointments**

- None

### 3. Will Lee

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 stakeholder relationships that 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

### 4. Allen Roberts

Group Finance Director

**Appointed** October 1980

**Areas of expertise**

Finance, strategy, internal controls, operations, compliance

**Contribution, skills and experience**

- Chartered accountant, with an invaluable contribution to financial planning and strategy, including adept management of financial risks and business development.
- Deep understanding of the Group's businesses, products, relationships and the sectors in which we operate.
- Experienced in the management of financial risks, reporting and planning.

**External appointments**

- None

Read more extensive Board biographies online.
Visit **www.renishaw.com/directors**.

### Committees

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

### Former Directors who held office during FY2022

**Carol Chesney** A* N R

Independent Non-executive Director

**Appointed** October 2012

**Resigned** December 2021

**John Jeans** A N R

Independent Non-executive Director

**Appointed** April 2013

**Resigned** February 2022


### 5. Sir David Grant A N R
Senior Independent Director

**Appointed** April 2012

**Areas of expertise**
Engineering, people, science/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**
- None

### 6. Catherine Glickman A N R*
Independent Non-executive Director

**Appointed** August 2018

**Areas of expertise**
People, remuneration, pensions, strategy

**Contribution, skills and experience**
- Breadth of human resources experience in other listed companies and as a non-executive director is particularly valued by the Board.
- 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.

### 7. Juliette Stacey A* N R
Independent Non-executive Director

**Appointed** January 2022

**Areas of expertise**
Finance, M&A, strategy, corporate governance, internal controls, compliance

**Contribution, skills and experience**
- Chartered accountant with an in-depth understanding of finance, M&A, and strategy.
- Career experience in finance, as well as executive roles in both listed and non-listed company environments.
- Roles as chair of audit committees at other listed companies brings a wider industry perspective.

**External appointments**
- Senior independent director and audit committee chair of Fuller, Smith & Turner P.L.C.
- Non-executive director and audit committee chair of Sanderson Design Group plc.

### 8. Stephen Wilson A N R
Independent Non-executive Director

**Appointed** June 2022

**Areas of expertise**
Software, finance, strategy, business development, IT transformation, international

**Contribution, skills and experience**
- Extensive experience in the software sector, including strategic, financial and business development and IT transformation.
- Career experience in finance and business development, including in global businesses.
- Executive and non-executive roles in listed company environments.

**External appointments**
- Chief Executive and nomination committee member of Genus plc.

### 9. 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.

# Directors' Corporate Governance Report continued

## Executive Committee


**1. Gareth Hankins**
Head of Group Manufacturing

**Appointed** February 2018

**Contribution, skills and experience**
- Responsible for manufacturing operations, procurement and facilities management across the Group.
- Skilled leader with acute insight into operations and manufacturing.
- Experience in engineering, production, and operations and business management, including previous role as operations manager for styli and custom products.

**2. Leo Somerville**
President, Americas

**Appointed** March 2004

**Contribution, skills and experience**
- Responsible 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.

**3. Dave Wallace**
Director of Group Operations

**Appointed** January 2008

**Contribution, skills and experience**
- Responsible for Group Operations, with oversight of Group Commercial Development, Group Quality, Group Compliance, our centralised Group Engineering teams, Group Business Systems, and Group Commercial Services and Marketing.
- 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 held Executive Committee responsibility for the Industrial Metrology business.

**4. Will Lee* (Chair)**
Chief Executive

▶ See page 74 for biography

**5. Sir David McMurtry***
Executive Chairman

▶ See page 74 for biography

**6. Allen Roberts***
Group Finance Director

▶ See page 74 for biography

**7. Jacqueline Conway**
General Counsel & Company Secretary

▶ See page 75 for biography

* These members of the Executive Committee were also plc Board Directors during FY2022.

Further information on the Executive Committee can be found on page 79.

### Former Executive Committee members who held office during FY2022

**Geoff McFarland**
Director of Group Technology

**Appointed** July 2001

**Retired** September 2021

## Scope of disclosures

In our Corporate Governance Report, we have incorporated:

- the Audit Committee Report (page 85);
- the Nomination Committee Report (page 82); and
- the Directors' Remuneration Report (page 92).

We've structured this report in accordance with the five sections of the Governance Code and describe how we've applied its principles. You can find the Governance Code at: **www.frc.org.uk**.

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

- **Our business and likely future developments**

  Our Executive Chairman (on pages 6–7) and Chief Executive (on pages 8–10) have given a review of our business and likely future developments. We've also reported on these aspects in our Strategic Report. We set out our results by operating segment in note 2 to the Financial statements, together with an analysis of revenue by geographical market.

- **Management Report**

  We include a management report in our Strategic Report, as required by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR).

- **Directors' Report**

  The Directors' Corporate Governance Report and Other statutory and regulatory disclosures set out on pages 111–113 together form the Directors' Report.

- **Corporate Governance Report**

  We set out our corporate governance practices in the Directors' Corporate Governance Report (on pages 70–114), which forms part of the Directors' Report, as required by the DTR.

- **Shareholder information**

  We set out certain information, which is required by the FCA's Listing Rules (LR) to be provided to our shareholders, in the Directors' Corporate Governance Report (pages 70–114), the Directors' Remuneration Report (pages 92–110), and Other statutory and regulatory disclosures (pages 111–113). This includes information relating to arrangements with controlling shareholders.

## 1. Board leadership and Company purpose

### Engagement with shareholders and other stakeholders

Global challenges, such as supply chain disruption, have required us to continue monitoring the business extremely carefully in FY2022, to safeguard our future. We aim to engage effectively with our shareholders and other stakeholders, especially with respect to key Board decisions. The Managing our resources and relationships section on pages 52–65 sets out examples of engagement, and the table on pages 66–68 demonstrates how the Board has considered Section 172 obligations in discussions and decision-making. We continue to monitor progress with engagement mechanisms and regularly review our investor relations policy. Our overall approach to shareholder engagement is set out on page 64.

Our AGM takes place at our headquarters or one of our other sites, and we send our shareholders advance notice of the meeting. Our Chief Executive and other nominated presenters give presentations on the business, and the Chairs of our Audit, Remuneration, and Nomination Committees are available for questions during and after the meeting.

Despite the continuing uncertainty around COVID-19, we were glad to welcome shareholders back in person at our November 2021 AGM. To safeguard our shareholders, employees, the Board, and the wider community, only shareholders and their proxies were allowed to attend, with socially distanced seating arrangements. Due to positive feedback from the wider investor community, we have kept the Q&A facility, which was first introduced at our September 2020 AGM. This allows our shareholders to submit questions via email before the meeting and to submit proxy instructions electronically. This helps our shareholders engage with the Board even when they are not able to attend the AGM. Details of this year's AGM can be found in the Notice of Meeting, which will be provided to shareholders separately in due course.

Separate resolutions are proposed for each substantially separate issue, and all resolutions are taken on a poll. We report on the number of votes lodged in respect of 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 our website following the meeting.

At our November 2021 AGM, we were again pleased that the majority of resolutions were passed with a high level of support from our shareholders. We engaged in correspondence with our top 20 shareholders in connection with our Executive Director bonus awards, as disclosed in last year's Annual Report on remuneration. This engagement resulted in the resolution to approve the Annual Report on remuneration being passed with a 97.15% vote in favour. We considered the votes against resolutions 4, the re-election of Sir David McMurtry (22.68%) and 5, the re-election of John Deer (24.56%). In order to better understand the reasons for these votes against, we

## Reporting against the Governance Code

To avoid duplication in this report, the table below cross-references explanations given elsewhere of how we have sought to comply with the principles and provisions of the Governance Code. We report against other relevant Governance Code principles and provisions within this Directors' Corporate Governance Report.

| Topic | Page(s) |
|---|---|
| Company purpose | **IFC** |
| Values and culture | **1, 7** |
| Workforce engagement | **52–55** |
| Other stakeholder engagement | **52–64** |
| Strategy and business model | **16–21** |
| Effective controls | **81** |
| Sustainability | **57–61** |
| Capital allocation | **26–27, 45** |
| Workforce policies and practices | **52–55, 69, 112** |
| Risk management | **39–49** |

# Directors' Corporate Governance Report continued

considered the views of our shareholders, including through engagement with the General Counsel & Company Secretary or via the Senior Independent Director. We also reviewed the voting recommendations of proxy voting agencies, where these had been made available to us, for the November 2021 AGM. We continue to engage with shareholders to understand their views on this issue and any other significant matters. We published an update as required under the Governance Code at **www.theia.org/public-register**.

We also hold an annual Investor Day aimed at current and potential shareholders, analysts, brokers, and financial advisers. All our Directors usually attend, and we give a range of presentations, along with opportunities for participants to ask questions throughout the day. Details of our May 2022 Investor Day can be found on page 64, and information about our 2023 Investor Day will be published in due course.

We also hold Q&A sessions with our Executive Chairman, Chief Executive and Group Finance Director as part of our full- and half-year results webcasts.

### Employee whistleblowing

We encourage our people to raise concerns about suspected unlawful or unethical behaviour, and outline our expectation in our Whistleblowing Policy. One important way in which people can raise concerns is via Speak Up, our confidential global hotline service. The service is also available to officers, suppliers, customers, consultants, contractors, volunteers, job applicants, and any third parties who provide services for or on behalf of the Group. Between our launch of the Speak Up hotline in July 2020 to 30 June 2022, we logged 29 cases, all of which were promptly followed up. All cases are reviewed by our triage coordinators (our General Counsel & Company Secretary and Director & General Manager of SFPD) and are then allocated to an appropriate investigator. Every matter reported is investigated, unless it is considered outside of the scope of Speak Up (for example, if someone raises an IT issue). Regular meetings are held with key stakeholders to track the progress of investigations to help ensure cases are closed in a timely manner. As a Board, we monitor the operation of our Policy and this service.

### Conflicts of interest

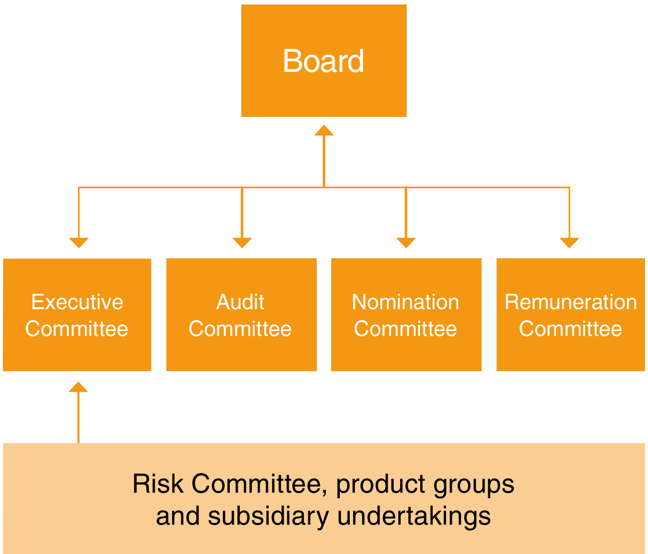
The Board has a conflicts of interest policy and a register of situational conflicts. This includes procedures for the disclosure and review of any conflicts and potential conflicts, and authorisation by the Board (if considered appropriate). We review all authorisations granted, and their associated terms, every year. New disclosures are made where applicable.

**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.

## 2. Division of responsibilities

### Governance structure




### Composition of the Board

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

Sir David Grant, Catherine Glickman, Juliette Stacey, and Stephen Wilson are considered by the Board to be independent in character and judgement, and there are no relationships or circumstances that are likely to affect their judgement. Sir David Grant has served as an Independent Non-executive Director for more than 10 years. As such, we carried out a rigorous review to assess his independence, effectiveness, and commitment. We consider that Sir David Grant continues to be independent in character and judgement. We also assessed that there are no relationships or circumstances that are likely to affect, or could appear to affect, his judgement. We agree that it is in the best interests of the Company for Sir David Grant to remain as Senior Independent Director. Given the recent changes to the composition of the Board, Sir David Grant is able to provide some stability, and the Board benefits from his extensive knowledge of the Company and expertise in engineering.

We consider that all our Non-executive Directors demonstrate commitment to their roles and dedicate sufficient time to their Company duties. Their contribution, skills and experience are summarised in their biographies on pages 74–75.

Sir David McMurtry has held the position of Executive Chairman since we listed in 1984. Following careful consideration of Provision 19 of the Governance Code (relating to a chairman's tenure), we concluded that Sir David's continued service as Executive Chairman remains in the best interests of the Company and our shareholders. This is in part because of his unique history as a co-founder of Renishaw, but more importantly his contribution to our long-term sustainable success. The latter is a direct result of his role and responsibilities for innovation and product strategy, and his continued effective leadership of our Board.

### Senior Independent Director and Non-executive Directors

Sir David Grant is the Senior Independent Director. He 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 shareholders' concerns. Our Non-executive Directors and Executive Chairman meet without the other Executive Directors present, to discuss performance, corporate governance, and other matters. Our independent Non-executive Directors also regularly meet without the Executive Directors, Executive Chairman, or other Directors present.

### Division of responsibilities

We agreed that there was a clear division of responsibilities at Board level throughout FY2022. This ensured that there was an appropriate balance of power and authority, so there is no one person with unfettered powers of decision-making. The Board and Executive Committee each meet on a regular basis to make decisions of significance to our business segments and review management actions.

You can find written statements of our Chief Executive's and Executive Chairman's key responsibilities, which also detail the key responsibilities of the Senior Independent Director, on our website at: **www.renishaw.com/corporategovernance**.

### The Board of Directors

You can find the biographies of our current Directors on pages 74–75. More extensive biographies are available online at: **www.renishaw.com/directors**.

There is a formal schedule of matters reserved for the Board. These include:

- the approval of annual and interim 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.

In FY2022, we met for seven scheduled meetings and two unscheduled meetings (relating to the FSP and Non-executive Director recruitment). Our attendance record at Board and Committee meetings is set out in this report, on page 80. You can find a high-level summary of the subjects we discussed during the year on page 80.

We have three formally constituted Committees – the Audit Committee, the Remuneration Committee, and the Nomination Committee. There is also our Executive Committee, which is responsible for the executive management of our businesses. It is chaired by our Chief Executive and includes our Executive Directors and senior managers, as noted on page 76. The Executive Committee usually meets every month. It considers the performance and strategic direction of our operating segments, performance against objectives, and other matters of general importance to the Group.

A framework of delegated authorities maps out the structure below the Board and includes the matters reserved to our Executive Committee. It also includes the level of authorities given to management below the Executive Committee.

The formal schedule of matters specifically reserved for the Board and the terms of reference for each of the Nomination Committee, Audit Committee, and Remuneration Committee are available on our website at: **www.renishaw.com/corporategovernance**. We reviewed and updated the Remuneration Committee's terms during FY2022, and carried out the same process for the Audit and Nomination Committees in August 2022.

### Scheduled Board and Committee meetings in the year

| Month | Meetings |
|---|---|
| July 2021 | B* A R |
| August 2021 | B N |
| September 2021 | B A |
| October 2021 | B A* N R |
| November 2021 | |
| December 2021 | B* N* |
| January 2022 | |
| February 2022 | B A R |
| March 2022 | B R N |
| April 2022 | |
| May 2022 | B A R |
| June 2022 | B R |

* Unscheduled meeting

### Key

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

# Directors' Corporate Governance Report continued

## Summary of subjects discussed by the Board during the year

For an in-depth look into some key decisions made by the Board in FY2022, please see our Section 172 statement on pages 66–68.

### Strategy

- FSP closure
- Purpose, vision, and strategy
- Segmental and regional strategies, objectives and productivity
- Products and intellectual property
- Five-year plan

### Risk

- Principal risks for FY2022

### Governance

- Board effectiveness review
- Draft Annual Report
- AGM preparation
- Competition law
- Sanctions and trade controls
- Modern Slavery and Human Trafficking statement
- Privacy
- Whistleblowing
- Anti-bribery
- Formation of Ethics Committee
- Committees' Terms of Reference and Matters Reserved to the Board

### Finance

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

### Shareholder engagement

- AGM and other shareholder feedback
- Communications with shareholders
- Investor Day planning and feedback

### People

- Health and safety programme, and updates
- Diversity and inclusion
- Launch of Responsible Renishaw
- Talent and succession planning
- Non-executive director recruitment
- Salary reviews, bonus awards and share awards
- Performance against financial and strategic objectives

### Climate

- Our Net Zero commitment

## Board and Committee meeting attendance record

The table below shows the number of scheduled and unscheduled meetings of the Board and its Committees, alongside Directors who attended and the number of meetings they were eligible to attend, during FY2022.

| Director | Board | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|
| Sir David McMurtry | 9/9 | n/a | 4/4 | n/a |
| Will Lee | 9/9 | n/a | n/a | n/a |
| Allen Roberts | 9/9 | n/a | n/a | n/a |
| John Deer | 9/9 | n/a | n/a | n/a |
| Carol Chesney[1] | 5/5 | 3/3 | 3/3 | 2/2 |
| Catherine Glickman | 9/9 | 5/5 | 4/4 | 6/6 |
| Sir David Grant | 9/9 | 5/5 | 4/4 | 6/6 |
| John Jeans[2] | 6/6 | 4/4 | 3/3 | 3/3 |
| Juliette Stacey[3] | 4/4 | 2/2 | 1/1 | 4/4 |
| Stephen Wilson[4] | 1/1 | n/a | n/a | 1/1 |

1 Carol Chesney's resignation took effect on 31 December 2021, so the Board meeting on 16 December 2021 was her final Board meeting and the Committee meetings on 20 October 2021 were her final Committee meetings.

2 John Jean's resignation took effect on 28 February 2022, so the meetings on 1 February 2022 were his final Board and Committee meetings.

3 Juliette Stacey's appointment took effect on 1 January 2022, so the meetings on 1 February 2022 were her first Board and Committee meetings.

4 Stephen Wilson's appointment took effect on 1 June 2022, so the meetings on 22 June 2022 were his first Board and Committee meetings.

### Commitment

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

None of our Executive Directors holds a directorship in a FTSE 100 company.

### Development

We offer our Directors the opportunity to attend formal training courses regarding their duties. We also provide them with guidance notes, papers, and presentations on changes to law and regulations, as appropriate. Non-executive Directors are invited to attend internal conferences, which are a great way to keep up to date with product development and marketing initiatives. These conferences are also an opportunity for our Non-executive Directors to meet with business units and functions. Business leaders (including from the finance and legal functions, product lines, and sales regions) give regular presentations at Board meetings, to update our Directors on products and business strategies. These also give our Directors the chance to discuss latest developments, and current and future initiatives.

As new Directors that have joined us this year, we gave both Juliette Stacey and Stephen Wilson tailored induction packs and bespoke induction programmes. These inductions included site visits and briefings by both senior managers and external advisers to help them better understand what we do. As part of our continuing development programme, we also offer opportunities to attend external trade shows as well as overseas subsidiary visits.

### Information and support

Board members receive business updates, financial information, and forecasts with relevant commentaries in advance of each Board meeting. These allow us to review financial performance, current trading, and key business initiatives. We have access to the General Counsel & Company Secretary, who advises the Board on all governance matters. Where necessary, our Directors have access to independent professional advice, at the Company's expense, to discharge their responsibilities as Directors. We maintain liability insurance for our Directors and officers and have entered into indemnities as disclosed in Other statutory and regulatory disclosures on page 111.

## 3. Composition, succession and evaluation

### Nomination Committee

We set out a description of the structure and activities of the Nomination Committee, as well as our commitment to diversity, in the Nomination Committee Report on pages 82–84.

### Re-election

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

## 4. Audit, risk and internal control

### Audit Committee

We set out a description of the membership and activities of the Audit Committee in the Audit Committee Report on pages 85–91.

### Financial and business reporting

We explain the respective responsibilities of the Directors and auditor in connection with the financial statements in the Directors' responsibilities section on page 114 and the Independent Auditor's Report on pages 115–125.

### Risk management and internal control

The Board is responsible for risk management and internal control, and for reviewing the effectiveness of these systems. Further information on our risk management and internal controls can be found in the Risk Management section on pages 39–41. Any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only give reasonable, but not absolute, assurance against material misstatement or loss.

The Group has defined lines of responsibility and delegation of authorities. We have also established and centrally documented control procedures, including approvals of capital and other expenditure, information and technology security, and legal and regulatory compliance.

Our Internal Audit function helps to give 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 audits. The Audit Committee monitors actions on an ongoing basis. Further information can be found in the Audit Committee Report on pages 85–91.

We have an established process for the review of business risks throughout the Group, which includes our Risk Committee. You can find more information on this in the Risk Management section on pages 39–41.

We ensure that the Group has effective internal controls over the financial reporting and consolidation processes. Monthly accounts and forecasts are presented to the Board for review. Our Internal Audit function carries out a review of our subsidiaries' accounting processes and financial statements to give assurance to the Board on the integrity of the information supplied.

The Board reviews the effectiveness of our system of internal controls, including via our Audit Committee. It receives regular reports from our Internal Audit function, external auditors, and other advisers, and carries out an updated risk and controls analysis every year. The review covers material controls, including financial, operational, and compliance controls, and risk management systems.

We've conducted a robust assessment of the principal and emerging risks that we face, including those that would threaten our business model, future performance, solvency, or liquidity. Our principal risks and uncertainties can be found on pages 42–49. The Board is satisfied that there is an ongoing process for identifying, evaluating, and managing the significant risks that we face. This is regularly reviewed and accords with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Board verifies that necessary action has been or is being taken to remedy any significant failings or weaknesses identified from its review.

### Going concern

As Directors, we've assessed the Group's position as a going concern, and updated the assessment before signing this report. We considered the Group's forecast profits and cash flows for the period from the date of approval of the Annual Report to 30 September 2023. We are satisfied that the Group has adequate resources to continue operating as a going concern for the foreseeable future, and that no material uncertainties exist with respect to this assessment. More detail is provided on page 135.

### Viability statement

We approved the Company's viability statement on pages 50–51.

## 5. Remuneration

In the Directors' Remuneration Report, we explain how we apply the Governance Code principles relating to remuneration. We include a description of the membership and activities of the Remuneration Committee on page 95.

### Compliance statement

The Board considers that it has complied with the provisions of the Governance Code throughout FY2022 except in relation to the following matters:

- Provision 19 (that the chair should not remain in post beyond nine years from the date of their first appointment). A full explanation of the reasons for this is given on page 84; and
- Provision 21 (that the chair should consider having a regular externally facilitated board evaluation at least every three years). A full explanation of the reasons for this is given on page 83.

**Sir David Grant**
Senior Independent Director

15 September 2022

# Nomination Committee Report

## Succession planning for our future growth continues to be a key area of focus

**Sir David McMurtry**
Executive Chairman

### Introduction

Three key issues have occupied the Nomination Committee this year – succession planning, our annual Board effectiveness review, and diversity.

### Board succession planning

Succession planning is an important process for any company, as it ensures a board has an appropriate balance of experience, skills, and diversity to help a company achieve its strategy. We've focused on succession planning this year, and welcomed two new independent Non-executive Directors to the Board – Juliette Stacey and Stephen Wilson. Their appointments are the result of a thorough recruitment process (set out below) led by the Senior Independent Director, Sir David Grant, and supported by Catherine Glickman, as Chair of the Remuneration Committee, which we launched in light of the tenure of Carol Chesney, John Jeans, and Sir David Grant. Carol and John have subsequently stepped down from the Board, and I would like to thank them for their support over the past 10 years.

While we began this recruitment progress in July 2020, we delayed it following the launch of the FSP in March 2021. Following the conclusion of the FSP in July 2021, we re-started the recruitment process in the autumn of 2021. We hired external recruitment consultants Kingsley Gate in connection with these appointments. Kingsley Gate has no connection with Renishaw or individual directors of Renishaw.

Our search for a third Non-executive Director to replace Sir David Grant continues. In the meantime, he has agreed to oversee the recruitment process and will remain on the Board until that process is concluded.

### Board appointment process

The Board has an established process for identifying and evaluating candidates for appointment to the Board and senior management. Board appointments are also subject to the principles in our Equality, Diversity and Inclusion Policy, which formalises our commitment to diversity at all levels. The Committee's procedures, which were followed in respect of the recent appointments of both Juliette and Stephen, included the following steps:

- engaging external recruitment consultants, Kingsley Gate;
- appointing a sub-committee of the Board to oversee the process;
- evaluating the balance of skills, knowledge, experience, and diversity on the Board – including considering the skills and experience of outgoing Directors, Carol and John;
- agreeing role specifications for the proposed appointment, we agreed three role specifications with the consultants, one of which has yet to be filled;
- reviewing a long list of candidates provided by the consultants;
- reviewing candidate profiles and preparing a shortlist of diverse candidates for interview – we did this for both Juliette's role (as Chair of the Audit Committee) and for Stephen's;
- interviewing a shortlist of candidates who we reviewed against objective criteria, with due regard to the benefits of diversity on the Board – we conducted two separate interview processes for the two roles; and
- recommending the preferred candidates to the Board in December 2021 in respect of Juliette Stacey's appointment and in March 2022 in respect of Stephen Wilson's appointment.

## Board effectiveness review

The Board undertakes an annual evaluation of its performance and effectiveness to identify opportunities for improvement.

Our last external, independent review took place in FY2019 and was carried out by Equity Communications Limited. In the following two years, our company secretarial team ran internal reviews using questionnaires. We had planned to conduct an external review in FY2022, but in view of the recent Board changes I've already mentioned, the Board decided to delay this process until FY2023. Please see page 81, which sets out the Compliance Statement, regarding non-compliance with provision 21.

By deferring the external process to FY2023, the next external evaluation will provide an opportunity for a more robust assessment and more useful insight into the effectiveness of the Board and its Committees. We will begin the tender process for this next external review in autumn 2022, with the evaluation anticipated to take place in the third quarter of FY2023. After that, we will return to the more typical three-year cycle, with the FY2024 review being conducted internally.

### Internal review process

While we did not carry out an external assessment this year, our company secretarial team did, once again, carry out an internal review during April and May 2022.

The questionnaire-based process covered several areas, such as strategy, succession, talent, conduct of Committees, and content and effectiveness of Board meetings. The questions were partly based on the output from the 2021 review, together with feedback from the Board on that process. Questionnaires were distributed to the Board in April, and all (then) seven Directors responded by the deadline in May 2022. The responses were consolidated and anonymised, and the results and key themes set out in a summary report. Recommendations were set out in an action plan based on the responses. Both the report and the proposed 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 FY2022 review

It was noted that the following areas had improved as a result of the FY2021 review:

- **tracking by the Board of the Group's objectives** – which has been achieved through clearer reporting in the Board papers and regular updates from the Senior Leadership Team. I and the rest of the Board have been appreciative of this increase in focus on the objectives which helps to promote a culture of accountability and strong performance;
- **timeliness of the agendas and papers in advance of each meeting** – I know that all of the Directors appreciate the efforts of our General Counsel & Company Secretary and other team members in continually seeking to improve the timely circulation of Board packs, which is an essential part of effective Board meeting preparation; and
- **focus on talent management** – the Board has achieved this through the introduction of the mentoring scheme by the Non-executive Directors of the Senior Leadership Team. I and the other Executive Directors really appreciate the time and commitment that our colleagues on the Board have dedicated to this scheme, which has been very well received by many of the Senior Leadership Team.

The main recommendations from the evaluation included:

- **continued focus on timeliness and conciseness of papers** – which the Board will achieve through working closely with the General Counsel & Company Secretary and the Senior Leadership Team;
- **continued focus on strategic matters** – as part of this, the Board will ensure that the relevant Senior Leadership Team members are invited to participate in discussions on key strategic matters and that the focus is on addressing key questions through engagement and interaction with the Board, rather than on one-sided formal presentations which simply reiterate the material in the pre-read; and
- **continued focus on talent management** - and also succession planning. To address this, we will extend the mentoring scheme by the Non-executive Directors of the Senior Leadership team, review succession plans for all critical roles, and aim to complete the recruitment of a third new Non-executive Director in the year ahead.

## Boardroom diversity

We recognise 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%. The Board supports the aspiration of gender diversity, and best practices in this area, as set out in the FTSE Women Leaders Review (with a target of 40%), as well as the aspiration of ethnic diversity set out in the Parker Review (with a target of at least one director from a minority ethnic group by 2024). With the search currently underway for a further independent Non-executive Director, succession planning continues to be a key activity for the Board, with a focus on diversity.

In October 2021, the Board approved a new Equality, Diversity and Inclusion Policy which applies to the Group and the Board. The new policy supports the work of the diversity and inclusion working group. The policy confirms our commitment to develop, maintain, and support an equal and diverse workforce both in the UK and internationally, including at Board and senior management level. The main objective of the policy is to establish an inclusive culture, free from discrimination, harassment, and victimisation. The policy was applied during the year in respect of the recruitment process for two independent Non-executive Directors. The principles of the policy were discussed with the recruitment consultant at Kingsley Gate and helped in crafting the role profile, preparing a long list of candidates, and in the criteria used to assess the short list of candidates.

# Nomination Committee Report continued

The policy continues to also help us in achieving some of our strategic objectives, including creating an inclusive culture with a diverse workforce and Board, and building on our reputation as a responsible business.

## Senior management diversity

The Executive Committee consists of six men and one woman (14% women). For the purposes of the Governance Code, the Executive Committee and their direct reports (excluding those in administrative or non-managerial roles), is made up of 34 men and eight women (19% women). The gender split for both the Executive Committee and senior management is included in the table set out below. We have also included the gender split for the Senior Leadership Team this year, which is a wider team than the Executive Committee.

| Management level | Male | Male % | Female | Female % |
|---|---|---|---|---|
| Board | 6 | 75 | 2 | 25 |
| Executive Committee | 6 | 86 | 1 | 14 |
| Senior Leadership Team[1] | 12 | 86 | 2 | 14 |
| Executive Committee and direct reports[2] | 34 | 81 | 8 | 19 |

1 Designated group which includes Executive Committee attendees, Heads of larger Product Divisions and Regional Presidents.

2 As required by the Governance Code.

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 Group.

## Committee composition

Our Committee comprises myself, as Chairman, and the four independent Non-executive Directors, Sir David Grant, Catherine Glickman, Juliette Stacey, and Stephen Wilson (Carol Chesney and John Jeans having stepped down during the year). Only Committee members are entitled to attend meetings, although Will Lee is a regular attendee (excluding when we discuss his role). Details of attendance at meetings are shown below.

| Director | Attended |
|---|---|
| Sir David McMurtry (Chair) | 4/4 |
| Sir David Grant | 4/4 |
| Carol Chesney (stepped down on 31 December 2021) | 3/3 |
| John Jeans (stepped down on 28 February 2022) | 3/3 |
| Catherine Glickman | 4/4 |
| Juliette Stacey (appointed on 1 January 2022) | 1/1 |
| Stephen Wilson (appointed on 1 June 2022) | n/a |

## Our role and responsibilities

We're appointed by the Board and operate under the terms of reference published on our website at **www.renishaw.com/corporategovernance**, which we review annually.

### Our primary duties are:

- 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;
- reviewing the independence and requirements of Non-executive Directors every year; and
- monitoring the leadership needs of the Group, including for Directors and other senior executives.

**Sir David McMurtry**
Chair of the Nomination Committee

15 September 2022

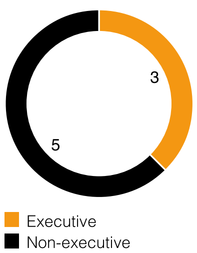
### Tenure of the Chairman

The Governance Code issued by the FRC in July 2018 sets out the governance principles that applied to the Company during FY2022. Provision 19 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.

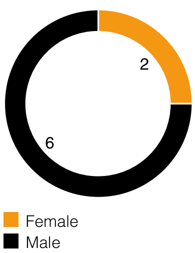
Our Executive Chairman, Sir David McMurtry, co-founded Renishaw together with John Deer in 1973. Sir David was appointed to the Board in September 1975 and has been Executive Chairman since the Company listed in 1984. He also served as Chief Executive from 1975 to 2018, when Will Lee was appointed.

While Sir David's tenure exceeds the nine years recommended under the Code, his length of service reflects that he continues to be a major driver of innovation and growth in the business. He is focusing on the next-generation project for additive manufacturing which will help to ensure Renishaw becomes a technical leader for selected applications within this field. Sir David's unique skills, experience, and knowledge of the industry explain the rationale for his lengthy tenure and the unanimous support of the rest of the Board for him remaining in post.

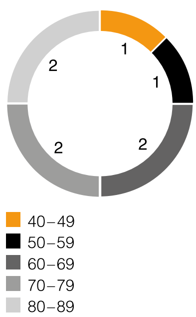
Board composition



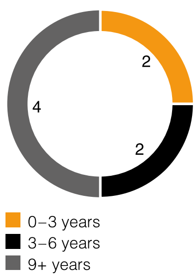

Gender



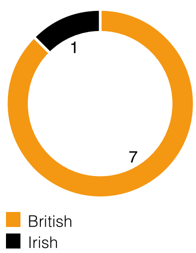

Age




Tenure




Nationality



# Audit Committee Report

## Fair scrutiny and oversight

**Juliette Stacey**
Chair of the Audit Committee

I'm pleased to present the report of the Audit Committee for FY2022, which explains what we do, how we work, and where we focused our attention this year. This is my first report since I was appointed in January 2022, after Carol Chesney stepped down from the Board on completion of nine years' service. I'd like to thank Carol for her contributions as Chair during her time with Renishaw.

Despite some ongoing effects of the COVID-19 pandemic and the broader economic uncertainty this year, the Group has performed very strongly. Significant revenue, profit, and headcount growth supports our longer-term ambitions and also emphasises the importance of a good control environment and fair scrutiny of the Group's reporting, to give you as stakeholders the information you need. As a Committee, we work with management, the internal audit team, and our external auditors to ensure the integrity of this reporting. We've reviewed the critical judgements and estimates that management use in preparing the financial statements, and we've considered whether this Annual Report is fair, balanced, and understandable. With climate change becoming a principal risk this year and TCFD reporting now being mandatory, we've also spent time assessing how climate change has been reported in the Annual Report and reflected in the financial statements.

We also focused this year on the Group's internal control environment, in light of the Department for Business, Energy and Industrial Strategy (BEIS) consultation on 'Restoring trust in audit and corporate governance', with the outcomes of these proposals being announced by BEIS towards the end of our financial year. Management undertook a readiness assessment in the year to compare our current internal controls over financial reporting (ICFR) against the expectations of 'SOX-lite' requirements, and we reviewed their work and that of management's external advisors. We're pleased that this identified no major issues. Looking ahead, we'll oversee how management respond to the ongoing announcements from the FRC and BEIS and will agree the scope of this work in FY2023.

We continued to monitor EY's work and were pleased that the lifting of social distancing meant that more of the audit was performed on-site this year. The easing of COVID-19 restrictions also helped the Internal Audit team this year, who had to perform all of last year's overseas work remotely but were able to visit 17 of our overseas subsidiaries this year.

### The role of our Committee and how we work

The Committee members are the independent Non-executive Directors, and each Committee member attended all of the meetings held during their respective tenures.

We support the Board in ensuring both the integrity of the Group's financial reporting and the adequacy of the Group's internal controls. Our terms of reference, which are updated annually, detail the following key areas of oversight:

- Internal control and risk management
- Internal audit
- Financial reporting
- External audit

An overview of our work in these areas during the year is set out opposite and our terms of reference can be found on our website at **www.renishaw.com/en/corporate-governance--21975**.

# Audit Committee Report continued

The Board considers that, as a whole, the Committee has competencies relevant to Renishaw's sector to fulfil its responsibilities, including relevant professional qualifications and experience in senior finance roles. The Non-executive Director biographies can be found on pages 74 to 75.

## Committee meetings

The Committee met a total of five times during FY2022, with a further three meetings held since the year-end that mainly focused on the Annual Report. We're provided with written updates and discussion papers by management and our external auditors before each meeting, and receive relevant verbal updates at each meeting. We invite the following people to attend each Committee meeting:

- Chief Executive;
- Group Finance Director;
- Head of Group Finance;
- Group Financial Controller;
- Technical & Development Finance Manager;
- Group Internal Audit Manager;
- General Counsel and Company Secretary; and
- External Audit Partner and Manager.

We invite other people to attend the Committee and provide updates when needed. After each meeting, I provide an update to the Board on the matters we discussed.

| Committee members | Attended |
|---|---|
| Juliette Stacey[1] (Chair) | 2/2 |
| Catherine Glickman | 5/5 |
| Sir David Grant | 5/5 |
| Stephen Wilson[2] | n/a |
| Carol Chesney[3] (Chair until December 2021) | 3/3 |
| John Jeans[4] | 3/3 |

1 Juliette Stacey has been Chair of the Committee since 1 January 2022.

2 Stephen Wilson has been a member of the Committee since 1 June 2022. Stephen has attended each of the three Committee meetings held since the year-end.

3 Carol Chesney was Chair of the Committee until 31 December 2021.

4 John Jeans's resignation took effect on 28 February 2022.

## Committee effectiveness

Our effectiveness as a Committee is reviewed each year. Last year, we identified that we wanted to focus on improving the timeliness of the reports we receive, and also to invite other senior people from the business to the Committee to discuss matters pertinent to our Committee's work. Earlier distribution of the Committee packs has improved this year, and two of our regional presidents have also attended a Committee meeting this year, to provide updates and insight for their respective region.

This year's review was carried out by the company secretarial team, and concluded that overall we remain effective.

## Key activities

Our main activities this year were:

### Internal control and risk assessment

- Reviewing this year's assessment of principal and emerging risks, and their mitigating actions, presented to us by the Chair of the Risk Committee.
- Discussing the expected impact of the BEIS 'Restoring trust in audit and corporate governance' consultation and reviewing management's initial readiness assessment.
- Monitoring the effectiveness of internal controls, including receiving updates on focus areas such as 'know your customer' policies.

### Internal audit

- Agreeing the scope and resourcing of Internal Audit's work for FY2022, including the plan for subsidiary reviews.
- Approving the expansion of Internal Audit's work to include certain principal risks.
- Reviewing Internal Audit's reports and monitoring the responses from management, and discussing these with the Group Internal Audit Manager.

### Financial reporting

- Reviewing the Annual Report, Half-year Report, and trading updates before publication.
- Discussing management's assessment of significant judgements, estimates, and financial reporting topics, as explained in more detail on the next page.
- Challenging management on these areas.
- Assessing whether the Annual Report is fair, balanced, and understandable.
- Reviewing the assumptions and financial modelling for the viability and going concern assessments.

### External audit

- Reviewing EY's audit plan, including their scope and methodology, ahead of the FY2022 audit.
- Discussing with EY their progress and findings throughout the audit.
- Discussing their remediation to the findings from the FRC's Audit Quality Review of the FY2020 audit (see page 91 for more details).

More detail on the above work follows on pages 87 to 91.

## Financial reporting, and critical judgements and estimates

We consider the issues below as the most significant in relation to this year's financial statements. Each of these has been discussed with management and the external auditors. Management's work on these areas has been reviewed, and challenged where relevant.

### Cash flow hedges

| Description | Our review and conclusions |
|---|---|
| – Most sales are generated overseas and therefore most invoices to, and payments from, customers are in foreign currency. Forward currency contracts are therefore used to manage the effect of movements in exchange rate on revenue.<br>– Where these contracts are designated as hedges of future cash flows, and therefore intended by management to be eligible for hedge accounting, the hedged item is a layer component of forecast sales transactions. Management needs to estimate both 'more likely than not' and 'highly probable' revenue forecasts to determine the correct accounting treatment.<br>– If contracts are no longer eligible for hedge accounting, future movements in the fair value of the forward contracts would be recognised through the Consolidated income statement, rather than Other comprehensive income and expense. | – Revenue forecasts, including 'highly probable' and 'more likely than not' levels had been presented by management at plc Board meetings. We discussed the rationale for the 'highly probable' and 'more likely than not' levels, and the assumptions used in generating the forecasts. We also confirmed with management that they'd used these Board-approved forecasts to support the hedge accounting treatment. |

### Defined benefit pension schemes

| Description | Our review and conclusions |
|---|---|
| – To determine the value of the defined benefit pension liability, management need to estimate the present value of the future obligations. Assumptions of discount rates, inflation rates and mortality rates are used in this estimate, and are determined by management in consultation with independent actuaries.<br>– With a gross defined benefit pension liability of £174.5m at 30 June 2022, small errors in these assumptions could have a material effect on the value of the liability.<br>– In addition to the above assumptions, which are a 'critical accounting estimate' each year, there have also been changes to the UK DB pension scheme this year. The trustees and the Company agreed to augment members' benefits, as explained in more detail on page 157. The changes to the scheme also involved allowing a surplus to be recognised. | – We reviewed the assumptions of discount rates, inflation rates and mortality rates, including the movement in these assumptions since FY2021. We also confirmed with management that these assumptions had been determined in consultation with independent actuaries.<br>– We confirmed with management that the independent actuaries had reflected the changes to the UK scheme when estimating the liabilities at 30 June 2022.<br>– We also reviewed how management had accounted for these changes, and agreed that substantially all of the increase in liabilities for these changes should be treated as past service cost, and therefore charged to the Consolidated income statement.<br>– Finally, we also confirmed that the Company now has an unconditional right to a refund of the scheme surplus, and can therefore recognise the surplus arising this year. |

# Audit Committee Report continued

## Research and development projects

| Description | Our review and conclusions |
| --- | --- |
| – The Group undertakes a significant amount of R&D work each year, and two key decisions are needed to determine the appropriate accounting treatment for related costs.<br>– The first decision is a judgement as to whether expenditure during the year on R&D activities meets the requirement for this expenditure to be capitalised.<br>– The second decision, for projects that have met the criteria for capitalisation, is to estimate the discounted future cash flows of the project and compare this to its capitalised development costs. If the future cash flows are lower than the capitalised development cost, an impairment should be recognised. | – We reviewed the costs of the projects capitalised in the year, and agreed that they had been capitalised at the appropriate point in their development.<br>– We also reviewed the discounted future cash flows for both these projects and the ones that had previously been capitalised, together with the key assumptions behind these forecasts. We then reviewed the headroom between the capitalised costs and the discounted future cash flows, and agreed with management's assessment that no impairment was needed. |

## Goodwill

| Description | Our review and conclusions |
| --- | --- |
| – Where the Group recognises goodwill from the acquisition of a business, an estimate of the discounted future cash flows of this business (representing a 'cash-generating unit') is needed. This is compared to the carrying value of goodwill, to identify whether an impairment to goodwill is needed.<br>– At 30 June 2022, goodwill totalled £11.4m. | – There are three main cash-generating units (CGUs) for which goodwill is recognised (itp GmbH and Renishaw Mayfield S.A. entities, and the fixturing product line). We reviewed the discounted future cash flows for these CGUs, and the key assumptions behind these forecasts.<br>– We then reviewed the headroom between the capitalised costs and the discounted future cash flows, and agreed with management's assessment that no impairment was needed. |

## Inventories

| Description | Our review and conclusions |
| --- | --- |
| – The Group holds a significant amount of inventory (£162.5m at 30 June 2022). Estimates of future demand are used to determine the provision needed for slow-moving and potentially obsolete inventory, so that inventory is appropriately valued at the lower of actual cost and net realisable value.<br>– Management generates an estimate of the next 12 months' demand for individual inventory items based upon historic usage levels, demand from existing customer orders, and manufacturing build plans. Adjustments to this estimate are made where needed, for example where significant purchases of critical components have been made for 'safety stock'.<br>– At 30 June 2022, the inventory provision was £17.5m. | – We reviewed the year-end provision in both absolute terms and as a proportion of gross inventory, and also compared this to previous periods. We discussed the rationale for the movements with management.<br>– We also asked Internal Audit to confirm that during the year they had reviewed the inventory provision workings prepared by subsidiaries, confirming that there had been no change in how this estimate is prepared.<br>– Overall, we concluded that the provision was reasonable. |

## Taxation

| Description | Our review and conclusions |
|---|---|
| – At the year-end, some of our Group companies had the potential to recognise deferred tax assets, relating to unused tax losses and other temporary timing differences. Management prepares forecasts of probable taxable profits for each of these companies and uses these forecasts to determine the value of the deferred tax asset that can be recognised. When management think it's probable that a company will have enough taxable profit to use its tax losses, a deferred tax asset can then be recognised. This deferred tax asset represents the value of the tax loss that is expected to be used in the future to offset future taxable profits.<br>– With deferred tax assets at 30 June 2022 of £22.9m, the estimates supporting the recognition of these assets are a key estimate. | – We reviewed management's assessment, discussing with them the assumptions made in generating taxable profit forecasts for the relevant companies. We also reviewed how these company-level forecasts tied into the Group's overall business plan.<br>– We were satisfied with how management have accounted for deferred tax, and with the disclosures made in the financial statements. |

### Fair, balanced, and understandable assessment

As an Audit Committee, we have reviewed management's process for ensuring that this Annual Report is fair, balanced, and understandable. This process involved:

- using corporate reporting specialists to support the revised structure and content in the Strategic Report;
- ensuring that the fair, balanced and understandable requirements were a key part of the Annual Report project team's focus;
- involving senior management and the Board in preparing and reviewing the Annual Report, and explicitly asking whether they felt that the Annual Report was fair, balanced, and understandable; and
- engaging our remuneration and legal advisers, and corporate reporting specialists, in reviewing the Annual Report.

With the increased focus on climate change, and with TCFD reporting being mandatory this year, management also focused on ensuring that climate-change related activities were fairly reflected in the report and that these activities were reflected where appropriate in the financial statements. Management also engaged an external review on this year's TCFD reporting. We received updates on this work from management, including a paper setting out the key activities and how they'd been reported.

We were satisfied with management's process, and following discussions at our September 2022 Committee meeting we advised the Board that the Annual Report, taken as a whole, is fair, balanced, and understandable.

# Audit Committee Report continued

## Internal controls and risk management

The Board has overall responsibility for the Group's approach to risk management and internal control. Our Risk Committee has operational responsibility for risk management, and the Board has delegated responsibility to the Audit Committee for the oversight of this work and the effectiveness of internal controls.

This section of our report explains our role in risk management and the Group's internal control environment. It also summarises the work of Internal Audit, and how we assess the effectiveness of this function.

### Risk management

The Risk Committee has a well-established process to identify and manage risks. Using a top-down approach, Jacqueline Conway as Chair of the Risk Committee interviews senior managers from across the Group, to identify the more prevalent and strategic topics to be considered. In addition, detailed risk reports are received from regional and product line managers, focusing on key operational risks. Each principal risk owner is invited to Risk Committee meetings to provide updates and present risk mitigation action plans.

The Risk Committee combines this work with identifying trends and any new emerging risks, to draft the Group's principal risks. The Audit Committee has considered and endorsed these principal risks presented to us by the Risk Committee.

As an Audit Committee, we also review management's work in preparing the viability assessment, which considers the potential impact of the Group's principal risks over a three year period. We report our work on this topic to the Board, and the Board's viability review is described in more detail on pages 50 to 51.

### Internal controls

The Group's uses systems and processes that reduce the risk of material error or loss, while acknowledging that these risks cannot be eliminated entirely.

Internal controls are embedded throughout the business's systems, and our Group Business Code explains how we expect our people to behave with honesty and integrity and provides specific requirements on topics such as trade controls and legal compliance. Everyone in our business undertakes relevant training and assessment within three months of joining Renishaw. We further embed our expectation of people's behaviour by having Integrity as one of our core values.

On a day-to-day basis management are responsible for implementing internal controls. The Group Internal Control Manual sets out all key processes and controls, mainly aimed at financial management and financial reporting. This is available to all employees and the Internal Audit team test subsidiary compliance with these controls during their audit work. Self-assessment of compliance is certified by each Group company on an annual basis.

This year management assessed the impact of the potential outcome of the BEIS whitepaper on 'Restoring trust in audit and corporate governance'. The final response from BEIS was published in May 2022, and is broadly consistent with our expectations. In readiness for the expected increase in ICFR assurance to be provided to stakeholders, management undertook a readiness assessment on the Group's current ICFR position, with support from an external accountancy firm independent of EY. This review did not find any critical weaknesses in our ICFR environment but did confirm that management would need to better document their existing processes and controls to support a 'SOX-lite' controls attestation in the future. This work also highlighted that our ICFR environment would be more effective if we increase the emphasis on preventative controls. This will be reflected in the implementation plan for Microsoft Dynamics 365, to ensure appropriate controls are embedded in our new system.

### Internal audit

Internal Audit work is performed in-house, led by the Group Internal Audit Manager. As a Committee, we agree the Internal Audit team's plan of work at the start of each financial year and check their progress against this plan during our committee meetings.

With travel restrictions lifting in many countries this year the team were able to travel to 17 of their scheduled overseas subsidiary visits, with the remaining nine audits undertaken remotely from the UK. In these instances, the team held video calls with the subsidiary teams to perform tests and complete their audit work.

We're provided with reports after each audit, grading the audited entity and summarising the number and significance of the audit findings. At each committee meeting, the Group Internal Audit Manager updates on how these findings are being addressed, as well as any other observations from the team.

At the end of each financial year, we assess Internal Audit's effectiveness. We do this by discussing their work with the Group Finance Director and by reviewing the responses to questionnaires completed by teams audited in the year. These questionnaires cover topics such as how they planned each audit and how they communicated and prioritised their findings.

We also consider whether their work was effective by reviewing the volume, age, and severity of findings. This year has seen an improvement in how audit findings are responded to. Overall, we agreed that this year's Internal Audit work was effective.

## External audit

### Appointment, reappointment and tendering

We appointed EY as our auditors at our October 2016 AGM, and their first audit was for FY2017. Paul Mapleston stepped down after last year's audit having served five years as our lead audit partner. There was an unforeseen change in our lead audit partner during FY2022, and Anup Sodhi took on this role in July 2022. All other members of the external audit team this year have remained in place.

In line with regulation, the audit will be put out to tender at least every 10 years. As we have no current plans to bring the tender forward, the next tender is likely to take place in FY2026.

We consider that the Company has complied with the Competition & Markets Authority's Statutory Audit Services Order for the financial year under review.

### Quality and effectiveness

The external auditors are invited to attend our Audit Committee meetings, and report their plan for the full year audit and interim results review. I meet with the lead audit partner on a regular basis, and the Committee meets with them at least annually, without management present, to allow both Committee members and the external auditors to raise any issues directly. We also discuss their remit during these meetings.

We reviewed the effectiveness of EY's performance of the external audit process, taking into account:

- the quality and scope of their audit plan, and the delivery and performance against this plan;
- the qualifications, efficiency, and performance of their audit team;
- the communication between management and EY;
- EY's understanding of the Group's business and industry sector; and
- the results of the FRC's Audit Quality Inspection Report on EY.

After considering these matters, our Committee was satisfied with the effectiveness of the year-end process and recommended to the Board that EY be reappointed at the Company's AGM on 30 November 2022.

The FRC's Audit Quality Review team (AQRT) reviewed EY's FY2020 audit, and this year we received the findings of that review. The AQRT reached a conclusion of 'Improvements Required', with three key findings relating to EY's oversight of component audit teams, their testing of capitalised development costs, and their testing of cash balances. The findings from the FRC report were addressed by EY in the FY2021 audit. None of the AQRT's findings indicated that the financial statements were materially misstated.

With the points being addressed in the FY2021 audit, and noting that the audit mainly took place in July and August 2020 and was therefore in the early stages of audit firms responding to COVID-19 disruption, we are satisfied that the external audit is effective.

### Independence and objectivity

Both the Group and EY take action to ensure that EY are independent and objective. As noted earlier, Paul Mapleston rotated off the audit after five years as our lead audit partner.

The Group has a non-audit services policy, and as a Committee we check how this policy is applied. This policy prevents our external auditors from doing certain types of work for us, such as material or highly-sensitive valuations, or advising on legal and regulatory matters. Some non-audit work is permitted by the policy, but with safeguards in place such as prior authorisation and the use of a competitive tender process, depending on the level of expected fees.

For EY's own policies, they require non-audit work to be approved by our lead audit partner before the work starts; approval is not granted if the lead audit partner concludes there's a risk to the independence and objectivity of the audit. Separate teams also have to be used by EY, so that members of the audit team don't perform non-audit work for us.

This year, EY's fees for non-audit work were £32,000. This was for five engagements; Wotton Travel Limited's annual ATOL and ABTA reporting, tax compliance for Renishaw SAS, and review procedures for VAT s56A certification of Renishaw UK Sales Limited and Renishaw Ireland (DAC).

**Juliette Stacey**
Chair of the Audit Committee

15 September 2022

# Directors' Remuneration Report
## Committee Chair's statement

# Our approach to remuneration is responsive to our people and the market

**Catherine Glickman**
Chair of the Remuneration Committee

### Introduction

On behalf of the Board, I present our Remuneration Report for FY2022.

Before I write about this year, on behalf of the Board, I would like to thank shareholders for the strong vote in favour of last year's Remuneration Report and specifically their support for the increase to Will Lee's salary. It ensured that Will was rewarded fairly and competitively for his role as Chief Executive of Renishaw. We look forward to consulting shareholders during FY2023, when developing our new Remuneration Policy, and to receiving both their input and support.

### Performance for FY2022

FY2022 has been a year of strong growth, building on the momentum we saw in FY2021. Significant progress in key strategic areas underpins that growth, with record results from products already in the market and strong progress in the development of our flagship product projects (see pages 28–38 for more information).

Our markets recovered quickly, and we have experienced strong demand for our encoder product lines which has largely been driven by increased investments in industrial automation and the semiconductor and electronics capital equipment markets. We also experienced good growth in demand for our machine tool and CMM product lines, where we have benefited from a recovery in investments in metal cutting machinery and the need to measure the outputs from those processes.

Despite supply chain challenges, we have focused on increasing capacity to meet demand. During the year, we grew our manufacturing headcount by 20% and continue to work closely with suppliers to increase stocks of critical components and materials.

### Remuneration in context

This year we, like many other companies and sectors, have worked hard to ensure that we can recruit, develop, and retain our people. As noted in our Risk Management section on pages 39–49, this year both domestic and global competition for talent has meant this risk has risen to become a key area of management focus.

We have traditionally been able to meet our staffing needs, with a strong reputation for internal development, innovation, low staff turnover and a positive, open culture. The growth of the business both in the UK and internationally, coupled with competition for talent, means that recruitment and retention have become a priority for the leadership team. Working at the leading edge of engineering innovation means it is vital that we attract and retain highly qualified, motivated and productive employees. In regions of full employment, this is a challenge all employers are facing, with particular issues in technical engineering, IT (specifically software development), and manufacturing.

As noted on pages 54–55, we have set up cross-functional working groups to focus on three key areas of people development, responding to issues we are identifying through leaver analysis and employee feedback. The three key areas are:

- improving our performance management;
- developing career progression pathways, together with structured learning and development programmes; and
- benchmarking and investing in reward and benefits.

I will comment on the reward project which is completely aligned with our decisions on executive remuneration, and with which we've made major progress this year. Market benchmarking exercises were completed in the UK, and a clear pay policy was agreed. This enabled management to identify where base pay investments would move us towards our target pay position in the market, subject to good performance. Where benchmarked outcomes rated existing salaries in line with our pay positioning, individuals received a lump sum payment in recognition of contribution, instead of an uplift to base salary.

We have also started benchmarking exercises in India and Europe, and have made investment in key skill areas, specifically technical, engineering, software, and manufacturing roles. You will have seen in our trading updates this year of our major investments in rewards for our people; these will continue to ensure that our pay remains competitive, so that we can retain and attract talented people. In FY2023, we will continue to monitor the market to maintain our competitive position, and will acquire benchmarking data for all roles during FY2023, with the aspiration that pay across all areas of operation will be locally competitive.

## FY2022 annual incentive opportunity for Executive Directors

Our Executive Directors have successfully led us through another year of profitable growth, with 19% growth in revenue and 37% growth in Adjusted profit before tax (PBT).

As in previous years, the metrics for the Executive Directors' Deferred Annual Equity Incentive Plan (DAEIP) were predominantly financial, with 90% paying out on Adjusted PBT and the remaining 10% on non-financial, strategic objectives, subject to the threshold Adjusted PBT being met. The maximum award for Will Lee and Allen Roberts is 150%, and for Sir David McMurtry it is 100%. We defer 50% of any earned pay-out into shares for three years for Will and Allen, and any award for Sir David is paid as cash.

We set a stretching Adjusted PBT increase for FY2022 as follows:

- **Threshold** – £122m
- **On-target** – £141m
- **Stretch** – £146m
- **Maximum** – £152m

We set our strategic objectives around the following headings:

- **Group strategic direction** – covering software strategy, Group structure, associates and joint ventures, and planning;
- **Innovation** – focusing on new product delivery, specifically of flagship products, and inorganic growth;
- **People and culture** – covering delegation and accountability, productivity, values, and leadership; and
- **Sustainability** – focusing on the plan to achieve our Net Zero commitment.

On Adjusted PBT, I am delighted to confirm that we have far exceeded the maximum for the profit range this year, with a full year Adjusted PBT result of £163.7m. This means that this element pays out in full.

With regard to the non-financial element, the Committee considered performance against the strategic objectives in detail and agreed that they had been met in full; a detailed breakdown of performance against each strategic objective is given on page 104.

This has resulted in a maximum bonus award for FY2022 to each of the Executive Directors. When considering the outcomes, the Committee has taken a holistic view, including in relation to the employee and wider stakeholder experience, in addition to performance relative to the targets and objectives set. The Committee believes that the outcomes are an appropriate reflection of wider performance and has not exercised any discretion in relation to remuneration outcomes for Executive Directors.

## Senior Leadership Team bonus plan

Following discussion by the Executive Directors, and with strong approval from the Committee, we aligned the metrics for the incentive scheme for the Senior Leadership Team with those of the Executive Directors' DAEIP for FY2022. Awards are based on 90% Adjusted PBT and 10% strategic objectives.

Any award will be made half in cash and half in deferred shares, held for three years, subject to a minimum award. For the first time, the incentive is aligned with the Executive Directors' reward, working to common profit and strategic targets. This is also the first time that our Senior Leadership Team have been rewarded in Renishaw shares. The plan has been extremely well received by our Directors and Senior Leadership Team, with clarity on what is required for the incentive to pay out and a shared sense of ownership.

## FY2022 employee bonus awards

As is our policy, a proportion of our annual profit has been set aside to invest in bonus awards for our people. After a strong performance this year, bonus awards – which depend on seniority and performance – increased compared to last year, with a UK minimum award of £1,000 (pro-rated).

# Directors' Remuneration Report
## Committee Chair's statement continued

### Our approach to Executive Director remuneration for FY2023

In line with the wider workforce, our approach to reward is focused on competitive pay positioning across the Group, driving accountability and performance. For our Executive Directors, we continue to operate our conservative approach, balancing the needs and experience of employees, shareholders and other stakeholders.

Our Executive Directors – Sir David McMurtry, Will Lee and Allen Roberts – will receive increases of 5% this year. This is lower than the average increase for the wider workforce at 6.2%.

### FY2023 annual incentive plan for Executive Directors

The Committee has discussed the DAEIP design for our Executive Directors and agreed that it remains appropriate for FY2023. It will continue to be predominantly financial, based on Adjusted PBT, worth 90%, with strategic objectives worth 10%. As in FY2022, the FY2023 strategic objectives will be grouped under driving innovation, people and culture, sustainability with a focus on progress on our environmental targets, improving productivity, continued embedding of our vision and values, and evolving our strategy.

The Adjusted PBT targets and strategic objectives will also apply to the Senior Leadership Team to ensure collective accountability and responsibility.

### Non-executive Director remuneration

The Board has reviewed the fees for the Non-executive Directors and has agreed that they should increase to £75,000 for FY2023. This represents a second year of increase and aligns the fees closer to the median point in the market for a business of our size. At the 2022 AGM we are seeking shareholder approval for a minor amendment to the Directors' Remuneration Policy to remove the requirement that all Non-executive Directors are paid the same fee in order to provide flexibility, in particular as consideration is given to the future composition of the Board and the appointment of further Non-executive Directors, and to bring the Policy into line with market practice in this regard. Further details are set out on page 100.

### Engaging with our people

The Committee continues to support the growing focus on employee engagement. We use various methods to engage with the wider workforce, including:

- my role as employee engagement ambassador;
- meetings with the Senior Leadership Team and our people, joining employee briefings, receiving company updates through Channel R, attendance at the diversity and inclusion forums, and regular updates on business progress;
- regular virtual and face-to-face meetings with the Senior Leadership Team by members of the Committee; and
- regular briefings to the Board and Committee on recruitment (particularly in relation to early careers and technical employees), the progress of our key people projects on performance management during the year, career development and reward, and regular updates on retention.

### Looking ahead – key focus area for the Committee

Our Remuneration Policy was approved by shareholders at the 30 September 2020 AGM, receiving a high level of shareholder support at 92.78%. During the course of this year we will be reviewing our Directors' Remuneration Policy, in advance of its renewal at our 2023 AGM, to ensure that it continues to support our strategic priorities and provides an appropriate level of reward to attract and retain high-calibre individuals in an increasingly competitive market. Our aim is to always consider the wider workforce, our shareholders, and other stakeholders, and to remunerate executives fairly and responsibly. We remain committed to a responsible approach to executive pay, as I trust this Directors' Remuneration Report demonstrates.

On behalf of the Board, I would like to thank all those who attended our AGM and Investor Day, and thank you again for your continued support and feedback. As always, I am happy to answer questions or receive feedback; please contact me at **CompanySecretary@Renishaw.com**.

**Catherine Glickman**
Chair of the Remuneration Committee

15 September 2022

# Committee members, advisers and meetings

## What does the Committee do?

Our Committee helps attract, retain and motivate talented executives by ensuring Renishaw offers competitive remuneration and motivating incentives. These incentives are linked to our overall performance and, in turn, the interests of all shareholders.

We are responsible for:

- deciding our framework for executive remuneration;
- determining the remuneration for each of the Executive Directors and other senior management;
- ensuring that suitable financial and non-financial objectives are in place to reward and encourage strong performance; and
- overseeing and reviewing the structure and operation of the Remuneration Policy.

Our Committee terms of reference are published on **www.renishaw.com/corporategovernance**.

To avoid duplication, the table below cross refers to disclosures given elsewhere of how we have sought to comply with Provision 41 of the Governance Code.

| Topic | Page(s) |
|---|---|
| – an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics | 93, 98–99 |
| – reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps | 106 |
| – a description, with examples, of how the Remuneration Committee has addressed the factors in Provision 40 | 102 |
| – whether the Remuneration Policy operated as intended in terms of company performance and quantum, and, if not, what changes are necessary | 98–100 |
| – what engagement has taken place with shareholders and the impact this has had on Remuneration Policy and outcomes | 101–102 |
| – what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy | 101 |
| – to what extent discretion has been applied to remuneration outcomes and the reasons why | n/a |

## Members

All members of the Committee are Independent Non-executive Directors: myself, as Chair; Sir David Grant; Juliette Stacey (from 1 January 2022); and Stephen Wilson (from 1 June 2022). During FY2022 Carol Chesney was a member of the Committee from 1 July 2021 to 31 December 2021 and John Jeans was a member of the Committee from 1 July 2021 to 28 February 2022. The Committee met six times in FY2022, and we set out on this page a summary of the topics discussed in those meetings.

Jacqueline Conway, our General Counsel & Company Secretary, acts as Secretary to the Committee. Executive Directors may attend our meetings by invitation (to advise on the remuneration and performance of senior management and to take part in specific discussions), although they are not present for any discussions that directly relate to their own remuneration.

## Advisers

We use independent advisers as needed and our current adviser is Deloitte.

Deloitte 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. We believe that the advice received from Deloitte is objective and independent.

Total professional fees and expenses paid to Deloitte for advice received was £26,200.

Deloitte was appointed by the Committee and has provided other remuneration advice during FY2022.

## Committee meeting attendance record

| Committee members | Attended |
|---|---|
| Catherine Glickman (Chair) | 6/6 |
| Sir David Grant | 6/6 |
| Carol Chesney[1] | 2/2 |
| John Jeans[2] | 3/3 |
| Juliette Stacey[3] | 4/4 |
| Stephen Wilson[4] | 1/1 |

[1] During FY2022, Carol Chesney was a member of the Committee from 1 July 2021 until 31 December 2021.

[2] During FY2022, John Jeans was a member of the Committee from 1 July 2021 until 28 February 2022.

[3] Juliette Stacey was a member of the Committee from 1 January 2022.

[4] Stephen Wilson was a member of the Committee from 1 June 2022.

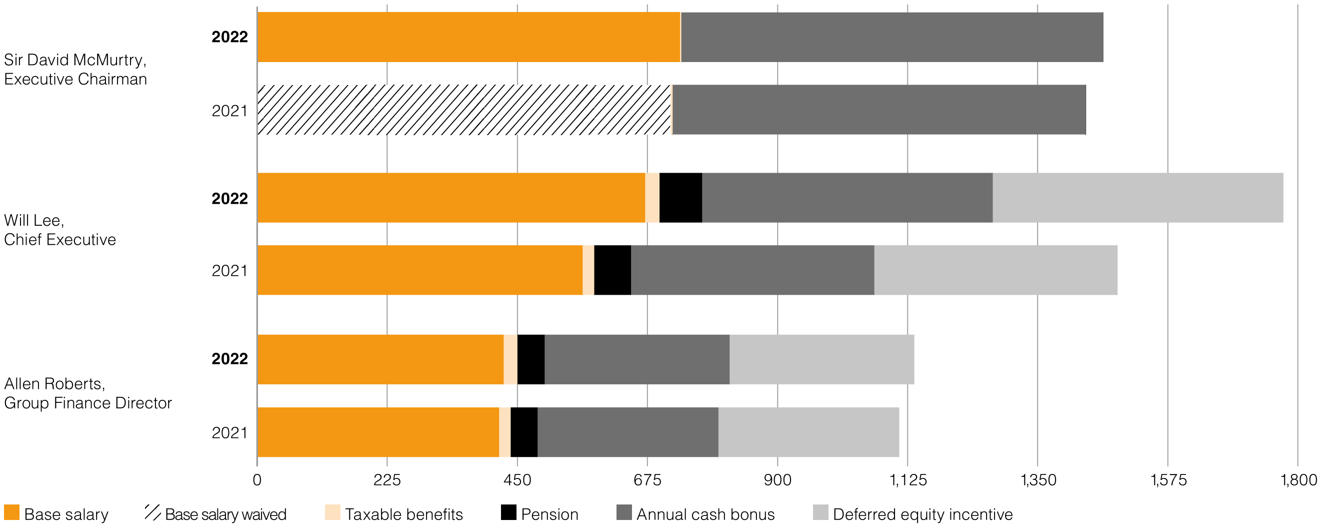
## Meetings

| Date | Topic |
|---|---|
| 6 July 2021 | – Group financial and non-financial objectives for FY2022 |
| 20 October 2021 | – Employee salaries and bonus proposals for FY2022<br>– FY2022 bonus update<br>– HR objectives for FY2022<br>– Executive Directors' DAEIP awards for FY2021 |
| 1 February 2022 | – Senior Leadership Team bonus scheme<br>– Senior management salary review<br>– Employee salaries adjustment budget |
| 30 March 2022 | – Senior Leadership Team bonus scheme<br>– Amendments to Committee's terms of reference |
| 9 May 2022 | – Employee bonus for FY2022<br>– Salary benchmarking<br>– Proposed financial and non-financial objectives for FY2023 |
| 22 June 2022 | – Employee bonus proposal for FY2022<br>– Salary benchmarking<br>– Changes to the DAEIP<br>– Achievement of financial and non-financial objectives for FY2022<br>– Financial and non-financial objectives for FY2023<br>– Executive Directors' salary review |

# Remuneration at a glance

## Executive Director remuneration in 2022 vs 2021

The graph shows a comparison of the Executive Directors' total remuneration (including a breakdown of the components) for FY2022 and FY2021.




## Executive Directors: share ownership

The Remuneration Policy approved by the shareholders at the AGM in September 2020 includes a minimum shareholding guideline for Executive Directors only. Current shareholdings for comparison with the shareholding requirements are calculated based on annualised salary as at 30 June 2022 and by reference to the closing share price on 30 June 2022 (3,568p).

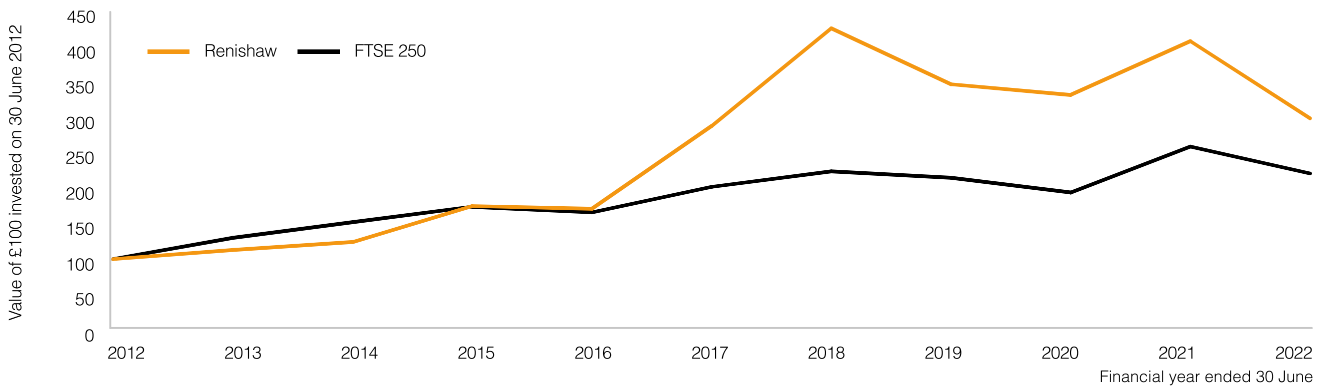
| | Current Executive Directors | | |
|---|---|---|---|
| | Sir David McMurtry | Will Lee | Allen Roberts |
| Number of ordinary shares of 20p each beneficially owned as at 30 June 2022 | 26,377,291 | 7,695 | 6,840 |
| Actual (× salary) | 1,289.7 | 0.410* | 0.572 |
| Requirement (× salary) | 0.5 | 2.0 | 0.5 |

* Will Lee is in the process of building towards his minimum shareholding guidelines. He has increased his proportionate shareholding since FY2021.

## Total shareholder return (TSR)

Alignment of Executive Director and shareholder interests is reinforced by the significant shareholding of our Executive Chairman, and for non-founder Executive Directors through DAEIP awards being denominated in shares and the minimum shareholding guidelines.

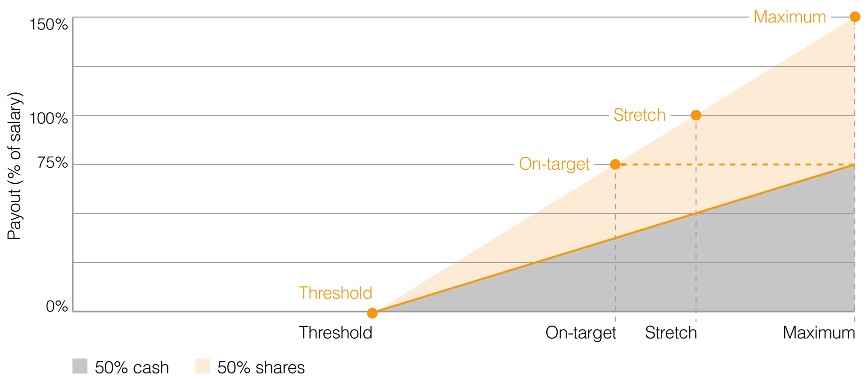
To demonstrate alignment of performance alongside shareholder interests, the chart below shows our strong TSR performance over the last 10 years, illustrating that we have outperformed the FTSE 250 index consistently over the last five years. TSR performance was rebased to 100 at 30 June 2012.



## Annual incentive opportunity

The Committee sets Group performance targets, including a threshold below which no annual incentive is earned. This increases from zero 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. The targets for pay-outs 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.

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.




## How is performance reflected in our incentives?

Our incentive opportunity is based on financial and strategic objectives, although the award is only payable if the threshold Adjusted* PBT target is met.

### Financial objectives

Adjusted PBT is a key measure of Renishaw's financial performance.

In FY2022, Adjusted PBT was weighted 90% in the annual incentive opportunity.

The Adjusted PBT targets for 2022 were:

- Threshold £122m;
- On-target £141m;
- Stretch £146m; and
- Maximum £152m.

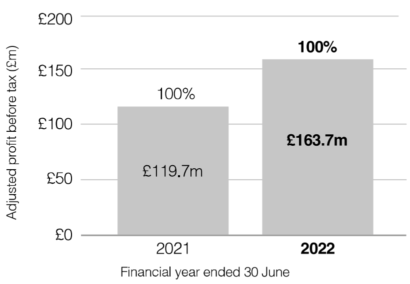
* Note 29 (Alternative performance measures) defines how Adjusted PBT is calculated.

### Non-financial objectives

The remaining 10% of our annual incentive opportunity was this year subject to the achievement of our non-financial objectives, including:

- Group strategic direction – covering software strategy, Group structure, associates and joint ventures, and planning;
- Innovation – focusing on new product delivery, specifically of flagship products, and inorganic growth;
- People and culture – covering delegation and accountability, productivity, values, and leadership; and
- Sustainability – focusing on the plan to achieve our Net Zero commitment.

## KPI – performance snapshot




### Adjusted PBT

The percentages in this bar chart refer to the total of the maximum awards that could be made to the Executive Directors. In both FY2021 and FY2022, the Executive Directors received the maximum bonus available under our annual incentive opportunity as both the financial and non-financial objectives were met.

Our financial performance for FY2022 has resulted in the following awards:

| Executive Director | Cash bonus £'000 | Deferred into shares £'000 | **Total £'000** |
|---|---|---|---|
| Sir David McMurtry | 730 | 0 | **730** |
| Will Lee | 503 | 503 | **1,006** |
| Allen Roberts | 320 | 320 | **640** |

# Directors' Remuneration Policy

The Remuneration Policy approved at the 30 September 2020 AGM underpins the implementation of our strategic objectives. A summary of the key elements can be found below, and the full Policy is available at **www.renishaw.com/en/financial-reports-22583**. During FY2022, the Remuneration Policy operated as intended in terms of our performance and quantum.

## Remuneration principles – total Remuneration Policy

| Delivering the strategy | Simple and aligned | Proportionate | Linked to performance |
|---|---|---|---|
| To attract, motivate and retain talented Executive Directors to support the delivery of Renishaw's strategy and maximise long-term shareholder value | Executive Director remuneration is designed to be simple, conservative, and aligned with shareholder interests | A cap on total remuneration at the upper quartile of the relevant market for the position in question | Performance measures are defined for each constituent element of remuneration |

### Base salary

| | |
|---|---|
| Policy | – Renishaw aims to pay base salaries between median and upper quartile, reflecting that its variable pay opportunities remain significantly below market.<br>– Maximum: upper quartile of the relevant market.<br>– Measured by: continued good performance. |
| Link to strategy | To provide a competitive remuneration package to motivate and retain Executive Directors of the required calibre to help the Group deliver its strategic objectives. |

### Benefits

| | |
|---|---|
| Policy | – Benefits provided on an ongoing basis include: a car or car allowance; private medical insurance; and long-term disability cover. We may provide new Executive Directors with reasonable and proportionate support if they need to move closer to their place of work.<br>– Maximum: capped at £50,000 a year (excluding accommodation and relocation costs).<br>– Measured by: not applicable. |
| Link to strategy | To provide market-competitive benefits to motivate and retain Executive Directors and to support them to give maximum attention to their role. |

### Pension

| | |
|---|---|
| Policy | – 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.<br>– As from 1 August 2020, Executive Directors who joined Renishaw before 2007 will receive pension contributions into our UK 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 in the wider workforce (currently 9% of salary).<br>– The allowance will be made into our defined contribution scheme or all or part as a cash allowance in lieu, as agreed by the Committee.<br>– Maximum: 11% of base salary for Executive Directors who joined Renishaw before 2007 and 9% of base salary for those who joined after 2007.<br>– Measured by: not applicable. |
| Link to strategy | To provide a pension contribution/allowance in line with the wider workforce of Executive Director's home country, and to motivate and retain Executive Directors of the required quality to meet the Group's objectives. |

| Annual incentive opportunity<br>(cash bonus and deferred equity awards) | |
|---|---|
| Policy | – 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, to a cap at which the maximum opportunity of 150% of salary could be earned.<br>– 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: material financial misstatement; error in calculation; misconduct; corporate failure; material loss; and/or reputational damage.<br>– Maximum: 150% of salary for non-founder Executive Directors and 100% of salary for Sir David McMurtry (the award for whom is paid in cash only).<br>– Measured by: primarily by Adjusted PBT, together with financial and non-financial metrics. Any non-financial metrics shall not form more than 25% of the overall bonus opportunity. |
| Link to strategy | To incentivise and reward the execution of the Group's objectives, reward outperformance and encourage Executive Director share ownership. |
| **Minimum shareholding** | |
| Policy | – Chief Executive is expected to build up and maintain a level of share ownership of at least 200% of base salary.<br>– All other Executive Directors are expected to build up and maintain a level of share ownership of at least 50% of base salary. Any future Executive Director appointments will need to build up and maintain a level of share ownership of at least 200% of base salary.<br>– 50% of any net vested share awards (after disposals to meet tax liabilities) must be retained until the minimum shareholding guideline is met.<br>– The required level of shareholding is expected to be achieved within five years of an Executive Director's appointment.<br>– Maximum: not applicable.<br>– Measured by: not applicable. |
| Link to strategy | Supports the alignment of Executive Director and shareholder interests. |
| **Post-employment shareholding** | |
| Policy | – Executive Directors (excluding Sir David McMurtry) will need to maintain a personal shareholding in Renishaw plc 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.<br>– This applies to shares awarded after October 2020.<br>– 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.<br>– Maximum: not applicable.<br>– Measured by: not applicable. |
| Link to strategy | Supports the principle of long-term share ownership that is promoted by the Governance Code. |

# Directors' Remuneration Policy continued

## Non-executive Director Remuneration

As set out in the Committee Chair's statement, we are seeking shareholder approval for a minor amendment to the Policy at our 2022 AGM in so far as it applies to Non-executive Directors. Under the current Policy, all Non-executive Directors are paid the same fee, irrespective of their responsibilities – for example membership of, or their chairing of, Board committees.

However, we recognise the benefit of greater flexibility, in particular as consideration is given to the future composition of the Board and the appointment of further Non-executive Directors. Therefore, in order bring the Policy into line with market practice in this regard, the proposed amended Policy, which is set out below, removes the current limitation. This would enable the Company to provide fees within a market competitive range, taking into account the responsibilities of the Non-executive Director's role and the expected time commitment.

### Non-executive Directors' policy table

The fees for any Non-executive Chair would be determined by the Committee and the fees for other Non-executive Directors are determined by the Chairman and the Executive Directors. Set out below is a table summarising the approach to fees for Non-executive Directors.

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 to allow Renishaw to conduct a comprehensive recruitment exercise.

| Board fees | |
|---|---|
| Operation | – Fees are set taking into account the responsibilities of the role, the expected time commitment and prevailing market rates.<br>– The Non-executive Directors are currently all paid a single all-inclusive fee. A basic fee with additional fees paid for the chairing of Committees and assuming the role of Senior Independent Director may be introduced in the future. Additional fees may also be paid for other Board responsibilities or roles if this is considered appropriate.<br>– Fees are reviewed at appropriate intervals, usually on an annual basis, with reference to fees payable to non-executive directors of companies of a similar size and complexity.<br>– Non-executive Directors do not receive incentive pay or share awards and do not currently receive any benefits or pension arrangements.<br>– Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties) incurred in the course of performing their duties are reimbursed to Non-executive Directors (including any associated tax liability).<br>– Performance measures are not applicable.<br>– Maximum: basic fees are subject to the aggregate limit set in accordance with the Company's Articles of Association, as amended by shareholder approval from time to time. |
| Link to strategy | To provide a competitive fee to attract and retain Non-executive Directors of the required calibre to meet the Group's objectives. |

# Approach to remuneration and consideration of stakeholders

## Introduction

We consider a variety of stakeholder views when determining executive pay, including those of our shareholders, colleagues, and external bodies. See pages 52–65 for more information on how we consider our stakeholders' views more generally.

## Employee engagement

Our Committee continues to focus on employee engagement. As Chair, I also act as employee engagement ambassador and have attended meetings with HR, members of the Senior Leadership Team, and our Diversity and Inclusion Committee during the year. This has helped me gain insights on employee views around a variety of topics.

In FY2023, I look forward to further personal engagement with our people through various forums, which will help inform where our priorities lie on future engagement initiatives.

Further information on how we have engaged with our people can be found on pages 52, 54 and 55. We did not specifically consult with employees on our current Executive Director Remuneration Policy.

## Consideration of employment conditions

We are involved in setting the remuneration for our Senior Leadership Team. We also review the remuneration and related policies of our wider workforce, with particular reference to the UK since it is the market in which the Executive Directors are based. This allows us to ensure sufficient alignment between the remuneration policies of the wider workforce and the Executive Directors. It also gives additional context for making informed decisions on executive pay, and ensures performance objectives are aligned with our culture and strategy. The pension arrangements for the Executive Directors are aligned to those available to our workforce as set out on page 98.

## Employee pay

To reward and recognise the record performance achieved in this financial year, eligible employees received an annual bonus paying out a UK minimum of £1,000 (pro-rated).

In 2021, we announced that we would conduct benchmarking exercises periodically to ensure that Renishaw's remuneration and salaries remain competitive, and during FY2022 we continued working on our goal to reach our targets for pay.

Our approach to reward, which was based on increases linked to inflation and performance, has been replaced by aligning pay to market competitive rates. We carry out detailed benchmarking of our pay and benefits using global, industry-wide comparisons. We believe that this approach will improve attraction, retention, and our gender pay gap figures. The major investment in reward this year has seen an improvement in the competitiveness of our pay, and has been well received by our people. We will continue to work towards our target position.

Our benchmarking activities will complement the implementation of our new job grading structure. Here, too, we developed this structure using an industry-wide framework that will allow us to benchmark our pay and benefits globally. Once we have fully introduced our reviewed structure, we will shift our focus to creating competency frameworks for all our roles.

We have focused on these priority projects in direct response to feedback from our people about a lack of transparency on pay and career progression. These processes will help define relevant training and resources to support further personal development, backed by our global HR system which will support implementation and access.

It is crucial that our employee pay is correctly and competitively positioned within the wider employment market to ensure we retain our talented people while attracting new employees to join our business. Benchmarking not only takes account of inflationary rises but also considers other factors such as:

- demand for specific skills, e.g. engineering or software development;
- fluctuating salaries in geographical locations; and
- ensuring fairness and consistency, demonstrating to our people that they are competitively rewarded.

While variable and share-based payments are more heavily weighted elements of remuneration for our Executive Directors compared to our wider workforce, we have further aligned the pay of our Senior Leadership Team, who are now participants in our Senior Leadership Team Annual Bonus Plan.

This operates on the same basis as the Executive Directors' DAEIP. See page 93 for more information on the Senior Leadership Team Annual Bonus Plan.

## Consideration of shareholder views

We engage with shareholders when making decisions about changes to the Directors' Remuneration Policy. We considered shareholder feedback when drawing up the current Policy. We consulted the top 20 external shareholders as well as proxy voting agencies in May and June 2020 regarding our proposed changes.

We are grateful for feedback from shareholders as part of this process, which indicated broad support for the initial proposals. While no substantive changes were made to the Policy as a result of the feedback before we published our 2020 Annual Report, a number of shareholders and proxy voting agencies raised questions and concerns following its publication.

We took into account these questions and, following further discussion, announced the following clarifications to the proposed Remuneration Policy in September 2020:

- **minimum in-post shareholding requirement:** future Executive Directors will have to build and maintain a shareholding of at least 200% of their salary over time (the same as our current Chief Executive); and
- **recruitment remuneration:** the maximum award opportunity under any long-term incentive for a new Executive Director, during the current Policy (three years), is 200% of salary.

We were pleased that the Remuneration Policy received 92.78% votes in favour when proposed to the shareholders at the AGM in 2020.

We continued to engage with shareholders in FY2022, including regarding the implementation of the Remuneration Policy in relation to Executive Directors' salary increases effective for FY2022. This included an initial written communication, followed by one-to-one telephone conversations with me where requested.

We received constructive feedback from shareholders who appreciated the context and were supportive of the rationale, which encouraged us to proceed with the proposed increases. This support was reflected in the voting results at the 2021 AGM, with the Annual Report on Remuneration passing with 97.15% votes in favour.

We will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate. We intend to consult with shareholders when developing our new Policy in FY2023, and look forward to receiving their input and support.

# Approach to remuneration and consideration of stakeholders continued

## Alignment with strategy

The strategic alignment of each element of pay is set out in the summary of the Remuneration Policy on pages 98–100. The non-financial objectives for FY2022 were:

- **Group strategic direction** – covering software strategy, Group structure, associates and joint ventures, and planning;
- **Innovation** – focusing on new product delivery, specifically of flagship products, and inorganic growth;
- **People and culture** – covering delegation and accountability, productivity, values, and leadership; and
- **Sustainability** – focusing on the environment and our plan to achieve our Net Zero commitment.

These are all linked to the strategy and values of our Group, which underpin our culture and drive behaviours consistent with our purpose.

Our non-financial objectives for next year will similarly be linked to our strategy, further embedding the alignment between executive remuneration and strategy. We set out our FY2023 non-financial objectives on page 94 and will expand on these further in our FY2023 Annual Report.

With 50% of the non-founder Executive Directors' variable pay deferred into shares with a three-year vesting period, combined with minimum shareholding guidelines (both in and after employment), this helps ensure the interests of executives and their behaviours are aligned with shareholders. Expanding the annual incentive plan to our Senior Leadership Team further aligns the interests of management and shareholders, and encourages managers to behave in the long-term interests of the Group.

The Committee has considered our Executive Director Remuneration Policy and practices in the context of the UK Corporate Governance Code, particularly Provision 40, as follows:

| Factor | How did we address this factor? |
|---|---|
| **Clarity** | A summary of the Remuneration Policy approved at the 2020 AGM has been set out with the full Policy available on our website. The Annual Report on Remuneration clearly explains how we have implemented the Policy in FY2022, including the incentive outcomes. We have engaged with stakeholders as explained in detail on page 101 and are committed to consultation; we will consult with shareholders later this year when we review our Policy during FY2023. |
| **Simplicity** | We operate a simple and conservative reward Policy with only the annual incentive plan and no long-term incentive plan, making it much easier to understand for participants, employees and shareholders. |
| **Risk** | There is an appropriate mix of fixed and variable pay, and financial and strategic objectives, and there are robust measures in place to manage different kinds of risk, including:<br>– the post-vesting retention period;<br>– minimum shareholding requirement (including post-cessation);<br>– bonus deferral into shares;<br>– malus and clawback provisions; and<br>– Committee discretion to override formulaic outcomes. |
| **Predictability** | We set out the range of possible pay opportunities under different performance scenarios (threshold, on-target, stretch and maximum) within the Remuneration Policy as set out on page 97 of this Report. This allows shareholders to consider such aspects before voting on the Remuneration Report (and Policy when proposed) at our AGM. |
| **Proportionality** | Executive Directors are incentivised to achieve annual stretching targets and the Committee assesses performance holistically at the end of the period, taking into account performance against the financial and strategic objectives. There is no payout if the threshold financial objectives are not met and our outcomes do not reward poor performance. The strategic alignment of each element of pay has also been clearly laid out in the Remuneration Policy. The Committee may exercise discretion to ensure that payouts are appropriate. |
| **Alignment with culture** | Our strategic objectives for this financial year are set out on page 93 and are all linked to our strategy and values, which underpin our culture. |

# Annual Report on remuneration

This section of the report sets out the remuneration of the Directors in FY2022 and also contains details of how we intend to implement the Remuneration Policy for FY2023. The information on pages 103 to 110 has been audited where required under the regulations and is indicated as audited where applicable.

We have prepared this Remuneration Report in accordance with Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (as amended in 2013, 2018 and 2019), LR 9.8 of the Listing Rules and the Governance Code.

## Single total figure table (audited) – Executive Directors

| | Salary | | Benefits | | Pension | | Bonus[1] | | Total fixed remuneration | | Total variable remuneration | | Total remuneration | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2022 £'000** | 2021 £'000 | **2022 £'000** | 2021 £'000 | **2022 £'000** | 2021 £'000 | **2022 £'000** | 2021 £'000 | **2022 £'000** | 2021 £'000 | **2022 £'000** | 2021 £'000 | **2022 £'000** | 2021 £'000 |
| Sir David McMurtry | **730** | 0[2] | **3** | 3 | **n/a** | n/a | **730** | 715 | **733** | 3 | **730** | 715 | **1,463** | 718 |
| Will Lee | **670** | 562 | **20** | 20 | **74** | 64 | **1,006** | 842 | **764** | 646 | **1,006** | 842 | **1,770** | 1,488 |
| Allen Roberts | **426** | 418 | **20** | 20 | **47** | 47 | **640** | 626 | **493** | 485 | **640** | 626 | **1,133** | 1,111 |

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

| | Fees | | Expenses | | Total remuneration[3] | |
|---|---|---|---|---|---|---|
| | **2022 £'000** | 2021 £'000 | **2022 £'000** | 2021 £'000 | **2022 £'000** | 2021 £'000 |
| John Deer | **70** | 0[4] | **0** | 1 | **70** | 1 |
| Carol Chesney[5] | **35** | 56 | **0** | 0 | **35** | 56 |
| Catherine Glickman | **70** | 56 | **0** | 0 | **70** | 56 |
| Sir David Grant | **70** | 56 | **0** | 0 | **70** | 56 |
| John Jeans[6] | **47** | 56 | **0** | 0 | **47** | 56 |
| Juliette Stacey[7] | **35** | n/a | **0** | n/a | **35** | n/a |
| Stephen Wilson[8] | **6** | n/a | **0** | n/a | **6** | n/a |

1 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 DAEIP in respect of the relevant financial year. Deferred shares will normally vest on the third anniversary of grant, subject to continued employment.

2 Sir David McMurtry waived his salary from 1 July 2020 to 30 June 2021.

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

4 John Deer waived his fee from 1 July 2020 to 30 June 2021.

5 Carol Chesney resigned as a Non-executive Director on 31 December 2021. Therefore, these figures reflect remuneration received during the period from 1 July 2021 to 31 December 2021.

6 John Jeans resigned as a Non-executive Director on 28 February 2022. Therefore, these figures reflect remuneration received during the period from 1 July 2021 to 28 February 2022.

7 Juliette Stacey was appointed as a Non-executive Director on 1 January 2022. Therefore, these figures reflect remuneration received during the period from 1 January 2022 to 30 June 2022.

8 Stephen Wilson was appointed as a Non-executive Director on 1 June 2022. Therefore, these figures reflect remuneration received during the period from 1 June 2022 to 30 June 2022.

## 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 | 0 | 3 |
| Will Lee | 20 | 0 |
| Allen Roberts | 20 | 0 |

## Incentive outcomes for FY2022

Under the Remuneration Policy approved at the 2020 AGM, the Executive Directors were eligible in FY2022 for an annual incentive opportunity (as set out on page 104).

The incentive opportunity is based on financial and strategic objectives, although the award is only payable provided the financial threshold is met (irrespective of performance against the strategic objectives). The Committee established stretching targets for the financial element of the award.

The financial objectives, based on Adjusted PBT, comprise 90% of the award, and the non-financial or strategic objectives comprise the remaining 10% of the award. The targets and achievement against these targets are set out in the tables overleaf. The Committee considers that the level of pay-out is reflective of the overall performance of the Group in the year and is appropriate.

# Annual Report on remuneration continued

## Financial objectives

| | Threshold | On-target | Stretch | Maximum |
|---|---|---|---|---|
| Adjusted PBT (£m) | £122m | £141m | £146m | £152m |
| % of bonus payable for Adjusted PBT performance | 0% | 45% | 60% | 90% |

The Adjusted PBT for FY2022 was £163.7m. This result exceeds the maximum target set by the Committee.

## Strategic objectives

All of the strategic, or non-financial, targets were also satisfied, as shown in the table below:

| Strategic objective | Outcome of objective | % of bonus payable | % of bonus paid out |
|---|---|---|---|
| **Deliver the Group strategic plan for FY2022** | – Significant progress with key customers on implementing third party software on our products and devices, together with development of a subscription revenue model and investment to deliver this new venture, including marketing.<br>– Actions to align associate and joint venture businesses with strategy, with divestment of HiETA shareholding and a new distribution model agreed with RLS.<br>– The Committee also took into account the high quality of the strategic planning and budgeting undertaken. | 10% | 10% |
| **Drive innovation with a focus on new product development and disruptive technology** | – Focus on flagship products has produced the first two successes: our FORTiS enclosed absolute encoder; and NC4+ Blue (industry first in blue laser technology).<br>– Significant progress during year on next flagship products in pipeline, meeting targets and key milestones on products from all major product groups.<br>– Disruptive technology projects classified and ranked: high-potential projects launched or accelerated. Specific details regarding these projects are commercially sensitive. | | |
| **Develop our people – leadership and capability** | – Implementation of simplified, revised performance management, with focus on high performance.<br>– Targeted reward investment to support recruitment and retention, and to address market competitiveness; focus on technical engineering and software development markets to ensure we have sufficient resources.<br>– Significant productivity improvements across the Group, particularly in manufacturing through efficiencies and engineering improvements. This includes a 40% increase in productive hours with only a 19% increase in production labour and overheads (from a combination of efficiencies and engineering improvements), and a 32% increase in revenue over two years with minimal change in our sales and marketing headcount. Further opportunities identified to be implemented in FY2023.<br>– Values launched and embedded, including through the use of an introductory video from Will Lee, together with videos from the Senior Leadership Team, and a global values competition. | | |
| **Determine our approach to sustainability** | – Approved an ambitious and detailed plan to achieve Net Zero for Scope 1 and 2 GHG emissions by 2028.<br>– Agreed methodology to measure Scope 3 emissions, with a target date to complete this work by March 2023. | | |

### Incentive opportunity outcome

The maximum opportunity for FY2022 was 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 is to be deferred into shares for three years; any award to Sir David McMurtry will be made in cash.

Our financial performance for FY2022 has resulted in the following awards:

| Executive Director | Cash bonus £'000 | Deferred into shares £'000 | Total £'000 |
|---|---|---|---|
| Sir David McMurtry | 730 | 0 | 730 |
| Will Lee | 503 | 503 | 1,006 |
| Allen Roberts | 320 | 320 | 640 |

When considering the outcomes, the Committee has taken a holistic view, including in relation to the employee and wider stakeholder experience, in addition to performance relative to the targets and objectives set. The Committee believes that the outcomes are an appropriate reflection of wider performance. The Committee has not exercised any discretion in relation to remuneration outcomes for Executive Directors.

## Total pension entitlements

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

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

| At 30 June 2022: | Value of defined benefit pension entitlement £'000 per year | Pension contributions |
|---|---|---|
| Will Lee | 10 | Paid in cash |

## Payments to past Directors

No payments were made to past Directors during the year.

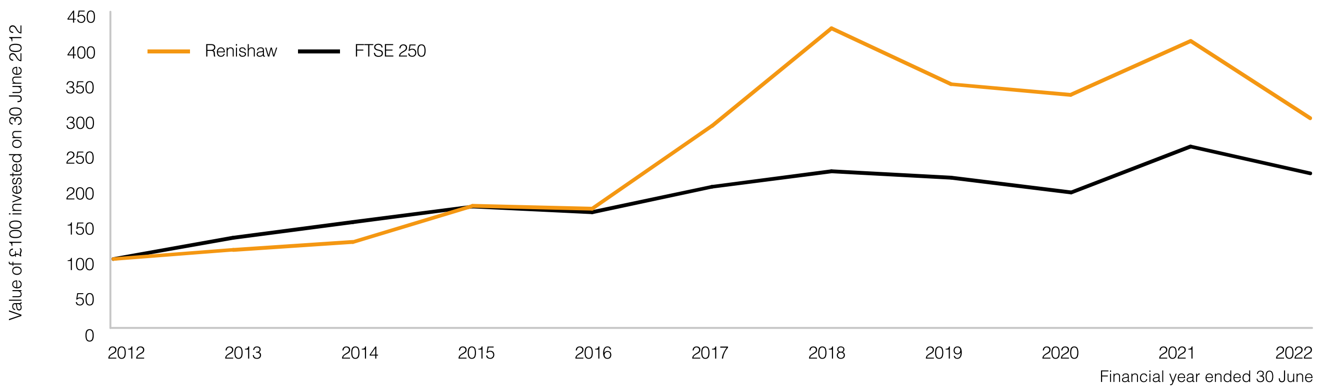
## Loss of office payments

There were no loss of office payments during the year.

## Performance graph

The graph below shows our TSR performance, compared with the FTSE 250 index, which the Committee believes is the most appropriate broad index for comparison, as Renishaw is a member of this index. TSR performance was rebased to 100 at 30 June 2012.

### 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 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | **2022** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Will Lee (from 1 February 2018)** | | | | | | | | | | |
| Single figure of total remuneration (£'000) | | | | | | 594 | 653 | 601 | 1,488 | **1,770** |
| Annual bonus payout (includes annual cash bonus and deferred equity incentive) % of maximum | | | | | | 95 | 0 | 0 | 100 | **100** |
| Long-term incentive vesting % of maximum | | | | | | n/a | n/a | n/a | n/a | **n/a** |
| **Sir David McMurtry (until 31 January 2018)** | | | | | | | | | | |
| Single figure of total remuneration (£'000)* | 663 | 632 | 1,298 | 668 | 1,207 | 818 | | | | |
| Annual bonus payout % of maximum | 10 | 0 | 100 | 0 | 77 | 100 | | | | |
| Long-term incentive vesting % of maximum | n/a | n/a | n/a | n/a | n/a | n/a | | | | |

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

## Chief Executive pay ratio

The table on page 106 sets out the Chief Executive pay ratios as at 30 June 2022, 30 June 2021 and 30 June 2020. The report will build up over time to show a rolling 10-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. Ratios are also presented using base salary only.

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.

# Annual Report on remuneration continued

## Chief Executive pay ratio

Total remuneration

| FY2022 | Employee remuneration | | | Pay ratio | | |
|---|---|---|---|---|---|---|
| **Chief Executive** | P25 | P50 | P75 | **P25** | **P50** | **P75** |
| **£1,769,183** | £31,099 | £42,246 | £48,457 | **56.9** | **41.9** | **36.5** |
| **FY2021** | Employee remuneration | | | | | |
| **Chief Executive** | P25 | P50 | P75 | **P25** | **P50** | **P75** |
| **£1,487,487** | £28,438 | £37,720 | £45,170 | **52.3** | **39.4** | **32.9** |
| **FY2020*** | Employee remuneration | | | Pay ratio | | |
| **Chief Executive** | P25 | P50 | P75 | **P25** | **P50** | **P75** |
| **£601,241** | £27,476 | £35,619 | £51,563 | **21.9** | **16.9** | **11.6** |

Base salary

| FY2022 | Employee remuneration | | | Pay ratio | | |
|---|---|---|---|---|---|---|
| **Chief Executive** | P25 | P50 | P75 | **P25** | **P50** | **P75** |
| **£670,000** | £27,213 | £36,276 | £41,331 | **24.6** | **18.5** | **16.2** |
| **FY2021** | Employee remuneration | | | Pay ratio | | |
| **Chief Executive** | P25 | P50 | P75 | **P25** | **P50** | **P75** |
| **£561,500** | £24,420 | £32,670 | £42,480 | **23.0** | **17.2** | **13.2** |
| **FY2020*** | 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** |

* Where necessary, adjustments were made to the underlying data to reflect a reduction in working hours during April 2020 to June 2020 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.

The base salary for the Chief Executive increased by 19.3% in July 2021. When Will Lee was appointed Chief Executive in February 2018, being an internal promotion, his salary was positioned below the normal market rate, with the stated intention that the Committee would make staged increases to bring the salary into line with the market, subject to performance and experience gained in the role. Since this appointment, Will had received one base salary increase, effective 1 July 2019, of circa 2%, in line with the wider workforce. We considered Will to be operating very effectively in the role, adding substantial value to the Company and its stakeholders, and we wished to position his base pay accordingly. The Committee was also aware of the importance of retention, and given that there is no long-term incentive, was keen to ensure that Will felt fairly rewarded as Chief Executive.

The base salaries for employees at P25, P50 and P75 have moved, primarily as a result of significant investment in employee pay, benchmarked to market pay rates. A large proportion of the funds have been allocated to lower paid employees (below P50), as evidenced by the increases to P25 and P50, which has meant that the distribution of pay amounts has shifted year-on-year. Furthermore, we have seen a significant increase in recruitment of employees below P25, which has contributed to the reduction of the P75 figure. The total remuneration ratios also increased slightly during the year.

Taking into account the above, the Committee considers the median pay ratio consistent with the Company's approach to pay and reward. The Committee will continue to monitor the ratios on an annual basis.

## Executive Directors serving as non-executive directors of other companies

During the year none of the Executive Directors were paid to serve as a non-executive director for any other company.

## 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 2020 includes a minimum shareholding guideline for Executive Directors. As at 30 June 2022 (and unchanged as at the date of this report) 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 2022) | **Unvested and subject to continued employment** (awarded under the DAEIP) | **Minimum shareholding guideline** | **Current shareholding**[1] | **Minimum shareholding guideline met** |
|---|---|---|---|---|---|
| Sir David McMurtry | 26,377,291 | n/a | 0.5× salary | 1,289.7× salary | Yes |
| Will Lee | 7,695 | 8,256 | 2× salary | 0.410× salary | Building |
| Allen Roberts | 6,840 | 6,140 | 0.5× salary | 0.572× salary | Yes |
| John Deer | 12,076,790 | n/a | n/a | n/a | n/a |
| Carol Chesney[2] | 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[3] | 440 | n/a | n/a | n/a | n/a |
| Juliette Stacey[4] | – | n/a | n/a | n/a | n/a |
| Stephen Wilson[5] | – | 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 2022 and by reference to the closing share price on 30 June 2022 (3,568p).

2 Carol Chesney resigned as a Non-executive Director on 31 December 2021 so the number of ordinary shares of 20p each beneficially owned is shown as at 31 December 2021 and not 30 June 2022.

3 John Jeans resigned as a Non-executive Director on 28 February 2022 so the number of ordinary shares of 20p each beneficially owned is shown as at 28 February 2022 and not 30 June 2022.

4 Juliette Stacey was appointed as a Non-executive Director on 1 January 2022.

5 Stephen Wilson was appointed as a Non-executive Director on 1 June 2022.

## DAEIP awards granted during the year

Will Lee and Allen Roberts were eligible to receive an award under the DAEIP for performance over the year under review. The details of these awards – which at the date of this Directors' Remuneration Report have yet to be granted – will be reflected in the above table in next year's Remuneration Report.

On 28 October 2021, the Executive Directors, excluding Sir David McMurtry, were granted awards of shares under the DAEIP for performance over FY2021. The details of these awards are summarised below and reflected in the above table.

| **Executive Director** | **Number of shares** | **Face value £'000**[1] | **Face value % of salary**[2] | **Vesting date** |
|---|---|---|---|---|
| Will Lee | 8,256 | 421 | 75 | 28 October 2024 |
| Allen Roberts | 6,140 | 313 | 75 | 28 October 2024 |

1 Based on the five-day average share price of 5,100p preceding the award date.

2 Expressed as a percentage of salary at 30 June 2021.

In line with our Remuneration Policy, awards normally vest on the third anniversary of the award date, subject to continued employment only.

# 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 in FY2019 to FY2022. The figures shown in the table below refer to the base salary actually received by each Director, therefore these figures do not include the fees (whether all or part) that were waived for any financial years. Where an item is not relevant for that Director or where it has changed from or to a zero figure in the timeframe, the change is shown as not applicable. All percentages in the table are rounded to the nearest whole number.

| **Sir David McMurtry**[1] | Salary | Benefits | Annual bonus |
|---|---|---|---|
| 2019 to 2020 | -23% | 0% | 0% |
| 2020 to 2021 | n/a | 0% | n/a |
| **2021 to 2022** | n/a | 0% | 2% |
| **Will Lee** | Salary | Benefits | Annual bonus |
| 2019 to 2020 | -8% | 0% | 0% |
| 2020 to 2021 | 11% | 0% | n/a |
| **2021 to 2022** | 19% | 0% | 19% |
| **Allen Roberts** | Salary | Benefits | Annual bonus |
| 2019 to 2020 | -2% | 0% | 0% |
| 2020 to 2021 | 5% | 0% | n/a |
| **2021 to 2022** | 2% | 0% | 2% |

| **John Deer**[2] | Fees | Expenses | Annual bonus |
|---|---|---|---|
| 2019 to 2020 | -38% | -43% | 0% |
| 2020 to 2021 | n/a | -94% | n/a |
| **2021 to 2022** | n/a | -37% | n/a |
| **Carol Chesney** | Fees | Expenses | Annual bonus |
| 2019 to 2020 | -4% | 0% | n/a |
| 2020 to 2021 | 5% | 0% | n/a |
| **2021 to 2022**[3] | -38% | 0% | n/a |
| **Catherine Glickman** | Fees | Expenses | Annual bonus |
| 2019 to 2020 | 6% | 0% | n/a |
| 2020 to 2021 | 5% | 0% | n/a |
| **2021 to 2022** | 25% | 0% | n/a |
| **Sir David Grant** | Fees | Expenses | Annual bonus |
| 2019 to 2020 | -4% | 0% | n/a |
| 2020 to 2021 | 5% | 0% | n/a |
| **2021 to 2022** | 25% | 0% | n/a |
| **John Jeans** | Fees | Expenses | Annual bonus |
| 2019 to 2020 | -4% | 100% | n/a |
| 2020 to 2021 | 5% | n/a | n/a |
| **2021 to 2022**[4] | -17% | 0% | n/a |
| **Juliette Stacey** | Fees | Expenses | Annual bonus |
| 2019 to 2020 | n/a | n/a | n/a |
| 2020 to 2021 | n/a | n/a | n/a |
| **2021 to 2022**[5] | n/a | n/a | n/a |
| **Stephen Wilson** | Fees | Expenses | Annual bonus |
| 2019 to 2020 | n/a | n/a | n/a |
| 2020 to 2021 | n/a | n/a | n/a |
| **2021 to 2022**[6] | n/a | n/a | n/a |

| **UK employee (average)** | Salary | Benefits | Annual bonus |
|---|---|---|---|
| 2019 to 2020 | 3% | 1% | n/a |
| 2020 to 2021 | 1% | 1% | n/a |
| **2021 to 2022** | 9% | 4% | 22% |

1 Sir David McMurtry waived his salary from 1 July 2020 to 30 June 2021. As disclosed in our FY2021 Annual Report, Sir David's base salary increased by 2.1% from £714,700 (for the year ended 30 June 2021) to £729,709 (for the year ended 30 June 2022).

2 John Deer stepped down as an Executive Director on 29 January 2020 (becoming a Non-executive Director). Therefore, the FY2020 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. John Deer waived his fee from 1 July 2020 to 30 June 2021. He did not waive his fee for the year ended 30 June 2022 and therefore was paid a fee of £70,000 in line with the other Non-executive Directors.

3 Carol Chesney resigned as a Non-executive Director on 31 December 2021. Therefore, these figures reflect remuneration received during the period from 1 July 2021 to 31 December 2021.

[4] John Jeans resigned as a Non-executive Director on 28 February 2022. Therefore, these figures reflect remuneration received during the period from 1 July 2021 to 28 February 2022.

[5] Juliette Stacey was appointed as a Non-executive Director on 1 January 2022. Therefore, these figures reflect remuneration received during the period from 1 January 2022 to 30 June 2022.

[6] Stephen Wilson was appointed as a Non-executive Director on 1 June 2022. Therefore, these figures reflect remuneration received during the period from 1 June 2022 to 30 June 2022.

## Relative importance of spend on pay

The following table sets out the total amount spent in FY2022 and FY2021 on remuneration to all Group employees and on dividends to shareholders:

| | **FY2022 £'000** | FY2021 £'000 | Change % |
|---|---|---|---|
| Employee remuneration | **254,268** | 224,760 | 13.1 |
| Shareholder dividends paid | **49,494** | 10,189 | 385.8 |

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

## Statement of implementation of Remuneration Policy in the next year

### Base salary

Executive Directors received salary increases of 5%, effective 1 July 2022. This is lower than the average increase for the wider workforce, as set out in the Committee Chair's statement on page 94.

### Annual cash bonus and deferred annual equity incentive

As set out in the Remuneration Policy approved at the 2020 AGM, the annual cash bonus and deferred annual equity incentive have been combined into a single award opportunity. The maximum opportunity for FY2023 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 continue to be Adjusted PBT and non-financial strategic objectives, with targets set by the Committee in line with our stated Policy. The FY2023 strategic objectives will be grouped under driving innovation, people and culture, sustainability, improving productivity, continued embedding of our vision and values, and evolving our strategy. Further details (including the targets) will be disclosed in next year's Remuneration Report. Any awards are subject to the achievement of both financial and strategic objectives, as well as the Committee's discretion.

### Pension and benefits

No changes will be made to the implementation of the pension and benefits elements of the Policy approved at our 2020 AGM.

### Non-executive Directors

The fees payable for each Non-executive Director for FY2023 will increase to £75,000. This increase was approved by the Executive Directors in June 2022. The increase was considered to be appropriate given the substantial support provided by all of the Non-executive Directors, and the need to ensure that the Company continues to attract high-calibre Non-executive Directors with the appropriate skills and experience. 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 from 1 July 2021 to 31 December 2021, Sir David Grant, John Jeans from 1 July 2021 to 28 February 2022, Juliette Stacey from 1 January 2022, and Stephen Wilson from 1 June 2022.

Deloitte assisted the Committee in reviewing and benchmarking the Executive Director remuneration arrangements, as well as providing other remuneration-related advice to the Committee during FY2022. Further information is set out on page 95.

# Annual Report on remuneration continued

## Executive Director service contracts

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 our 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 must be considered, such as on a settlement agreement, the Committee will consider all relevant commercial factors affecting that case. Directors' service contracts are available for inspection at our registered office upon written request to the Company Secretary.

| Executive Director | Date of current service contract |
|---|---|
| Sir David McMurtry | 18 October 2018 |
| Will Lee | 1 June 2020 |
| Allen Roberts | 20 April 2021 |

## Non-executive Director letters of appointment

| Non-executive Director | Date of current service contract |
|---|---|
| John Deer | 3 February 2020 |
| Carol Chesney[1] | 4 October 2012 |
| Catherine Glickman | 20 July 2018 |
| Sir David Grant | 13 April 2012 |
| John Jeans[2] | 8 April 2013 |
| Juliette Stacey | 20 December 2021 |
| Stephen Wilson | 31 March 2022 |

1 Carol Chesney resigned as a Non-executive Director with effect from 31 December 2021.

2 John Jeans resigned as a Non-executive Director with effect from 28 February 2022.

## Statement of voting at general meeting

At the AGM held on 30 September 2020, 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 | 59,462,931 | 92.78 | 4,627,677 | 7.22 | 64,090,608 | 894,466 |

At the AGM held on 24 November 2021, 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 | 61,720,584 | 97.15 | 1,812,708 | 2.85 | 63,533,292 | 476,411 |

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

**Catherine Glickman**
Chair of the Remuneration Committee

15 September 2022

# 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.

Our principal activities are the design, manufacture, sale, distribution and service of manufacturing technologies products and services, and analytical instruments and medical devices, as outlined on page 3 of the Strategic Report. We have overseas manufacturing, marketing, and distribution subsidiaries to manufacture some of our products and support customers in the following major markets outside the UK:

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

We also have representative offices in Indonesia, Slovakia, Thailand and Vietnam.

In addition, in Slovenia we have a joint venture, RLS Merilna tehnika d.o.o. (RLS) and a subsidiary which designs and arranges the procurement of application-specific integrated circuits.

Further information is available on our website: **www.renishaw.com**.

## Research and development

We continue to invest significantly in developing future technologies, with R&D activities located primarily in the UK. We develop technologies which lead to patented products and methods to help deliver our segmental strategies. You can find further information on R&D expenditure in note 4 on page 140. The amount of R&D expenditure capitalised, the amount amortised, and impairment charges in the year are given in note 12 on page 148.

## Dividends

The Directors propose a final dividend of £41,198,315 or 56.6p per share which, together with the interim dividend of £11,646,167 or 16.0p per share, gives a total dividend for the year of £52,844,482 or 72.6p per share. In comparison, last year the Board agreed a total dividend for the year of £48,040,438 or 66.0p per share.

As at 30 June 2022, 14,396 shares were held by the Renishaw plc Employee Benefit Trust (EBT). These shares may be used to satisfy awards made to employees under our employee share plan - our Deferred Annual Equity Incentive Plan (DAEIP). Under the terms of the EBT, any dividends payable on these shares are waived.

## Directors and their interests

The Directors at the end of the year are listed on pages 74 and 75. Carol Chesney and John Jeans served as Directors until 31 December 2021 and 28 February 2022 respectively. In accordance with the provisions of the Governance Code, all Directors will retire and, being eligible, offer themselves for re-election to office - or, in the case of any Director who was first appointed to the Board since the last AGM, election to office - at the AGM to be held on 30 November 2022. Details of these Directors are shown on pages 74 and 75 and full biographical details are available at **www.renishaw.com/directors**.

The rules on appointment, reappointment, and retirement by rotation of the Directors and their powers are set out in our Articles of Association. There are no powers given to the Directors that are regarded as unusual.

We have listed the Directors' interests in our share capital (with the equivalent number of voting rights), as notified to us, on page 107. There has been no change in the holdings shown on page 107 in the period 1 July 2022 to 15 September 2022.

All the interests were beneficially held, except for 2,278,161 shares (2021: 2,278,161 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 a voting agreement. Under this agreement the parties 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 and Directors' indemnities

Subject to the provisions of the Companies Act 2006, our Articles of Association provide for our Directors and officers to be appropriately indemnified. In accordance with our Articles of Association and to the extent permitted by law, Directors (excluding the founders) have been granted an indemnity in respect of loss and liability incurred as a result of their office. Neither our indemnity nor insurance provides cover in the event that a Director is proven to have acted dishonestly, fraudulently or negligently. Copies of all indemnities granted are available for inspection at our registered office.

We also maintain insurance for our Directors and officers in respect of their acts and omissions during the performance of their duties.

## Responsibility statement

As required under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, a statement made by the Board regarding the preparation of the financial statements is set out on page 114.

## Share capital and change of control

Details of our share capital, including rights and obligations, is given in note 26 to the Financial statements. We are not a party to any significant agreements that might terminate upon a change of control.

A shareholder authority for the purchase of a maximum of 10% of our own shares was in existence during FY2022. However, we did not purchase any of our own shares during that time.

## Auditor

A resolution to reappoint Ernst & Young LLP as our auditor 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 our auditor is unaware. 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 our auditor is aware of that information.

## Annual General Meeting

Shareholders will receive the notice convening our AGM and an explanation of our proposed resolutions separately. At our meeting, we will be seeking shareholder approval for, among other things, the ability to make market purchases of our own ordinary shares, up to a total of 10% of the issued share capital.

## Substantial shareholdings

Apart from the shareholdings (and corresponding voting rights) of Sir David McMurtry and John Deer (36.23% and 16.59% 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. These represent 3% or more of the voting rights attached to issued shares, as at 30 June 2022. Please note that these holdings may have changed since being notified to us. 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% | 3,465,738 |
| 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 2022 to 15 September 2022.

## Employees

The retention of our highly skilled people is essential to our future. Our Directors place great emphasis on the continuation of our training programme. Health and safety matters are another key area of focus, and well-established systems of safety management are in place to safeguard our people, customers and others.

Our employment policies are designed to provide equal opportunities irrespective of race, religion, gender, age, socio-economic background, disability or sexual orientation. We give full and fair consideration to applications for employment from people with disabilities, where suitable for appropriate vacancies. Any of our people who become disabled while with us will be given every opportunity to continue their employment through reasonable adjustment to their working conditions and equipment. Where this is not possible, we offer retraining for other positions. They will also be afforded opportunities to continue training and gain promotion on the same basis as any of our employees.

We set out details on how the Directors have engaged with our people and had regard to their interests in various sections of this Annual Report, including pages 54–56. You can also find information provided to our people on the performance of the business, consultation with employees and performance incentives in various sections of the Annual Report, including pages 101 and 102.

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

## Suppliers, customers and other stakeholders

We have set out details on how the Directors have had regard to the need to promote our relationships with suppliers, customers, and others on pages 67 and 68. In this same section, we also set out the effect of that consideration on the Directors' principal decisions during FY2022.

## Political donations

We did not make any political donations during the year.

## Events after the balance sheet date

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

## Financial risk management, objectives and policies

We have set out descriptions of the following in note 25 to the Consolidated financial statements on pages 158–163:

- the use of financial instruments;
- our financial risk management objectives and policies;
- policies in relation to hedge accounting; and
- exposure to market risk, including credit and liquidity risk.

## Controlling shareholders' arrangements

The LR require that premium listed companies with 'controlling shareholders' must enter into a relationship agreement containing specific independence provisions. A controlling shareholder is 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 a company's general meeting.

The independence provisions required by the LR 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 LR; 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 LR.

Sir David McMurtry (Executive Chairman, 36.23% shareholder) is a controlling shareholder. John Deer (Non-executive Deputy Chairman, together with his wife, 16.59% shareholder) is also a controlling shareholder by virtue of a long-standing voting agreement between him (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 LR. We have notified the FCA of this, as required by the LR.

The controlling shareholders have informed the Board that they are not willing to enter into a relationship agreement. 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 there is no relationship agreement in place, the LR provide that certain enhanced oversight measures will apply.

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

The FCA has given us guidance 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). The FCA has also advised on other ordinary course corporate matters, such as the payment of dividends to all of our shareholders. The FCA has confirmed that either: (i) these are not transactions or arrangements that fall within the enhanced oversight measures; or (ii) they will permit a modification of the enhanced oversight measures so these will not apply, provided the arrangements remain in the ordinary course of business and, in the case of salary reviews and bonuses, they fall within the small transaction exemption in the Annex to LR 11. This guidance continues to apply in respect of remuneration awarded under our existing remuneration policy (see pages 98–100).

## Greenhouse gas emissions and energy consumption

Disclosures concerning GHG emissions and energy consumption are set out on pages 57 and 59.

## 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 | Not applicable |
| (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, starting on page 92 |
| (12) | Shareholder waivers of dividends | Other statutory and regulatory disclosures, starting on page 111 |
| (13) | Shareholder waivers of future dividends | Other statutory and regulatory disclosures, starting on page 111 |
| (14) | Agreements with controlling shareholders | Other statutory and regulatory disclosures, starting on page 111 |

Signed on behalf of the Board.

**Jacqueline Conway**
General Counsel & Company Secretary

15 September 2022

Renishaw plc
Registered number 01106260
England and Wales

# Directors’ responsibilities

## Statement of Directors’ responsibilities in respect of the Annual Report and Financial statements

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 are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards, and have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 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;
- state whether they have been prepared in accordance with applicable accounting standards; 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 safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

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 the relevant laws and regulations.

## Directors’ confirmations

Each of the Directors, whose names and functions can be found on pages 74–75, confirms that, to the best of his or her 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.

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.

Signed on behalf of the Board.

**Allen Roberts**
Group Finance Director

15 September 2022

# 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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- 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.

We have audited the financial statements of Renishaw plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2022 which comprise:

| **Group** | **Parent Company** |
|---|---|
| Consolidated balance sheet as at 30 June 2022 | Balance sheet as at 30 June 2022 |
| 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.31 to C.46 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 30 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 UK adopted international accounting standards. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the Group and Parent 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.

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.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- We understood the process undertaken by management to perform the going concern assessment.
- We obtained management's going concern assessment, including the cash flow forecasts for the going concern period to 30 September 2023. The Group has modelled a base scenario; seven 'severe but plausible' downside scenarios linked to the principal risks identified by management including supply chain dependencies, reductions to revenue due to industry fluctuations, increase in costs and reduction in revenue as a result of economic and political uncertainty, impact of a cyber-attack, loss of manufacturing output, exchange rate fluctuations, and climate change; and a reverse stress test based on liquidity in order to determine how much additional downside in trading could be absorbed before the Group exhausted its net cash and bank deposit balances;

# Independent Auditor's Report to the members of Renishaw plc continued

- We assessed the appropriateness of the duration of the going concern assessment period to 30 September 2023;
- We evaluated the key assumptions underpinning the Group's base case forecast. In particular we compared the revenue growth projections to external industry forecasts and latest economic data for indicators of contradictory information;
- We considered the results of management's reverse stress test, assessing whether such a scenario was remote with reference to management's forecasts, the Group's historic trading and other information obtained throughout the audit, such as how the Group has responded to market challenges;
- We analysed management's historic revenue and profit forecasting accuracy;
- We tested the clerical accuracy of the models used to prepare the Group's going concern assessment and the appropriateness of the model for this purpose; and
- We assessed the appropriateness of the Group's disclosures concerning the going concern basis of preparation.

We observed that the Group held net cash and bank deposits of £253 million and had borrowings of £6 million at 30 June 2022 which are not subject to financial covenants. Revenue increased by 18.9% to £671 million (2021: £566 million) and the Group generated a statutory profit before tax of £146 million for the year ended 30 June 2022 (2021: £139 million). Management's reverse stress test indicated the Group would have to suffer a significant decline in revenue, to £19 million per month, a level worse than at any point during FY2021 and FY2022, before it exhausted its available liquidity.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for the period to 30 September 2023.

In relation to the Group and Parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## Overview of our audit approach

| | |
|---|---|
| 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.<br>– The components where we performed full or specific audit procedures accounted for 98% of Adjusted profit before tax (as defined in Note 29 of the financial statements), 88% of Revenue and 93% of Total assets. |
| Key audit matters | – Management override via revenue recognition through the posting of manual journals.<br>– Assessment of hedge effectiveness of forward currency contracts.<br>– Valuation of the defined benefit pension liability and impact of amendment to the UK Trust Deed. |
| Materiality | – Overall Group materiality of £8.2m which represents 5% of Adjusted profit before tax. |

## An overview of the scope of the Parent Company and Group audits

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company 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 company.

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 55 reporting components of the Group, we selected 13 components covering entities within the UK, Ireland, USA, Japan, Germany, Hong Kong, China, India, Spain, Italy and South Korea which represent the principal business units within the Group.

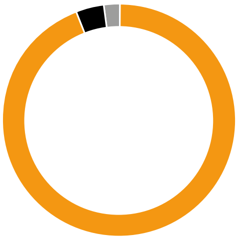
Of the 13 components selected, we performed an audit of the complete financial information of eight components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("specific scope components"), we performed audit procedures on specific 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 98% (2021: 95%) of the Group's Adjusted profit before tax, 88% (2021: 89%) of the Group's Revenue and 93% (2021: 93%) of the Group's Total assets. For the current year, the full scope components contributed 94% (2021: 90%) of the Group's Adjusted profit before tax, 80% (2021: 80%) of the Group's Revenue and 86% (2021: 86%) of the Group's Total assets. The specific scope components contributed 4% (2021: 5%) of the Group's Adjusted profit before tax, 8% (2021: 9%) of the Group's Revenue and 7% (2021: 7%) 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 accounts tested for the Group.

Of the remaining 42 components that together represent 2% of the Group's Adjusted profit before tax, none are individually greater than 0.7% of the Group's Adjusted profit before tax. For these components, we performed other procedures, including analytical review of revenue for eight review scope components where revenue exceeded Group performance materiality, aggregated overall analytical review for the remaining components, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

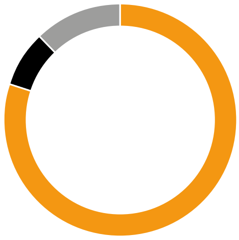
The charts below illustrate the coverage obtained from the work performed by our audit teams.

Adjusted profit before tax



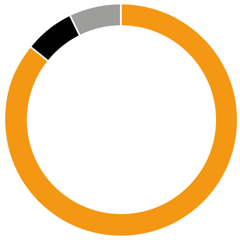
94% Full scope components
4% Specific scope components
2% Other procedures

Revenue



80% Full scope components
8% Specific scope components
12% Other procedures

Total assets



86% Full scope components
7% Specific scope components
7% Other procedures

## Changes from the prior year

There was no change in our scoping of full and specific scope components compared to the prior year. Two review scope components were added, and one review scope component was removed from our scope, resulting in an increase from seven review scope components in the prior year to eight in the current year.

## 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 Team. Of the five specific scope components, audit procedures were performed on four of these directly by the Primary Team. For the five full scope components and one 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.

As a result of travel restrictions caused by the COVID-19 pandemic, full scope locations were last physically visited by the Primary Team during the 30 June 2019 audit cycle. Following easing of certain travel restrictions, during the current year's audit cycle, visits were undertaken by the Primary Team to the full scope components in Ireland, Germany and the USA. These visits involved meeting with local management and touring the Group's sites in these locations. The Primary Team were unable to visit China, Hong Kong and Japan during the current year's audit cycle due to continued travel restrictions in the region. The Primary Team had also planned to visit India in August 2022 however this visit was not undertaken due to an unforeseen change in Senior Statutory Auditor in July 2022. Audit procedures for the remaining full and specific scope components were performed directly by the Primary Team in the UK.

For those component teams in locations not physically visited in the year, the Senior Statutory Auditor and other members of the Primary Team completed their reviews remotely. We held video conference meetings with component teams to discuss audit issues arising from their work and used our global audit software to complete virtual reviews of our local audit teams' working papers, particularly focusing on the Group's audit risk areas. The Senior Statutory Auditor or Primary Team delegates attended closing meetings with component teams and local management via video conferencing. The Senior Statutory Auditor was also able to leverage his prior knowledge of components obtained through his previous role on the audit as the Engagement Quality Control Reviewer.

The Primary Team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant 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.

## Climate change

There has been increasing interest from stakeholders as to how climate change will impact Renishaw plc. The Group has determined that the most significant future impacts from climate change on their operations will be from transition risks impacting plans to achieve Net Zero commitments and from large-scale natural hazards. These are explained on pages 60–61 in the required Task Force for Climate-related Financial Disclosures and on page 48 in the principal risks and uncertainties, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

# Independent Auditor's Report to the members of Renishaw plc continued

As explained in Note 1 to the financial statements on critical accounting judgements and estimation uncertainties, management considered the effect of climate change, including their own Net Zero commitment and concluded that climate change did not have a material effect on the key judgements and estimates for the year ended 30 June 2022, but recognise that climate change may pose a greater risk to the Group over time. Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of uncertainty over these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

Our audit effort in considering climate change was focused on evaluating management's assessment of the impact of climate risk, on the areas of key estimation uncertainties and critical accounting judgements and the adequacy of the Group's disclosures in the financial statements. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst the Group has stated its commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050, the Group are currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore as set out above the potential impacts are not fully incorporated in these financial statements.

## 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.

In the prior year, our auditor's report included a key audit matter in relation to management override of controls through manual journal entries posted through the consolidation process to misstate financial performance. In the current year, we concluded this risk has decreased due to the reduced level of manual intervention required to be made by management through the consolidation process as a result of increased automation. As a result, this matter did not require significant direction of efforts of the engagement team in the current year.

The key audit matter in relation to the defined benefit pension liability has been expanded in the current year to address the accounting impact of the amendment to the UK Trust Deed. This element of the key audit matter is not expected to recur in future periods

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Management override via revenue recognition through the posting of manual journals (£671.1 million, 2021: £565.6 million)**<br>**Risk direction**<br>Refer to the Accounting policy (page 137); and Note 2 of the Consolidated Financial Statements (page 138)<br>There is an incentive for management to manipulate the revenue recognised through manual journals posted throughout the year, to improve financial performance<br>We consider that the vast majority of the Group's revenue transactions are non-complex by nature, with revenue recognised at a point in time with no significant judgement required to be exercised by management. | We obtained an understanding of the processes and assessed the design and implementation of key controls for each of the material revenue streams.<br>To test the appropriateness of revenue recognition throughout the period, our audit procedures included:<br>– For components contributing 87% of total Group revenue, we used data analytics to analyse 100% of the revenue transactions recorded in the year, testing the correlation between revenue, trade receivables and cash and performing tests of detail over non-correlated transactions.<br>– We verified that cash receipts that correlate to trade receivables are recorded accurately and relate to revenue, through testing a sample of cash journal entries to cash received during the period, and testing a sample of trade receivable balances at year end to debtor confirmations or cash received post year end or evidence of delivery of goods to the customer.<br>– We used data analytics to identify potential instances of management override, including:<br>i) manual journals based on the transaction type<br>ii) journals recorded outside of normal working hours<br>iii) journals posted by inappropriate individuals<br>– These journals were then tested to supporting evidence, selecting those exceeding 10% of performance materiality for manual journals.<br>– We performed representative sampling for the one remaining in-scope component where we did not use data analytics, tracing revenue transactions recorded throughout the year to cash receipts. We also performed the same procedures, as listed above, for manual journal entries to test for potential instances of management override.<br>In addressing this key audit matter, audit procedures were performed by a combination of the Primary Team and each of the component audit teams under our supervision.<br>We performed full and specific scope audit procedures over components, which covered 88% of total consolidated Group revenue, of which components contributing 53% of Group revenue were tested by overseas component teams under our supervision. | Based on the procedures performed, revenue recognised in the period is appropriate.<br>We noted a strong correlation between revenue, trade receivables and cash across the Group.<br>Our procedures did not identify instances of inappropriate management override across the Group. |

# Independent Auditor's Report to the members of Renishaw plc continued

**Risk**

**Assessment of hedge effectiveness of forward currency contracts (£19.9 million liability, 2021: £15.4 million asset)**

**Risk direction**

Refer to the Audit Committee Report (page 87); Accounting policy (page 158); and Note 25 of the Consolidated Financial Statements (page 162)

At 30 June 2022, the Group had designated cash flow hedges for forward currency contracts with a net fair value liability of £19.9 million (2021: asset of £15.4 million).

Of these forward currency contracts at 30 June 2022, a net fair value liability of £5.5 million (2021: asset of £1.4 million) related to forward currency contracts deemed ineffective as a cash flow hedge.

As more fully described in Note 25 to the Financial Statements, the Group uses forward currency contracts to manage risks arising from changes in foreign currency exchange rates relating to forecast sales.

The Group designates certain derivatives as hedges of future cash flows. 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 applying hedge accounting and measuring hedge effectiveness could result in a misstatement between the income statement and other comprehensive income.

The risk of hedge ineffectiveness has decreased in the current year due to improvements in global macroeconomic conditions and business performance, as markets recover from the COVID-19 pandemic, resulting in increases to the 'highly probable' revenue forecasts of the hedged items.

**Our response to the risk**

We obtained an understanding of management's process and assessed the design and implementation of key controls for applying hedge accounting and estimating hedge effectiveness.

To test the appropriateness of applying hedge accounting and the assessment of hedge effectiveness, our audit procedures included:

- Selecting a sample of hedge accounting relationships with each counterparty, for each individual currency, as we determined the population is homogenous.
- For our selected sample of hedge accounting relationships, involving EY treasury specialists as part of our audit team to:
  - i) assess the appropriateness of the methodology used by management to apply hedge accounting. We inspected management's hedge documentation and assessed the economic relationship to ensure compliance with the requirements of IFRS 9; and
  - ii) independently re-perform the ineffectiveness measurement. We compared the result of our assessment to management's, to evaluate whether there were any additional ineffective hedges at 30 June 2022.
- Assessing management's revenue forecasts, including the extent to which these have been deemed to be 'highly probable', by evaluating management's historical forecasting accuracy and comparing the revenue growth assumptions to third party industry forecasts; and
- Evaluating the disclosures in the Group financial statements are in accordance with IFRS 7 'Financial Instruments: Disclosures'.

In addressing this key audit matter, audit procedures were performed by the Primary Team.

**Key observations communicated to the Audit Committee**

We concluded that the Group's application of hedge accounting for forward currency contracts and the measurement of hedge effectiveness were in accordance with the requirements of IFRS 9.

We agreed with management's assessment that, based on the 'highly probable' revenue forecast, there are no additional hedges that have become ineffective at 30 June 2022.

The disclosures provided in Note 25 to the Group financial statements are in accordance with IFRS 7.

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Valuation of the defined benefit pension liability and impact of the amendment to the UK Trust Deed (£174.5 million, 2021: £255.1 million)**<br><br>**Risk direction**<br><br>Refer to the Audit Committee Report (page 87); Accounting policy (page 155); and Note 23 of the Consolidated Financial Statements (page 155)<br><br>A total defined benefit pension liability of £174.5 million was recognised at 30 June 2022 (2021: £255.1 million) in respect of the Group's schemes in the UK, USA and Ireland. There is an increased risk of material misstatement due to the size of the liability, the level of judgement involved in estimating the key assumptions to calculate the liability, and the fact that relatively small movements in assumptions can result in a material impact to the financial statements.<br><br>As more fully described in Note 23 of the Group Financial Statements, during the year a Deed of Amendment was effected to the Trust Deed and Rules governing the UK Scheme. The changes included:<br>i) Augmenting members' benefits, resulting in the recognition of an £11.7 million past service cost in the Consolidated income statement<br>ii) Granting the Company the unconditional right to a refund of a scheme surplus. This has resulted in gains recognised in the Consolidated statement of comprehensive income and expense of £3.3 million for the removal of the asset ceiling restriction and £19.6 million for the reversal of the additional liability for minimum funding requirements recognised in the prior year under IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.'<br><br>The complexity in accounting for the change in scheme rules could result in a misstatement of the defined benefit liability.<br><br>As a result, the risk has increased due to the complexity of these changes in the current year. | We obtained an understanding of the processes and assessed the design and implementation of key controls for estimating the defined benefit pension liability.<br><br>To test the appropriateness of the defined benefit pension liability, our audit procedures included:<br>– Evaluating the competence and objectivity of management's external actuarial specialists and assessing the completeness and accuracy of the member data used by the actuaries to estimate the scheme liabilities by testing the clerical accuracy of the member data schedules, checking there were no additions to the participants in the year, and performing an analytical review of the year-on-year movements in the data.<br>– Involving EY actuarial specialists as part of our audit team to:<br>i) Independently estimate an acceptable range for each of the significant assumptions used in estimating the UK and Irish scheme liabilities, which included the discount rate; rate of inflation; and mortality assumptions. We compared each of the significant assumptions used by management's actuarial specialist to our independent acceptable range;<br>ii) Perform a roll forward of the UK and Irish scheme liabilities from 30 June 2021 to 30 June 2022 and independently reconcile the output to the amounts calculated by management's external actuarial specialist.<br>– Comparing the key assumptions used in the estimate of the US scheme liability to appropriate market data and performing an analytical review of the change in each key assumption compared to the previous period. This approach is applied given the smaller size of the US scheme liability.<br>– Inspecting the Deed of Amendment to the Trust Deed and Rules and confirming the changes to the scheme were consistent with our understanding.<br>– Involving our EY actuarial specialists to determine whether the augmentation of benefits had been correctly calculated in line with the amended rules.<br>– Assessing whether the augmentation of benefits met the definition of a past service cost under IAS 19 'Employee Benefits' and evaluating whether the cost was appropriately recognised in the Consolidated income statement as opposed to other comprehensive income.<br>– Inspecting management's paper and their legal advice obtained in relation to whether the amended rules granted the Company the unconditional right to a refund of surplus under IFRIC 14.<br>– Evaluating the disclosures in the Group financial statements are in accordance with IAS 19.<br><br>In addressing this key audit matter, audit procedures were performed by the Primary Team | We concluded management's external actuarial specialists were competent, the key assumptions used to estimate the defined benefit pension liability are within our acceptable range and the movement in the liability from the prior year to current year is reasonable.<br><br>The scheme augmentation has been correctly accounted for, under IAS 19, as a past service cost in the Consolidated income statement.<br><br>The accounting treatment for the impact of the change in scheme rules on the Company's unconditional right to a refund of surplus is appropriate and in accordance with IAS 19 and IFRIC 14.<br><br>The disclosures provided in Note 23 to the Group financial statements are in accordance with IAS 19. |

# Independent Auditor's Report to the members of Renishaw plc continued

## 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 £8.2 million (2021: £6.0 million), which is 5% (2021: 5%) of Adjusted profit before tax. We believe that Adjusted profit before tax is the most relevant performance measure to the stakeholders of the Group. Adjusted profit before tax excludes fair value gains and losses on financial instruments that are not effective for hedge accounting. These instruments are significantly impacted by the volatility in valuation and this is outside the Group's control and is not reflective of the Group's recurring performance. A significant past service cost arising from a change to the UK defined benefit pension scheme rules in the year has also been excluded from Adjusted profit before tax, along with smaller adjustments for the revised estimate of a restructuring related provision and final third-party FSP (formal sale process) costs. We consider these costs to be non-recurring by nature and therefore not reflective of the Group's recurring or underlying performance.

| | |
|---|---|
| Starting basis | • Profit before taxation – £145.6m |
| Adjustments | Adjustments (refer to Note 29) – increase basis by £18.1m<br>• Fair value loss on financial instruments £8.3m<br>• Pension past service cost £11.7m<br>• Third-party FSP costs (£0.2m)<br>• Revised estimate of restructuring provision (£1.7m) |
| Materiality | • Total adjusted profit before tax £163.7m<br>• Materiality of £8.2m (5% of materiality basis) |

We determined materiality for the Parent Company to be £8.9 million (2021: £8.0 million), which is 1% (2021: 1%) of equity.

Our initial planning materiality was calculated at £7.9 million based on management's FY2022 forecast of Adjusted profit before tax. During the course of our audit, we reassessed initial materiality, considering the performance of the business and our final planning materiality, based on actual results for the year ended 30 June 2022, is £8.2 million (2021: £6.0 million).

### 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% (2021: 75%) of our planning materiality, namely £6.2m (2021: £4.5m). 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 £0.4m to £3.7m (2021: £0.3m to £2.9m).

### 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 £0.4m (2021: £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 184, including the Strategic Report set out on pages 1 to 69, Governance set out on pages 70 to 114, and Shareholder information set out on pages 181 to 184, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

## 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

## Corporate Governance Statement

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 81;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on pages 50 and 51;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on pages 50 and 51;
- Directors' statement on fair, balanced and understandable set out on page 114;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 39 to 49;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 81; and
- The section describing the work of the audit committee set out on pages 85 to 91.

# Independent Auditor's Report to the members of Renishaw plc continued

## Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 114, 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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- 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 (UK adopted international accounting standards, FRS 101 and the Companies Act 2006, and the UK Corporate Governance Code) and the relevant tax compliance regulations in the UK and overseas jurisdictions in which the Group operates. 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, General Data Protection Regulation 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 enquiries of management, internal audit, the Group's legal counsel and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee and noted that there was no contradictory evidence.
- 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 and/or 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.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved: making enquires of management, including the Group's legal counsel, internal audit and full scope component management, of known instances of non-compliance or suspected non-compliance with laws and regulations; attendance at audit committee meetings; review of committee and board meeting minutes, including board meeting minutes for full scope components to identify any non-compliance with laws and regulations; journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business; and, review of the volume and nature of complaints received by the whistleblowing hotline during the year. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.
- We communicated regularly with the full scope component teams and attended key meetings with the component audit teams and local management in order to identify and communicate any instances of non-compliance with laws and regulations.

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

- Following the recommendation from the audit committee we were appointed by the Parent 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 six years, covering the years ending 30 June 2017 to 30 June 2022. Paul Mapleston was replaced as Senior Statutory Auditor for the year ending 30 June 2022 due to partner rotation requirements. However, there was a subsequent unforeseen change in Senior Statutory Auditor midway through the current year audit cycle. As this change was made in July 2022, the new Senior Statutory Auditor, Anup Sodhi, retrospectively reviewed and agreed the audit strategy, in order to be satisfied the planned audit approach appropriately addressed the risk of material misstatement to the Group financial statements. The new Senior Statutory Auditor was previously involved in the audit as Engagement Quality Control Reviewer and is therefore required to rotate subsequent to the year ending 30 June 2023.
- 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.

**Anup Sodhi**
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton

15 September 2022