RENISHAW
apply innovation™

Fit for **the future**

Directors' Remuneration Policy 2020

Directors' remuneration policy

Clarifications in respect of the Directors' remuneration policy

The following clarifications have been made to the Directors' remuneration policy:

- Minimum in-post shareholding requirement: Future executive director (ED) appointments being required to build towards and maintain a shareholding of at least 200% of salary.
- Recruitment remuneration: The maximum award opportunity under any long-term incentive for a new ED appointment, for the period of the current policy (3 years), being 200% of salary.

Further information on the above clarifications can be found in the stock market announcement released on 24 September 2020 at 07:00 under RNS No. 9344Z. The Directors' remuneration policy is set out below in unedited full text.

Executive Directors' remuneration policy

This section of the Directors' remuneration report sets out the proposed Directors' remuneration policy of the Company, to be approved at the 2020 AGM. This policy is largely unchanged from that approved by the shareholders at the 2017 AGM and published most recently in the 2019 Directors' remuneration report. If approved by shareholders, this 2020 policy will come into force after the 2020 AGM, for a period of up to three years. Changes to the 2017 policy are also summarised in a separate table on page 5. The 2020 policy was determined by the Committee after reviewing the impact of the 2017 policy, key governance factors, and taking account of shareholder feedback. The Committee further reviewed the policy against the six themes set out in paragraph 40 of the 2018 UK Corporate Governance Code: clarity, simplicity, risk, predictability, proportionality and culture. The Committee concluded that:

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

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

Executive Directors' policy table

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

Our total remuneration policy comprises the following constituent elements:

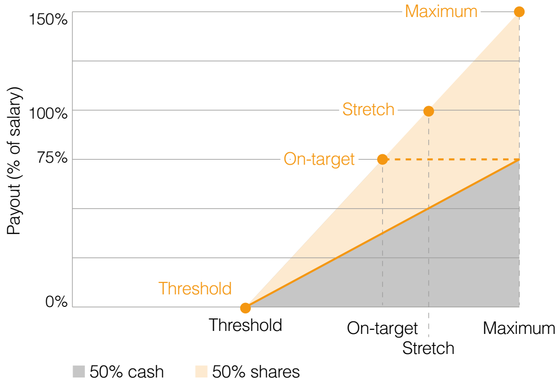
Base salary	
Purpose and relevance to strategy	To provide a competitive remuneration package to motivate and retain Executive Directors of the required calibre to help the Group meet its objectives to deliver the Group's strategy.
Operation	Renishaw aims to pay base salaries between median and upper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

Benefits	
Purpose and relevance to strategy	To provide market-competitive benefits to motivate and retain Executive Directors and to support them to give maximum attention to their role.
Operation	Benefits provided on an ongoing basis include: • a car or car allowance; • private medical insurance; • life assurance; and • long-term disability cover. If, on the appointment of a new Executive Director, relocation is required to the director's place of work, reasonable and proportionate relocation support may be provided.
Maximum	Excluding accommodation and relocation costs, benefits are capped at £50,000 per annum.
Performance measures	Not applicable.

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

Directors' remuneration policy continued

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



Maximum	150% of salary for non-founder Executive Directors, and 100% of salary for Sir David McMurtry. Any award for Sir David McMurtry will be paid in cash.
Performance measures	Based on Group performance, primarily measured by Adjusted PBT (one of the key measures of performance used by the Board). The Committee may introduce other metrics (financial and non-financial) to reflect the Group's priorities, or make adjustments to appropriately reflect underlying performance, provided that the bonus will always be subject to achievement of the threshold financial performance. Targets will be set around the Group's internal strategic plan. Any non-financial metrics shall not form more than 25% of the overall bonus opportunity.

Pension

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

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

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

Directors' remuneration policy continued

Key changes from the 2017 Directors' remuneration policy

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

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

Approach to recruitment remuneration

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

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

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

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

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

Committee discretion in exceptional circumstances

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

Service contracts and policy on payment for loss of office

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

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

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

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

Directors' remuneration policy continued

Statement of consideration of employment conditions elsewhere in the Group

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

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

Statement of consideration of shareholder views

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

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

Employee engagement

A variety of stakeholder views are taken into account when determining executive pay, including those of our shareholders, colleagues, and external bodies. Further details on how we engage with, and consider the views of, each of these stakeholders are set out on pages 38 and 39 of the Annual Report 2020.

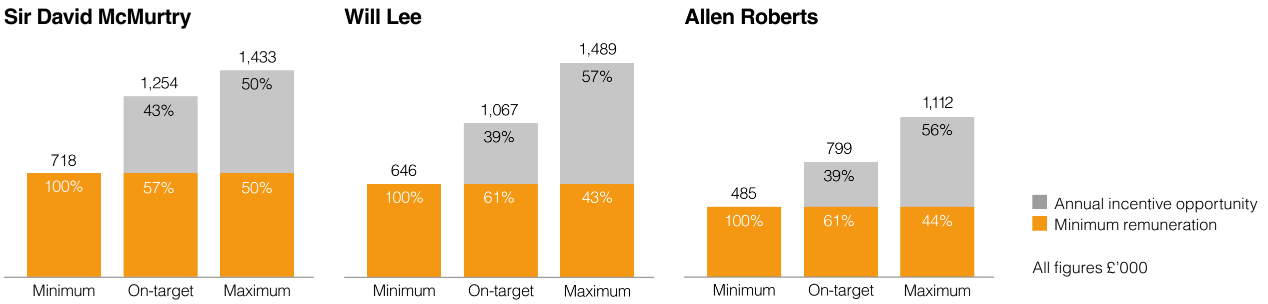
The Remuneration Committee is supportive of the growing focus on engaging the employee voice, which has accompanied recent changes to the UK Corporate Governance Code. The Chair of the Committee is the ambassador for our workforce engagement activities and has attended a number of meetings with employee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

Illustrations of application of remuneration policy

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

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

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



Non-executive Directors' policy table

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

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

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

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

RENISHAW
apply innovation™

Renishaw plc
New Mills, Wotton-under-Edge,
Gloucestershire GL12 8JR
United Kingdom
T: +44 (0) 1453 524524
F: +44 (0) 1453 524401
E: uk@renishaw.com

For more information visit:
www.renishaw.com