Strategic report

The directors present their strategic report for the year ended 30 June 2021.

Principal activity

Renishaw UK Sales Limited ("the Company") sells, distributes and services high-precision metrology and healthcare products. The Company sells to third-party customers in the Renishaw Group's UK and Rest of World territories (UKRoW). These comprise of UK & Ireland; Continental Europe excluding Germany, Italy, France, Switzerland and Austria; the Middle East and Africa.

The Company also sells certain products and services globally to other group undertakings.

Review of the business & Financial Results

For the year to 30 June 2021 revenue was £93,594,863, with an operating profit of £1,917,406 and a retained profit of £1,516,945. The level of revenue was below our expectations at the beginning of the year, primarily as a result of reduced demand during the Covid-19 pandemic. Despite reduced revenue compared to the prior year, profitability improved following a reduction in operating costs.

The balance sheet shows net assets of £7,581,212 and net current assets of £2,104,482.

The directors monitor turnover and profitably against budgets. There are no specific financial or non-financial KPIs relating to the Company. Further information on the Group's analysis using KPI's can be found in the Renishaw plc annual report.

Future Developments

Despite the economic uncertainties the board remains confident in the future prospects of the business.

Streamlined Energy and Carbon Reporting (SECR)

The company is exempt from the UK Streamlined Energy and Carbon Reporting (SECR) regulations. The performance of the Renishaw plc Group in respect of these regulations can be found in the Group's annual report on pages 54 and 55.

Section 172 statement

Under the Companies Act 2006, the directors are required to explain how they have complied with their duty to have regard to the matters in section 172 (1) (a)-(f) (Section 172) of the Companies Act 2006. Under Section 172 a director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing so the director must have regard to other matters including:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and the environment;
- the company's reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The board takes the interests of stakeholders into account when making decisions. The relevance of each stakeholder group may increase or decrease by reference to the issue in question, so the board seeks to understand the needs and priorities of each group during its discussions. This, together with the combination of the consideration of long-term consequences of decisions and the maintenance of our reputation for high standards of business conduct, has always been integral to the way the board operates.

Having carefully considered the Company's business, the board still considers its key stakeholders to be its workforce and customers.

Strategic report (**continued**)

Directors are informed of their statutory duties as part of their induction when appointed to the board and reminded that they owe their duties to the Company and not to the Renishaw Group as a whole, or the parent company. Stakeholder considerations is a standing agenda item to board meetings, acting as a prompt to ensure such matters are considered on an ongoing basis. Regular reports on employee headcount, customer and supplier delivery performance are also received as part of board meetings to support the board in considering the impact of their decisions on stakeholders. During another challenging year, the below have been some of the principal matters discussed and how stakeholders' views have been considered:

- **Hybrid working policy**: The implementation of a hybrid working policy for employees was discussed during the year. During the Covid-19 pandemic employees were encouraged to work from home where possible for their wellbeing. This allowed directors to consider the practicalities and effectiveness of the arrangement, which later informed the implementation of the hybrid working policy. Considerations were given to customer service levels, employee efficiency, the long-term performance of the Company, and employee preferences when agreeing suitable hybrid working patterns.
- **Business model**: The change from an agency to a flash-title business model for several EMEA territories serviced by the Company was discussed by the board throughout the year. The preference of a large proportion of customers in these jurisdictions wanting to deal directly with a local entity post Brexit was a key factor when considering this change. Given this customer sentiment, the directors were of the belief that the change in business model would be in long-term interests of the Company as it would protect business and reduce the potential loss of customers.
- **Supply chain**: The board also considered the impact of supply chain shortages on the Company and its stakeholders, including how its impact could be reduced. Amending stock parameters, increasing the range of stock, and holding more stock in the Company's EU-based warehouse were all mitigations put in place to support customers. The board were also kept informed by management of communications to customers and employees on this matter.

As part of the Renishaw Group's wider governance arrangements, matters that the directors are responsible for considering under Section 172 have also been considered by the board of Renishaw plc in relation both to the Group and the Company, including on the principal decisions taken by the Group during the financial year. An explanation of how the Renishaw plc board has considered those matters (for the Group and the Company) is set out on pages 56 to 57 of the Renishaw plc's 2021 Annual Report, which does not form part of this report. Stakeholder engagement was also undertaken using Group resources. Details of the engagement that took place with the Company's stakeholders at Group level is set out on pages 46 to 47 of Renishaw plc's 2021 Annual Report. The board took account of the outputs of these Group-wide engagement activities in its decision making.

Principal risks and uncertainties

The directors consider the below to be the principal risks and uncertainties.

(a) Current trading levels and order book

Revenue growth is unpredictable and orders from customers generally involve short-lead times.

The Group products that the Company distributes, remain world leading in the field of metrology. The range of products is expanding and diversifying. The Company balance sheet is strong and is expected to remain strong with net current assets of £2,104,482 and a positive cash position.

(b) Brexit

The significant ongoing risks in relation to Brexit are:

- Increased uncertainty around growth, inflation, interest and currency rates.
- Potential changes to UK and EU-based law and regulation.

Strategic report (***continued***)

To mitigate against the potential impacts of the UK leaving the EU, we have taken actions in recent years including establishing a warehouse in Ireland. Although there have been some delays at the UK borders for shipments into the EU since 1 January 2021, the measures that we have taken have minimised the impact on customer service.

(c) Credit risk

The Company's credit risk is primarily attributed to its trade receivables. The amounts presented in the balance sheet are net of allowance for bad debt. The directors deem the credit risk to be low with no significant concentration of credit risk.

(d) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when they fall due. The risk is managed by the group treasury team. The directors are satisfied that the Company is not subject to significant liquidity risk.

(e) Currency risk

The majority of sales are made in foreign currencies. The group treasury team manages the impact of foreign exchange fluctuations at a group level. The transfer prices of products purchased by the Company in sterling are monitored regularly to determine whether any changes are required to counteract the effect of exchange rate volatility on turnover.

(f) Covid-19 (coronavirus)

The impact of Covid-19 on businesses worldwide remains uncertain, however many markets in the EMEA region started to recover in the second half of the financial year and have continued to do so since the year-end. The Company, in conjunction with all other Group Companies, is monitoring and managing the impact of this daily to ensure that the business can continue to source and deliver its products in a timely manner. With strong cash balances and assurance from the Company's parent entity that intercompany payment terms will be relaxed to allow the Company to meet its ongoing third-party liabilities, the directors do not foresee this impacting the Company's ability to continue as a going concern.

By order of the board

J Archer
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23 February 2022