RENISHAW
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Interim report 2021

Renishaw plc

4 February 2021

Interim report 2021 - for the six months ended 31 December 2020

Highlights

Renishaw, the global high-precision metrology and healthcare technology group, today reports its half-year results for the six months to 31 December 2020.

	6 months to 31 December 2020	6 months to 31 December 2019	Year ended 30 June 2020
Revenue (£m)	**255.1**	259.4	510.2
Adjusted[1] profit before tax (£m)	**43.4**	14.3	48.6
Adjusted[1] earnings per share (pence)	**49.2**	15.1	51.0
Dividend per share (pence)	**14.0**	0.0	0.0
Statutory profit before tax (£m)	**63.9**	9.9	3.2
Statutory earnings per share (pence)	**72.1**	10.2	0.4

- First half-year revenue of £255.1m (H1 2019/20: £259.4m)
- Significant improvement in profitability in the first half as the benefits of our Fit for the Future strategy continued to be felt:
  - adjusted[1] profit before tax of £43.4m (H1 2019/20: £14.3m)
  - statutory profit before tax of £63.9m (H1 2019/20: £9.9m)
- Robust balance sheet with net cash and bank deposit balances of £186.6m, compared with £120.4m at 30 June 2020
- Interim dividend of 14.0p per share.

[1] Note 11, 'Alternative performance measures', defines how adjusted profit before tax and earnings per share are calculated.

Overview for the six months ended 31 December 2020

Revenue for the six months ended 31 December 2020 was £255.1m, compared with £259.4m for the corresponding period last year. We achieved good revenue growth in our APAC region, where we continue to see strong demand for our encoder product lines which are benefitting from increased investments in the semiconductor and electronics capital equipment markets. We experienced continuing weaker demand in our EMEA and Americas regions, which have been affected by the ongoing uncertainty caused by the pandemic and consequent challenges to key sectors, particularly aerospace. Our Fit for the Future strategy has delivered improved productivity and significant reductions in the Group's cost base. This is reflected in the much-improved profitability compared to the same period last year.

	First half 2020/21	First half 2019/20	Change %	Constant fx change %
Group revenue	£255.1m	£259.4m	-2	-2
Comprising:				
APAC	£125.9m	£106.8m	+18	+16
Americas	£54.7m	£63.6m	-14	-9
EMEA	£74.5m	£89.0m	-16	-18

Metrology
Revenue in our metrology business for the first six months was £235.6m, compared with £241.5m last year. Adjusted operating profit was £41.2m, compared with £17.4m for the comparable period last year. We have seen growth in demand for many of our metrology products, notably in our machine tool product line and our optical and laser encoder product lines. The latter have seen good growth due to a continuing recovery in the semiconductor and electronics capital equipment market. We have experienced reduced demand for our CMM product line due to the challenges in some sectors, particularly aerospace, but our strong portfolio of measurement products and global customer base means that we are well placed to benefit from a recovery in sector investments. Our additive manufacturing (AM) product line revenue was also lower than the same period last year, but was in-line with our expectations following the restructuring of the business that was implemented in FY 2019/20.

Healthcare
Revenue from our healthcare business for the first six months was £19.5m, compared with £17.8m last year. The adjusted operating profit was £2.2m in the first half of this year compared with a £1.5m loss for the comparable period last year. We have seen growth in our neurological product line and good growth in our spectroscopy product line which has seen a recovery in Raman spectrometer investment across all our regions, plus increasing adoption of the Virsa™ Raman Analyzer which was launched during FY 2019/20. We are also seeing that those surgeries and procedures that were delayed due to the pandemic have started to be rescheduled.

COVID-19 update
Our priorities continue to be the health and welfare of our employees, their families and the wider communities in which we operate, and to maintain high service levels to our global customer base. Our response and mitigation committee continues to meet at least twice weekly to review any developments caused by the pandemic and to take any necessary mitigating actions. We have a wide-range of COVID-secure working practices in place to protect against the spread of the virus and, within the UK, where we have higher numbers of employees, we have introduced weekly testing for all employees who must work on-site due to the nature of their roles. All our manufacturing facilities around the world are operating as normal and despite many challenges, supply to customers has been maintained throughout the pandemic. We have expanded the use of digital collaborative tools for customer support, and we are continuing to ensure a supply of high-quality sales opportunities using virtual exhibitions, webinars and enhanced digital marketing activities.

Productivity and operating costs
Our Fit for the Future strategy, which commenced in FY 2019/20, has resulted in a number of actions which improved productivity and reduced the Group's cost base. This included a resizing of the business, a restructure of our AM product line, and a focus on prioritising design projects to accelerate the market launch of significant products. The Group headcount has reduced further during the first half of this financial year and was 4,324 at the end of December 2020 compared to 4,463 at the end of June 2020, due to the non-replacement of some leavers and a small number of redundancies. We are currently recruiting production staff to ensure we have sufficient capacity to meet demand. Labour costs were £109.0m in this half-year compared to £119.4m last year and the average headcount in the first half-year was 4,371 (H1 2019/20: 4,990). This year's labour cost includes £1.0m of global job retention grant income (H1 2019/20: £nil), all of which originated overseas, and a £3.5m one-off 'thank you payment' for employees to recognise their exceptional commitment to the Group during the pandemic.

Certain other operating costs, such as travel and exhibitions, are lower this half-year compared to last year due to restrictions resulting from the pandemic. We expect these costs to increase once restrictions are lifted, although we do not expect travel to return to pre-pandemic levels as the use of online meetings has proven an effective tool for many communications. No significant asset impairments have been recognised this year.

The Group remains committed to our long-term strategy of delivering growth through the development and introduction of innovative and patented products and during the first six months of this year we incurred net engineering expenditure of £37.7m compared with £46.1m last year. This reduction is consistent with our expectations given the focus on key design projects, and the net expenditure includes our continuing commitment to support existing products and technologies. Our engineering teams have continued to develop products during the pandemic and last month we launched the FORTiS™ enclosed optical encoder which provides high-performance measurement in harsh environments, including machine tools and semiconductor wafer dicing.

The Directors would like to thank our employees for their dedication, professionalism, understanding and much valued contributions during this exceptionally challenging period for them and the business.

Profit and tax
Adjusted profit before tax[1] for the first half-year was £43.4m compared with £14.3m last year, primarily due to the reduced operating costs. Statutory profit before tax for the first half-year was £63.9m, compared with £9.9m last year, which includes a £20.5m fair value gain on financial instruments not effective for hedge accounting and not included in adjusted profit before tax. The gain relates primarily to proportions of forward contracts which failed hedge effectiveness testing in the previous financial year, after the global macroeconomic uncertainty resulted in reductions to the highly probable forecasts of the hedged item. No further contracts have been designated as ineffective in the six months to 31 December 2020.

The income tax expense (before deferred tax asset impairment movements) in the Consolidated income statement has been estimated at a rate of 19.0% (H1 2019/20: 17.4%) and is based on management's best estimate of the full year effective tax rates by geographical unit applied to half-year profits. The tax expense in the first half also includes a £0.7m credit for the recognition of deferred tax assets for losses previously impaired.

Adjusted earnings per share were 49.2p, compared with 15.1p last year. Statutory earnings per share were 72.1p, compared with 10.2p last year.

Balance sheet
Capital expenditure for this half-year was £4.8m (H1 2019/20: £28.4m) and was primarily on plant and equipment to support our manufacturing processes and IT infrastructure. The lower spend this year is in line with expectations following significant infrastructure investments in recent years.

Inventory balances have reduced by £7.3m since 30 June 2020, primarily reflecting a planned reduction in certain component safety stock levels. Trade receivables have decreased by £9.5m in the same period, mainly as a result of a reduction in debtor days and currency exchange rate movements.

Net cash and bank deposit balances at 31 December 2020 were £186.6m, compared with £71.3m at 31 December 2019 and £120.4m at 30 June 2020, reflecting the cash generated from operating profit, a reduction in working capital items, and the reduced level of capital expenditure.

Dividend
The Board is reinstating the dividend programme and has approved an interim dividend of 14.0 pence net per share (2020: nil) which will be paid on 6 April 2021 to shareholders on the register on 5 March 2021.

Principal risks and uncertainties
The Board has considered the risks and uncertainties which could have a material effect on the Group's performance and position. Whilst there is continuing uncertainty regarding both the impact of COVID-19 and Brexit, as well as global macroeconomic conditions and trade tensions, the overall impact and likelihood of our principal risks is not considered to have changed significantly. This conclusion also reflects the mitigation undertaken by the Group in response to these risks. The principal risks and uncertainties set out on pages 26 to 36 of the 2020 Annual Report therefore remain relevant.

Brexit
To mitigate against the potential impacts of the UK leaving the EU we established a warehouse in Ireland, expanded the existing warehouse in Germany and increased the inventory of certain finished goods and components at sites within the EU and the UK. 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.

Going concern
The Directors have prepared the unaudited interim financial information on a going concern basis. In considering the going concern basis, the Directors have considered the above-mentioned principal risks and uncertainties, as well as the Group's current trading performance and updated cashflow forecasts.

In the 2020 Annual Report we disclosed details of 'severe scenario' forecasts used in the Director's going concern assessment, and viability statement, as at August 2020. Both Metrology and Healthcare are expected to outperform the 'severe scenario' forecasts for the year to 30 June 2021, and performance in subsequent periods is also expected to outperform the respective 'severe scenario' forecasts.

The Directors have also considered the financial resources available to the Group, with net current assets of £331.5m at 31 December 2020 (compared to £281.6m at 30 June 2020), including £186.6m net cash and bank deposits at 31 December 2020, an increase from £120.4m at 30 June 2020. In addition, the going concern assessment does not rely upon any external financial support.

Outlook
The Board remains confident in the long-term prospects for the Group due to its strong financial position, the high quality of our people, our innovative product pipeline, extensive global sales and marketing presence and relevance to high-value manufacturing.

Whilst the trading environment remains uncertain as a result of the pandemic, we currently have a strong order book, and we are well placed to take advantage of the opportunities presented by any recovery in the global economy. At this stage, we expect full year revenue to be in the range of £515m to £545m. Adjusted profit before tax is expected to be in the range of £85m to £105m.

Sir David McMurtry	Will Lee	Allen Roberts
Executive Chairman	Chief Executive	Group Finance Director

4 February 2021

[1]Note 11, 'Alternative performance measures', defines how adjusted profit before tax, operating profit and earnings per share are calculated.

Consolidated income statement

	Notes	**Unaudited 6 months to 31 December 2020 £'000**	Unaudited 6 months to 31 December 2019 £'000	Audited Year ended 30 June 2020 £'000
Revenue	2	**255,123**	259,380	510,215
Cost of sales		**(128,043)**	(144,504)	(271,633)
Gross profit		**127,080**	114,876	238,582
Distribution costs		**(54,250)**	(65,580)	(123,276)
Administrative expenses		**(29,436)**	(31,933)	(58,584)
Restructuring costs		**-**	-	(23,797)
Gains/(losses) from the fair value of financial instruments - derivatives	9	**20,526**	(8,570)	(26,631)
Gains from the fair value of financial assets		**-**	2,700	-
Operating profit		**63,920**	11,493	6,294
Financial income	3	**3,629**	1,083	913
Financial expenses	3	**(3,641)**	(3,590)	(4,840)
Share of profits from associates and joint ventures		**39**	947	841
Profit before tax		**63,947**	9,933	3,208
Income tax expense	4	**(11,487)**	(2,538)	(2,920)
Profit for the period		**52,460**	7,395	288
Profit attributable to:				
Equity shareholders of the parent company		**52,460**	7,395	288
Non-controlling interest		**-**	-	-
Profit for the period		**52,460**	7,395	288
		Pence	pence	Pence
Dividend per share arising in respect of the period	6	**14.0**	14.0	0
Earnings per share (basic and diluted)	5	**72.1**	10.2	0.4

Consolidated statement of comprehensive income and expense

	Unaudited 6 months to 31 December 2020 £'000	Unaudited 6 months to 31 December 2019 £'000	Audited Year ended 30 June 2020 £'000
Profit for the period	**52,460**	7,395	288
Other items recognised directly in equity:			
Items that will not be reclassified to the Consolidated income statement:			
Remeasurement of defined benefit pension scheme liabilities	**101**	2,417	(23,978)
Deferred tax on remeasurement of defined benefit pension scheme liabilities	**(171)**	(319)	5,484
Total for items that will not be reclassified	**(70)**	2,098	(18,494)
Items that may be reclassified to the Consolidated income statement:			
Exchange differences in translation of overseas operations	**(8,148)**	(9,154)	3,369
Exchange differences in translation of overseas joint venture	**(217)**	(524)	186
Current tax on translation of net investments in foreign operations	**1,157**	763	-
Deferred tax on translation of net investments in foreign operations	**-**	-	(403)
Effective portion of changes in fair value of cash flow hedges, net of recycling	**40,712**	47,910	13,924
Deferred tax on effective portion of changes in fair value of cash flow hedges	**(7,736)**	(8,479)	(1,978)
Total for items that may be reclassified	**25,768**	30,516	15,098
Total other comprehensive income and expense, net of tax	**25,698**	32,614	(3,396)
Total comprehensive income and expense for the period	**78,158**	40,009	(3,108)
Attributable to:			
Equity shareholders of the parent company	**78,158**	40,009	(3,108)
Non-controlling interest	**-**	-	-
Total comprehensive income and expense for the period	**78,158**	40,009	(3,108)

Consolidated balance sheet

	Notes	**Unaudited At 31 December 2020 £'000**	Restated* Unaudited At 31 December 2019 £'000	Audited At 30 June 2020 £'000
Assets				
Property, plant and equipment	7	**257,668**	272,255	270,049
Intangible assets	8	**43,125**	58,626	43,364
Right of use assets		**13,489**	12,950	12,672
Investments in associates and joint ventures		**16,426**	13,006	16,604
Long-term loans to associates and joint ventures		**2,056**	519	2,818
Finance lease receivables		**5,292**	-	4,801
Deferred tax assets		**25,799**	21,157	39,641
Derivatives	9	**9,653**	13,187	1,242
Total non-current assets		**373,508**	391,700	391,191
Current assets				
Inventories		**98,152**	117,794	105,497
Trade receivables	9	**95,582**	101,508	105,077
Finance lease receivables		**1,731**	-	1,982
Contract assets		**432**	99	606
Short-term loans to associates and joint ventures		**781**	10,203	318
Current tax		**5,131**	7,550	3,878
Other receivables		**20,684**	20,337	23,196
Derivatives	9	**3,192**	4,965	3,758
Pension scheme cash escrow account		**10,575**	10,490	10,568
Bank deposits		**80,000**	30,000	10,000
Cash and cash equivalents		**106,619**	41,307	110,386
Total current assets		**422,879**	344,253	375,266
Current liabilities				
Trade payables		**18,441**	15,141	16,998
Contract liabilities		**6,235**	6,723	5,976
Current tax		**3,881**	4,506	2,905
Provisions		**6,279**	2,473	5,591
Derivatives	9	**7,771**	5,975	22,546
Lease liabilities		**4,150**	4,463	4,241
Borrowings		**3,628**	1,073	1,061
Other payables		**40,974**	27,849	34,372
Total current liabilities		**91,359**	68,203	93,690
Net current assets		**331,520**	276,050	281,576
Non-current liabilities				
Borrowings		**7,562**	9,628	10,482
Lease liabilities		**9,569**	8,469	8,925
Employee benefits	10	**60,895**	42,831	64,895
Deferred tax liabilities		**499**	539	499
Derivatives	9	**1,394**	16,391	41,102
Total non-current liabilities		**79,919**	77,858	125,903
Total assets less total liabilities		**625,109**	589,892	546,864
Equity				
Share capital		**14,558**	14,558	14,558
Share premium		**42**	42	42
Own shares held		**(404)**	(404)	(404)
Currency translation reserve		**10,521**	5,661	17,729
Cash flow hedging reserve		**2,521**	(2,970)	(30,455)
Retained earnings		**598,490**	573,798	546,100
Other reserve		**(42)**	(216)	(129)
Equity attributable to the shareholders of the parent company		**625,686**	590,469	547,441
Non-controlling interest		**(577)**	(577)	(577)
Total equity		**625,109**	589,892	546,864

* December 2019 cash and cash equivalents and bank deposits have been restated following a change in accounting policy explained in the 2020 Annual report, p.111, to show £30,000,000 of Bank deposits separately from Cash and cash equivalents.

Consolidated statement of changes in equity

Unaudited	Share capital £'000	Share premium £'000	Own shares held £'000	Currency translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Other reserve £'000	Non-controlling interest £'000	Total £'000
Balance at 1 July 2019	14,558	42	(404)	14,577	(42,401)	597,784	(302)	(577)	583,277
Profit for the period	-	-	-	-	-	7,395	-	-	7,395
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	2,097	-	-	2,097
Foreign exchange translation differences	-	-	-	(8,392)	-	-	-	-	(8,392)
Relating to associates and joint ventures	-	-	-	(524)	-	-	-	-	(524)
Changes in fair value of cash flow hedges	-	-	-	-	39,431	-	-	-	39,431
Total other comprehensive income and expense	-	-	-	(8,916)	39,431	2,097	-	-	32,612
Total comprehensive income and expense	-	-	-	(8,916)	39,431	9,492	-	-	40,007
Transactions with owners recorded in equity									
Share-based payments charge	-	-	-	-	-	-	86	-	86
Dividends paid	-	-	-	-	-	(33,478)	-	-	(33,478)
Balance at 31 December 2019	**14,558**	**42**	**(404)**	**5,661**	**(2,970)**	**573,798**	**(216)**	**(577)**	**589,892**
Profit for the period	-	-	-	-	-	(7,107)	-	-	(7,107)
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	(20,591)	-	-	(20,591)
Foreign exchange translation differences	-	-	-	11,357	-	-	-	-	11,357
Relating to associates and joint ventures	-	-	-	711	-	-	-	-	711
Changes in fair value of cash flow hedges	-	-	-	-	(27,485)	-	-	-	(27,485)
Total other comprehensive income and expense	-	-	-	12,068	(27,485)	(20,591)	-	-	(36,008)
Total comprehensive income and expense	-	-	-	12,068	(27,485)	(27,698)	-	-	(43,115)
Transactions with owners recorded in equity									
Share-based payments charge	-	-	-	-	-	-	87	-	87
Balance at 30 June 2020	**14,558**	**42**	**(404)**	**17,729**	**(30,455)**	**546,100**	**(129)**	**(577)**	**546,864**
Profit for the period	-	-	-	-	-	52,460	-	-	52,460
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	(70)	-	-	(70)
Foreign exchange translation differences	-	-	-	(6,991)	-	-	-	-	(6,991)
Relating to associates and joint ventures	-	-	-	(217)	-	-	-	-	(217)
Changes in fair value of cash flow hedges	-	-	-	-	32,976	-	-	-	32,976
Total other comprehensive income and expense	-	-	-	(7,208)	32,976	(70)	-	-	25,698
Total comprehensive income and expense	-	-	-	(7,208)	32,976	52,390	-	-	78,158
Transactions with owners recorded in equity									
Share-based payments charge	-	-	-	-	-	-	87	-	87
Balance at 31 December 2020	**14,558**	**42**	**(404)**	**10,521**	**2,521**	**598,490**	**(42)**	**(577)**	**625,109**

Consolidated statement of cash flow

	Unaudited 6 months to 31 December 2020 £'000	Restated* Unaudited 6 months to 31 December 2019 £'000	Audited Year ended 30 June 2020 £'000
Cash flows from operating activities			
Profit for the period	**52,460**	7,395	288
Adjustments for:			
Depreciation of property, plant and equipment and right of use assets	**11,392**	14,580	30,578
(Profit)/loss on sale of property, plant and equipment	**(8)**	(46)	22
Impairment of property, plant and equipment	**-**	-	2,590
Amortisation of development costs	**4,577**	8,118	16,861
Impairment of development costs	**-**	-	15,881
Amortisation of other intangibles	**735**	606	1,566
Profit on disposal of other intangibles	**-**	-	53
Impairment of other intangibles	**-**	1,973	1,600
Impairment of goodwill	**-**	-	808
Share of profits from associates and joint ventures	**(39)**	(947)	(841)
Profit on disposal of investment in associate	**-**	-	(1,053)
Fair value gain on revaluation of investment in associate	**-**	-	(2,775)
Impairment of investment in associate	**-**	-	257
Remeasurement of defined benefit pension scheme liabilities from GMP equalisation	**82**	-	-
Financial income	**(3,629)**	(1,083)	(913)
Financial expenses	**3,641**	3,590	4,840
(Gains)/losses from the fair value of financial instruments	**(20,537)**	2,120	21,609
Gains from the fair value of financial assets	**-**	(2,700)	-
Share based payment expense	**87**	86	173
Tax expense	**11,487**	2,538	2,920
	7,788	28,835	94,176
Decrease/(increase) in inventories	**7,345**	11,232	23,529
Decrease/(increase) in trade and other receivables	**6,678**	18,709	17,639
(Decrease)/increase in trade and other payables	**9,481**	(14,795)	(11,297)
(Decrease)/increase in provisions	**688**	(676)	2,745
	24,192	14,470	32,616
Defined benefit pension contributions	**(4,436)**	(7,081)	(11,814)
Income taxes paid	**(4,627)**	(4,708)	(10,607)
Cash flows from operating activities	**75,377**	38,911	104,659
Investing activities			
Purchase of property, plant and equipment	**(4,825)**	(28,398)	(38,657)
Sale of property, plant and equipment	**2,474**	990	3,633
Development costs capitalised	**(5,074)**	(7,948)	(17,405)
Purchase of other intangibles	**(810)**	(2,864)	(3,338)
Decrease/(increase) in bank deposits	**(70,000)**	22,500	42,500
Interest received	**359**	575	835
Dividends received from associates and joint ventures	**-**	512	512
Proceeds from sale of shares in associate	**-**	-	986
Cash flows from investing activities	**(77,876)**	(14,633)	(10,934)
Financing activities			
Increase in borrowings	**636**	1,169	1,894
Repayment of borrowings	**(550)**	(425)	(1,136)
Interest paid	**(13)**	(99)	(549)
Repayment of principal portion of lease liabilities	**(2,604)**	(2,480)	(4,896)
Dividends paid	**-**	(33,478)	(33,478)
Cash flows from financing activities	**(2,531)**	(35,313)	(38,165)
Net (decrease)/increase in cash and cash equivalents	**(5,030)**	(11,035)	55,560
Cash and cash equivalents at the beginning of the period	**110,386**	54,326	54,326
Effect of exchange rate fluctuations on cash held	**1,263**	(1,984)	500
Cash and cash equivalents at the end of the period	**106,619**	41,307	110,386

* December 2019 cash and cash equivalents and bank deposits have been restated following a change in accounting policy explained in the 2020 Annual report, p.111, such that the Consolidated statement of cash flow has been amended to show a cash inflow of £22,500,000 in investing activities for the amounts maturing from deposits exceeding three months and not accessible on demand.

Responsibility statement

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

- As required by DTR 4.2 of the Disclosure Rules and Transparency Rules, the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole. The Interim report has been prepared in accordance with IAS 34, 'Interim Financial Reporting', as issued by the International Accounting Standards Board and as adopted by the EU.

- The Interim report includes a fair review of the information required by:

(a) DTR 4.2.7 of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8 of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

On behalf of the Board

Allen Roberts FCA
Group Finance Director
4 February 2021

Notes

1. Basis of preparation

The Interim Report, which includes the condensed consolidated financial statements for the six months ended 31 December 2020, was approved by the Directors on 4 February 2021.

The condensed consolidated financial statements for the six months ended 31 December 2020 were prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) as issued by the International Accounting Standards Board and as adopted by the European Union, and apply the same accounting policies, presentation and methods of calculation as were applied in the preparation of the Group's consolidated financial statements for the year ended 30 June 2020, except for income taxes which are accrued using the forecast tax rate for the financial year, and except for the adoption of new accounting standards.

The condensed consolidated financial statements included in this Report have not been audited and do not constitute the Group's statutory accounts as defined in section 434 of the Companies Act 2006. The information relating to the year ended 30 June 2020 is an extract from the Group's published Annual Report for that year, which has been delivered to the Registrar of Companies, and on which the auditor's report was unqualified and did not contain any emphasis of matter or statements under section 498(2) or 498(3) of the Companies Act 2006.

Going concern

The Directors have prepared the unaudited interim financial information on a going concern basis. In considering the going concern basis, the Directors have considered the above-mentioned principal risks and uncertainties, as well as the Group's current trading performance and updated cashflow forecasts.

In the 2020 Annual Report we disclosed details of 'severe scenario' forecasts used in the Director's going concern assessment, and viability statement, as at August 2020. Both Metrology and Healthcare are expected to outperform the 'severe scenario' forecasts for the year to 30 June 2021, and performance in subsequent periods is also expected to outperform the respective 'severe scenario' forecasts.

The Directors have also considered the financial resources available to the Group, with net current assets of £331.5m at 31 December 2020 (compared to £281.6m at 30 June 2020), including £186.6m net cash and bank deposits at 31 December 2020, an increase from £120.4m at 30 June 2020. In addition, the going concern assessment does not rely upon any external financial support.

Having made appropriate enquiries, the Directors are satisfied that, at the time of approving the unaudited condensed consolidated financial statements, it is appropriate to continue to adopt a going concern basis of accounting.

New accounting standards and policies

The following new standards and amendments became effective as at 1 January 2020 and have been adopted for the financial year commencing 1 July 2020.

- Amendments to IFRS 3 Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 Definition of Material
- Amendments to References to the Conceptual Framework for Financial Reporting
- Amendments to IFRS 16 COVID-19-Related Rent Concessions

These have not had an impact on these financial statements.

2. Segmental information

The Group manages its business in two segments, comprising metrology and healthcare products. The results of these are regularly reviewed by the Board to allocate resources to segments and to assess their performance. Within the operating segment of metrology, there are multiple product offerings with similar economic characteristics, and where the nature of the products and production processes and their customer bases are similar. More details of the Group's products and services are given in the Strategic report of the 2020 Annual report.

In normal trading conditions, whilst future revenue is difficult to predict given that the Group's outstanding order book is typically around one month's worth of revenue value, larger consumer electronics orders in the APAC region within the metrology segment typically fall in the first or last quarter of the financial year. In addition, the Group typically experiences lower demand in August and December, and so revenue and operating profits are typically lower in the first half of the year. This information is provided to allow for a better understanding of the results, and management do not believe that the business is 'highly seasonal' in accordance with IAS 34. Whilst this is the case during normal trading conditions, COVID-19 may introduce some additional fluctuations in the short-term.

6 months to 31 December 2020	Metrology £'000	Healthcare £'000	Total £'000
Revenue	**235,641**	**19,482**	**255,123**
Depreciation and amortisation	**13,884**	**1,640**	**15,524**
Operating profit before gains from fair value of financial instruments	**41,209**	**2,185**	**43,394**
Share of profits from associates and joint ventures	**39**	**-**	**39**
Net financial expense	**-**	**-**	**(12)**
Gains from the fair value of financial instruments	**-**	**-**	**20,526**
Profit before tax	**-**	**-**	**63,947**
6 months to 31 December 2019			
Revenue	241,545	17,835	259,380
Depreciation and amortisation	21,954	1,116	23,070
Operating profit/(loss) before losses from fair value of financial instruments	21,350	(1,286)	20,064
Share of profits from associates and joint ventures	947	-	947
Net financial expense	-	-	(2,508)
Losses from the fair value of financial instruments	-	-	(8,570)
Profit before tax	-	-	9,933
Year ended 30 June 2020			
Revenue	475,203	35,012	510,215
Depreciation and amortisation	67,327	2,557	69,884
Operating profit before losses from fair value of financial instruments	31,188	1,737	32,925
Share of profits from associates and joint ventures	841	-	841
Net financial expense	-	-	(3,927)
Losses from the fair value of financial instruments	-	-	(26,631)
Profit before tax	-	-	3,208

There is no allocation of assets and liabilities to operating segments. Depreciation is included within certain other overhead expenditure which is allocated to segments on the basis of the level of activity.

The following table shows the disaggregation of group revenue by category:

	6 months to 31 December 2020 £'000	6 months to 31 December 2019 £'000	Year ended 30 June 2020 £'000
Goods, capital equipment and installation	**229,828**	232,145	457,024
Aftermarket services	**25,295**	27,235	53,191
Total group revenue	**255,123**	259,380	510,215

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

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

	6 months to 31 December 2020 £'000	6 months to 31 December 2019 £'000	Year ended 30 June 2020 £'000
APAC	**125,924**	106,801	227,650
EMEA	**74,508**	88,998	167,253
Americas	**54,691**	63,581	115,312
Total Group revenue	**255,123**	259,380	510,215

Revenue in the above table has been allocated to regions based on the geographical location of the customer. Countries with individually material revenue figures in the context of the Group were:

	6 months to 31 December 2020 £'000	6 months to 31 December 2019 £'000	Year ended 30 June 2020 £'000
China	**69,488**	43,259	102,840
USA	**46,891**	52,698	101,153
Japan	**24,200**	30,635	57,833
Germany	**23,038**	27,178	49,397

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

3. Financial income and expenses

	6 months to 31 December 2020 £'000	6 months to 31 December 2019 £'000	Year ended 30 June 2020 £'000
Financial income			
Fair value gains from one-month forward currency contracts	**3,263**	508	-
Interest receivable	**366**	575	913
Total financial income	**3,629**	1,083	**913**
Financial expenses			
Interest on pension schemes' liabilities	**454**	459	861
Currency losses	**2,720**	2,476	2,433
Fair value losses from one-month forward currency contracts	**-**	-	154
Lease interest	**417**	557	765
Interest payable	**50**	98	627
Total financial expenses	**3,641**	3,590	**4,840**

Currency losses relate to revaluations of foreign currency denominated balances using latest reporting currency exchange rates. The losses recognised in both the six months to 31 December 2020 and the six months to 31 December 2019 largely related to an appreciation of sterling relative to the dollar affecting dollar-denominated intragroup balances in the Company (Renishaw plc). These losses are partially offset by rolling one-month forward currency contracts, with fair value gains recognised in financial income. After these mitigating activities, net currency gains in the six months to 31 December 2020 amounted to £543,000 (December 2019: £1,968,000 net loss).

4. Taxation

The income tax expense in the Consolidated income statement has been estimated at a rate of 19.0% (December 2019: 17.4%), before the net recognition of deferred tax assets of £693,000 (December 2019: impairment of £809,000), based on management's best estimate of the full year effective tax rates by geographical unit applied to half-year profits. The net deferred tax asset recognition arises mainly from increased certainty over the recoverability of a portion of previously unrecognised losses in our US business, following better than previously expected current year taxable profit forecasts. The overall effective tax rate for the six months to 31 December 2020 is 18.0% (December 2019: 25.6%).

5. Earnings per share

The earnings per share for the six months ended 31 December 2020 is calculated on earnings of £52,460,000 (December 2019: £7,395,000) and on 72,778,904 shares (December 2019: 72,778,904 shares), being the number of shares in issue during the period. This excludes 9,639 shares held by the Renishaw Employee Benefit Trust.

6. Dividends

Dividends paid during the period were:	6 months to 31 December 2020 £'000	6 months to 31 December 2019 £'000	Year ended 30 June 2020 £'000
2020 final dividend paid of nil per share	**-**	33,478	33,478
Interim dividend paid of nil per share	**-**	-	-
Total dividends paid during the period	**-**	33,478	33,478

All shareholders on the register on 5 March 2021 will be paid an interim dividend of 14.0p net per share on 6 April 2021, resulting in a dividend payable of £10,189,047.

7. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1 July 2020	225,556	247,986	8,526	6,363	488,431
Additions	512	1,186	87	3,040	4,825
Transfers	225	2,515	-	(2,740)	-
Disposals	(133)	(7,879)	(729)	-	(8,741)
Currency adjustment	(5,064)	(3,349)	(167)	-	(8,580)
At 31 December 2020	**221,096**	**240,459**	**7,717**	**6,663**	**475,935**
Depreciation					
At 1 July 2020	35,842	175,864	6,676	-	218,382
Charge for the period	2,216	6,298	322	-	8,836
Released on disposals	(122)	(5,630)	(530)	-	(6,282)
Currency adjustment	(734)	(1,812)	(123)	-	(2,669)
At 31 December 2020	**37,202**	**174,720**	**6,345**	**-**	**218,267**
Net book value					
At 31 December 2020	**183,894**	**65,739**	**1,372**	**6,663**	**257,668**
At 30 June 2020	189,714	72,122	1,850	6,363	270,049

Additions to assets in the course of construction of £3,040,000 (December 2019: £10,628,000) comprise £251,000 (December 2019: £8,412,000) for freehold land and buildings and £2,789,000 (December 2019: £2,216,000) for plant and equipment. At the end of the period, assets in the course of construction, not yet transferred, of £6,663,000 (December 2019: £18,275,000) comprise £2,804,000 (December 2019: £14,269,000) for freehold land and buildings and £3,859,000 (December 2019: £4,006,000) for plant and equipment.

8. Intangible assets

	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences and intellectual property £'000	Total £'000
Cost					
At 1 July 2020	20,518	15,829	167,447	22,063	225,857
Additions	-	-	5,074	810	5,884
Currency adjustment	(740)	(33)	-	(43)	(816)
At 31 December 2020	**19,778**	**15,796**	**172,521**	**22,830**	**230,925**
Amortisation					
At 1 July 2020	9,028	13,105	141,696	18,664	182,493
Charge for the period	-	38	4,577	697	5,312
Currency adjustment	-	33	-	(38)	(5)
At 31 December 2020	**9,028**	**13,176**	**146,273**	**19,323**	**187,800**
Net book value					
At 31 December 2020	**10,750**	**2,620**	**26,248**	**3,507**	**43,125**
At 30 June 2020	11,490	2,724	25,751	3,399	43,364

As detailed in the 2020 Annual report, the key assumption in determining the value-in-use of intangible assets are sales forecasts. As noted previously in this report, both Metrology and Healthcare are now expected to outperform the forecasts at 30 June 2020, which is also the case for the constituent business units relating to the intangible assets above. As a result, no impairments have been recognised in the six months to 31 December 2020 (December 2019: £1,973,000).

9. Financial instruments

There is no significant difference between the fair value of financial assets and financial liabilities and their book value in the Consolidated balance sheet. All financial assets and liabilities are held at amortised cost, apart from the forward exchange contracts which are held at fair value, with changes going through the Consolidated income statement unless subject to hedge accounting. The fair values of the forward exchange contracts have been calculated by a third party expert, discounting estimated future cash flows on the basis of market expectations of future exchange rates, representing level 2 in the IFRS 13 fair value hierarchy. There were no transfers between levels during any period disclosed.

At 31 December 2020 the total nominal value of USD, EUR and JPY forward contracts held for cash flow hedging purposes was £654,888,000. During the 2020 financial year, global macroeconomic uncertainty resulted in a reduction to the ‘highly probable’ revenue forecasts of Renishaw plc and Renishaw UK Sales Limited, being the hedged item, resulting in proportions of forward contracts failing hedge effectiveness testing, with nominal value amounting to £247,547,000. Accumulated fair value losses on forward currency contracts ineffective as a cash flow hedge amounting to £24,361,000 were consequently recycled from the Cash flow hedging reserve to the Consolidated income statement in the previous financial year. Subsequent fair value movements on outstanding ineffective forward contracts accumulate in the Consolidated income statement, with a resultant £23,289,000 gain in the six months to 31 December 2020. A loss of £2,763,000, mostly relating to fair value movements on options contracts previously entered into with the forward contracts, was also reported in ‘Gains/(losses) from the fair value of financial instruments – derivatives’. At 31 December 2020 the remaining nominal value of USD, EUR and JPY forward contracts ineffective for cash flow hedging and yet to mature amounted to £189,162,000, with no additional forward contracts becoming ineffective for hedge accounting purposes in the six months to 31 December 2020.

On an ongoing basis, a 10% depreciation of GBP against USD, EUR and JPY would result in a £18,916,000 loss being recognised in the Consolidated Income Statement, while a 10% appreciation would result in a £17,197,000 gain.
Fair value gains and losses relating to this have been excluded from adjusted profit measures, see note 11 for further detail.

Credit risk
The Group carries a credit risk relating to non-payment of trade receivables by its customers and establishes an allowance for impairment in respect of trade receivables where recoverability is considered doubtful. In the six months to 31 December 2020, the Group has not experienced a deterioration in debtor repayments nor in the assumptions used in calculating allowances for expected credit losses. At 31 December 2020, total expected credit losses amounted to £5,166,000, being 5.1% of gross trade receivables, compared with £5,964,000 at 30 June 2020, being 5.4% of gross trade receivables.

Liquidity risk
The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, and the Group continues to use monthly cash flow forecasts on a rolling 12-month basis to monitor cash requirements. With net cash and bank deposits at 31 December 2020 totalling £186,619,000, an increase of £66,233,000 from 30 June 2020, and bank deposits of maximum three-month maturity, the Group’s liquidity has improved in the six months to 31 December 2020.

10. Employee benefits

In October 2020 the trustees of the Renishaw Pension Fund notified the Company of a difference between the calculation of liabilities in the UK Defined Benefit Pension Fund for administration purposes and for accounting purposes. Following an initial review, it appears that corrections may be needed to the way that some pensions are calculated, and the value placed on these pension benefits for accounting purposes and these corrections would relate to the period over which revaluation and late retirement factors are applied. The position is not yet certain and we are working with the trustees to reach an agreed conclusion. Given this current uncertainty over the outcome (and therefore the financial impact), we have not made any adjustments in the financial statements in the six months to 31 December 2020.

11. Alternative performance measures

In accordance with Renishaw’s Alternative Performance Measures (APMs) policy and ESMA Guidelines on Alternative Performance Measures (2015), APMs are defined as - Revenue at constant exchange rates, Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit.
Revenue at constant exchange rates is defined as revenue recalculated using the same rates as were applicable to the previous year and excluding forward contract gains and losses.

Revenue at constant exchange rates	**6 months to 31 December 2020 £’000**	6 months to 31 December 2019 £’000
Statutory revenue as reported	**255,123**	259,380
Adjustment for forward contract losses	**1,375**	7,324
Adjustment to restate at previous year exchange rates	**6,186**	-
Revenue at constant exchange rates	**262,684**	266,704
Year-on-year revenue growth at constant exchange rates	**-2%**	-

Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit are defined as the profit before tax, earnings per share and operating profit after excluding costs relating to business restructuring, and gains and losses in fair value from forward currency contracts which did not qualify for hedge accounting and which have yet to mature.

Restructuring costs reported separately in the Consolidated Income statement have also been excluded from adjusted measures, on the basis that they relate to matters that do not frequently recur. During the 2020 financial year the Board introduced its 'Fit for the future' strategy, which incorporated the rationalisation and reorganisation of certain operating activities, particularly relating to the additive manufacturing (AM) business, and cost control measures which included a UK compulsory redundancy programme. No expenses relating to this restructure have been incurred in the 2021 financial year.

From 2017, the gains and losses from the fair value of financial instruments not effective for cash flow hedging have been excluded from statutory profit before tax, statutory earnings per share and statutory operating profit in arriving at Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit, to reflect the Board's intent that the instruments would provide effective hedges. This is classified as 'Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)' in the following reconciliations. The amounts shown as reported in revenue represent the amount by which revenue would change had all the derivatives qualified as eligible for hedge accounting. Gains and losses which recycle through the Consolidated income statement as a result of contracts deemed ineffective during 2020 are also excluded from adjusted profit measures, on the basis that all forward contacts are still expected to be effective hedges for Group revenue, while the potentially high volatility in fair value gains and losses relating to these contracts will otherwise cause confusion for users of the financial statements wishing to understand the underlying trading performance of the Group. This is classified as 'Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)' in the following reconciliations.

The Board considers these alternative performance measures to be more relevant and reliable in evaluating the Group's performance.

Adjusted profit before tax	**6 months to 31 December 2020 £'000**	6 months to 31 December 2019 £'000	Year ended 30 June 2020 £'000
Statutory profit before tax	**63,947**	9,933	3,208
Restructuring costs reported in Cost of sales, Distribution costs and Administrative expenses	**-**	2,249	23,797
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)			
- reported in revenue	**(11)**	(3,133)	(731)
- reported in (gains)/losses from the fair value of financial instruments - derivatives	**2,763**	2,223	(2,021)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)			
- reported in (gains)/losses from the fair value of financial instruments - derivatives	**(23,289)**	3,030	24,361
Adjusted profit before tax	**43,410**	14,302	48,614

Adjusted earnings per share	**6 months to 31 December 2020 pence**	6 months to 31 December 2019 pence	Year ended 30 June 2020 pence
Statutory earnings per share	**72.1**	10.2	0.4
Restructuring costs reported in Cost of sales, Distribution costs and Administrative expenses	**-**	2.5	26.5
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)			
- reported in revenue	**0.0**	(3.5)	(0.8)
- reported in (gains)/losses from the fair value of financial instruments - derivatives	**3.1**	2.5	(2.2)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)			
- reported in (gains)/losses from the fair value of financial instruments - derivatives	**(25.9)**	3.4	27.1
Adjusted earnings per share	**49.3**	15.1	51.0

Adjusted operating profit	**6 months to 31 December 2020 £'000**	6 months to 31 December 2019 £'000	Year ended 30 June 2020 £'000
Statutory operating profit	**63,921**	11,493	6,294
Restructuring costs reported in Cost of sales, Distribution costs and Administrative expenses	**-**	2,249	23,797
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)			
- reported in revenue	**(11)**	(3,133)	(731)
- reported in (gains)/losses from the fair value of financial instruments - derivatives	**2,763**	2,223	(2,021)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)			
- reported in (gains)/losses from the fair value of financial instruments - derivatives	**(23,289)**	3,030	24,361
Adjusted operating profit	**43,384**	15,862	51,700

Adjustments to segmental operating profit:

Metrology	**6 months to 31 December 2020 £'000**	6 months to 31 December 2019 £'000	Year ended 30 June 2020 £'000
Operating profit before gain/loss from fair value of financial instruments	**41,209**	21,350	31,188
Restructuring costs reported in Cost of sales, Distribution costs and Administrative expenses	**-**	2,249	23,797
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i) - reported in revenue	**(12)**	(2,919)	(688)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii) - reported in revenue	**-**	(3,318)	(4,036)
Adjusted metrology operating profit	**41,197**	17,362	50,261

Healthcare	**6 months to 31 December 2020 £'000**	6 months to 31 December 2019 £'000	Year ended 30 June 2020 £'000
Operating loss before gain/loss from fair value of financial instruments - derivatives	**2,185**	(1,286)	1,737
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i) - reported in revenue	**1**	(214)	(43)
Fair value gains on financial instruments not eligible for hedge accounting (ii) – reported in revenue	**-**		(255)
Adjusted healthcare operating profit	**2,186**	(1,500)	1,439

12. Related party transactions and post balance sheet events

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Full details of the Group's other related party relationships, transactions and balances are given in the Group's Annual report for the year ended 30 June 2020. No related party transactions have taken place in the first six months of the financial year that have materially affected the financial position or the performance of the Group during that period.

Financial calendar

2021 interim dividend record date	5 March 2021
2021 interim dividend payment date	6 April 2021
Trading statement	11 May 2021
Investor day (provisional)	11 May 2021
Announcement of 2021 full year results	August 2021
Publication of 2021 Annual report	August 2021
Annual general meeting	21 October 2021
2021 final dividend record date (provisional)	24 September 2021
2021 final dividend payment date (provisional)	29 October 2021

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