RENISHAW
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Interim report 2020

Renishaw plc

30 January 2020

Interim report 2020 - for the six months ended 31 December 2019

Highlights

	6 months to 31 December 2019	6 months to 31 December 2018	Year ended 30 June 2019
Revenue (£m)	**259.4**	296.7	574.0
Adjusted[1] profit before tax (£m)	**14.3**	59.6	103.9
Adjusted[1] earnings per share (pence)	**15.1**	69.3	119.9
Dividend per share (pence) [2]	**14.0**	14.0	60.0
Statutory profit before tax (£m)	**9.9**	61.6	109.9
Statutory earnings per share (pence)	**10.2**	71.5	126.7

[1] Note 11, 'Alternative performance measures', defines how adjusted profit before tax and earnings per share are calculated.
[2] All directors have waived their rights to the interim dividend – see note 7 for further details.

Chairman's and Chief Executive's statement

We report our Group results for the six months to 31 December 2019.

Highlights

- First half year revenue of £259.4m, compared with previous year of £296.7m.
- First half year adjusted[1] profit before tax of £14.3m, compared with adjusted previous year of £59.6m.
- First half year statutory profit before tax of £9.9m, compared with £61.6m last year.
- Cash balances of £71.3m, compared with £106.8m at 30 June 2019.

Trading results

	First half 2020	First half 2019	Change %	Constant fx change %
Group revenue	£259.4m	£296.7m	-13	-14
Comprising:				
APAC	£106.8m	£131.2m	-19	-20
Americas	£63.6m	£65.4m	-3	-9
EMEA	£89.0m	£100.1m	-11	-12

Revenue for the six months ended 31 December 2019 was £259.4m, compared with £296.7m for the corresponding period last year, with all regions experiencing a reduction in revenue.

It has been a challenging trading period for the Group due to the global macroeconomic environment, including the ongoing uncertainty caused by the trade tensions between the USA and China and weaker demand in the machine tool sector. The first half of 2019 also benefitted from a number of large orders from end-user manufacturers of consumer electronic products in the APAC region which have not been repeated this year. There are however some positive indications of recovery in the semiconductor market which has benefitted our encoder lines.

Adjusted profit before tax for the first half year was £14.3m compared with £59.6m last year, primarily due to the reduced revenue. Last year's first half benefitted from a £5.3m currency gain, primarily in respect of intra-group balances, compared with a loss of £2.0m in the first half of this year. This year also includes a £2.7m gain arising from the fair value adjustment of a convertible loan option in an associate company and a £2.0m charge from the impairment of intangible assets.

Statutory profit before tax for the first half year was £9.9m, compared with £61.6m last year, which includes a £2.2m charge for restructuring costs and a £2.1m loss from the fair value of derivatives not included in adjusted profit before tax.

Adjusted earnings per share were 15.1p, compared with 69.3p last year. Statutory earnings per share were 10.2p, compared with 71.5p last year.

Metrology
Revenue in our metrology business for the first six months was £241.5m, compared with £277.7m last year. Adjusted operating profit was £17.4m, compared with £52.2m for the comparable period last year. Despite subdued demand conditions overall, we have seen growth in our optical and laser encoder product lines due to a recovery in the semiconductor market.

Healthcare
Revenue from our healthcare business for the first six months was £17.8m, compared with £19.0m last year, but we did see growth in our neurological product line due to increased demand for our neurosurgical robot. The business recorded an adjusted operating loss of £1.5m in the first half of this year compared to break even in the corresponding period last year.

Operating costs
As previously communicated, due to the challenging trading conditions faced, we are taking a number of actions to improve productivity and to reduce the Group's cost base. These include the non-replacement of staff who have left the business, reductions in direct manufacturing staff in the UK, Ireland and India, and the planned closure of the Staffordshire site in February 2020 with activities consolidated in Gloucestershire and South Wales. We have also commenced a proposed UK compulsory redundancy programme that could lead to a headcount reduction of around 200 people (approximately 6% of total UK employees). We have reviewed all other areas of operating costs and reduced expenditure where appropriate.

Total Group headcount at the end of December 2019 was 4,871, a net reduction of 170 since June 2019.

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 £46.1m compared with £47.7m last year.

The directors thank employees for their valued support and contribution during this challenging period.

Capital Expenditure

Capital expenditure for the first six months was £28.4m. Expenditure on property totalled £20.8m for the period, including the extension to our Innovation Centre in Wotton-under-Edge, Gloucestershire which is nearing completion; acquisition of property in Pune, India to provide capacity for future growth; refurbishment of the building purchased in Nagoya, Japan last year; and the construction of our new facility in Michigan, USA. Expenditure on plant and equipment for the period was £7.6m.

With the building projects listed nearing completion, capital expenditure in the second half of this year is planned to reduce significantly.

Working capital

Net cash balances at 31 December 2019 were £71.3m, compared with £100.5m at 31 December 2018 and £106.8m at 30 June 2019.

Inventory balances at 31 December 2019 were £117.8m, a decrease of £11.2m since 30 June 2019, primarily reflecting the reduction in trading activity.

Dividend

The Board has approved an interim dividend of 14.0 pence net per share (2019: 14.0 pence) which will be paid on 6 April 2020 to shareholders on the register on 6 March 2020. All directors have waived their rights to the interim dividend which results in the cost of the dividend being £4.8m compared to £10.2m last year.

Outlook

The Board believes that the structural demand drivers in our end-markets remain intact. The Group is in a strong financial position and we remain confident in the Group's long-term prospects due to the high quality of our people, our innovative product pipeline, extensive global sales and marketing presence and relevance to high-value manufacturing.

As indicated in our trading statement in October 2019, trading conditions are expected to remain challenging through the remainder of this financial year driven by the global macroeconomic environment. At this stage, we expect full year revenue to be in the range of £530m to £560m. Adjusted profit before tax is expected to be in the range of £50m to £70m, with profits in the second half of the year expected to benefit from an increase in revenue, reduced operating costs and a favourable currency impact from forward contracts compared to the first half year. Statutory profit before tax is expected to be in the range of £38m to £58m.

Investor Day

An Investor Day is being held on 12 May 2020 at our Gloucestershire headquarters and registration details will be published in due course.

Sir David McMurtry
Executive Chairman
30 January 2020

Will Lee
Chief Executive

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

Consolidated income statement

Unaudited

Continuing operations	Notes	**6 months to 31 December 2019 £'000**	6 months to 31 December 2018 £'000	Audited Year ended 30 June 2019 £'000
Revenue	3	**259,380**	296,670	573,959
Cost of sales		**(144,504)**	(148,521)	(289,832)
Gross profit		**114,876**	148,149	284,127
Distribution costs		**(65,580)**	(63,766)	(126,822)
Administrative expenses		**(31,933)**	(29,002)	(58,593)
Gains/(losses) from the fair value of financial instruments - derivatives	10	**(8,570)**	(1,230)	1,081
Gains from the fair value of financial assets	12	**2,700**	-	-
Operating profit		**11,493**	54,151	99,793
Financial income	4	**1,083**	5,713	7,238
Financial expenses	4	**(3,590)**	(454)	(902)
Share of profits from associates and joint ventures		**947**	2,185	3,815
Profit before tax		**9,933**	61,595	109,944
Income tax expense	5	**(2,538)**	(9,572)	(17,712)
Profit for the period		**7,395**	52,023	92,232
Profit attributable to:				
Equity shareholders of the parent company		**7,395**	52,023	92,232
Non-controlling interest		**-**	-	-
Profit for the period		**7,395**	52,023	92,232
		pence	pence	Pence
Dividend per share arising in respect of the period	7	**14.0**	14.0	60.0
Earnings per share (basic and diluted)	6	**10.2**	71.5	126.7

Consolidated statement of comprehensive income and expense

Unaudited

	6 months to 31 December 2019 £'000	6 months to 31 December 2018 £'000	Audited Year ended 30 June 2019 £'000
Profit for the period	**7,395**	52,023	92,232
Other items recognised directly in equity:			
Items that will not be reclassified to the Consolidated income statement:			
Remeasurement of defined benefit pension scheme liabilities	**2,417**	13,254	10,273
Deferred tax on remeasurement of defined benefit pension scheme liabilities	**(319)**	(2,230)	(1,534)
Total for items that will not be reclassified	**2,098**	11,024	8,739
Items that may be reclassified to the Consolidated income statement:			
Exchange differences in translation of overseas operations	**(9,154)**	1,934	2,045
Exchange differences in translation of overseas joint venture	**(524)**	(121)	72
Current tax on translation of net investments in foreign operations	**763**	-	(205)
Effective portion of changes in fair value of cash flow hedges, net of recycling	**47,910**	(23,686)	(27,573)
Deferred tax on effective portion of changes in fair value of cash flow hedges	**(8,479)**	4,058	4,561
Total for items that may be reclassified	**30,516**	(17,815)	(21,100)
Total other comprehensive income and expense, net of tax	**32,614**	(6,791)	(12,361)
Total comprehensive income and expense for the period	**40,009**	45,232	79,871
Attributable to:			
Equity shareholders of the parent company	**40,009**	45,232	79,871
Non-controlling interest	**-**	-	-
Total comprehensive income and expense for the period	**40,009**	45,232	79,871

Consolidated balance sheet

Unaudited

	Notes	**At 31 December 2019 £'000**	At 31 December 2018 £'000	Audited At 30 June 2019 £'000
Assets				
Property, plant and equipment	8	**272,255**	239,984	263,477
Intangible assets	9	**58,626**	56,342	59,056
Right of use assets	2	**12,950**	-	-
Investments in associates and joint ventures		**13,006**	11,514	13,095
Long-term loans to associates and joint ventures		**519**	3,322	750
Deferred tax assets		**21,157**	29,073	29,855
Derivatives	10	**13,187**	2,066	1,311
Total non-current assets		**391,700**	342,301	367,544
Current assets				
Inventories		**117,794**	122,476	129,026
Trade receivables		**101,508**	127,811	123,151
Contract assets		**99**	477	352
Short-term loans to associates and joint ventures	12	**10,203**	-	6,644
Current tax		**7,550**	3,124	4,553
Other receivables		**20,337**	24,426	24,461
Derivatives	10	**4,965**	3,092	2,778
Pension scheme cash escrow account		**10,490**	10,451	10,490
Cash and cash equivalents		**71,307**	100,504	106,826
Total current assets		**344,253**	392,361	408,281
Current liabilities				
Trade payables		**15,141**	23,698	21,513
Contract liabilities		**6,723**	4,952	5,631
Lease liabilities	2	**4,463**	-	-
Current tax		**4,506**	7,131	4,538
Provisions		**2,473**	2,952	2,846
Derivatives	10	**5,975**	30,222	18,920
Borrowings		**1,073**	-	1,043
Other payables		**27,849**	29,282	41,065
Total current liabilities		**68,203**	98,237	95,556
Net current assets		**276,050**	294,124	312,725
Non-current liabilities				
Borrowings		**9,628**	-	9,356
Lease liabilities	2	**8,469**	-	-
Employee benefits		**42,831**	52,566	51,870
Deferred tax liabilities		**539**	188	539
Derivatives	10	**16,391**	24,928	35,227
Total non-current liabilities		**77,858**	77,682	96,992
Total assets less total liabilities		**589,892**	558,743	583,277
Equity				
Share capital		**14,558**	14,558	14,558
Share premium		**42**	42	42
Own shares held		**(404)**	(404)	(404)
Currency translation reserve		**5,661**	14,478	14,577
Cash flow hedging reserve		**(2,970)**	(39,017)	(42,401)
Retained earnings		**573,798**	570,051	597,784
Other reserve		**(216)**	(388)	(302)
Equity attributable to the shareholders of the parent company		**590,469**	559,320	583,854
Non-controlling interest		**(577)**	(577)	(577)
Total equity		**589,892**	558,743	583,277

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 2018	14,558	42	-	12,665	(19,389)	540,487	(460)	(577)	547,326
Profit for the period	-	-	-	-	-	52,023	-	-	52,023
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	11,024	-	-	11,024
Foreign exchange translation differences	-	-	-	1,934	-	-	-	-	1,934
Relating to associates and joint ventures	-	-	-	(121)	-	-	-	-	(121)
Changes in fair value of cash flow hedges	-	-	-	-	(19,628)	-	-	-	(19,628)
Total other comprehensive income and expense	-	-	-	1,813	(19,628)	11,024	-	-	(6,791)
Total comprehensive income and expense	-	-	-	1,813	(19,628)	63,047	-	-	45,232
Transactions with owners recorded in equity									
Share-based payments charge	-	-	-	-	-	-	72	-	72
Purchase of own shares	-	-	(404)	-	-	-	-	-	(404)
Dividends paid	-	-	-	-	-	(33,483)	-	-	(33,483)
Balance at 31 December 2018	**14,558**	**42**	**(404)**	**14,478**	**(39,017)**	**570,051**	**(388)**	**(577)**	**558,743**
Profit for the period	-	-	-	-	-	40,209	-	-	40,209
Other comprehensive income and expense (net of tax)									
Remeasurement of defined benefit pension liabilities	-	-	-	-	-	(2,287)	-	-	(2,287)
Foreign exchange translation differences	-	-	-	(94)	-	-	-	-	(94)
Relating to associates and joint ventures	-	-	-	193	-	-	-	-	193
Changes in fair value of cash flow hedges	-	-	-	-	(3,384)	-	-	-	(3,384)
Total other comprehensive income and expense	-	-	-	99	(3,384)	(2,287)	-	-	(5,572)
Total comprehensive income and expense	-	-	-	99	(3,384)	37,922	-	-	34,637
Transactions with owners recorded in equity									
Share-based payments charge	-	-	-	-	-	-	86	-	86
Purchase of own shares	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(10,189)	-	-	(10,189)
Balance at 30 June 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
Purchase of own shares	-	-	-	-	-	-	-	-	-
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**

Consolidated statement of cash flow

Unaudited

	6 months to 31 December 2019 £'000	6 months to 31 December 2018 £'000	Audited Year ended 30 June 2019 £'000
Cash flows from operating activities			
Profit for the period	**7,395**	52,023	92,232
Adjustments for:			
Amortisation of development costs	**8,118**	7,027	15,144
Amortisation of other intangibles	**606**	908	1,518
Amortisation of right of use assets	**2,207**	-	-
Impairment of goodwill and other intangibles	**1,973**	-	-
Impairment of property, plant and equipment	**-**	-	1,155
Depreciation	**12,373**	11,436	22,597
(Profit)/loss on sale of property, plant and equipment	**(46)**	79	148
Profit on sale of other intangibles	**-**	(455)	(455)
Remeasurement of defined benefit pension scheme liabilities from GMP equalisation	**-**	751	751
(Gains)/losses from the fair value of financial instruments – derivatives	**2,120**	(1,970)	(6,081)
Gains from the fair value of financial assets	**(2,700)**	-	-
Share of profits from associates and joint ventures	**(947)**	(2,185)	(3,815)
Financial income	**(1,083)**	(5,713)	(7,238)
Financial expenses	**3,590**	454	902
Share based payment expense	**86**	72	158
Tax expense	**2,538**	9,572	17,712
	28,835	19,976	42,496
Decrease/(increase) in inventories	**11,232**	(11,913)	(18,463)
Decrease/(increase) in trade and other receivables	**18,709**	26,404	30,028
(Decrease)/increase in trade and other payables	**(14,795)**	(15,980)	(7,183)
(Decrease)/increase in provisions	**(676)**	(501)	(607)
	14,470	(1,990)	3,775
Defined benefit pension contributions	**(7,081)**	(2,747)	(6,831)
Income taxes paid	**(4,708)**	(13,618)	(25,183)
Cash flows from operating activities	**38,911**	53,644	106,489
Investing activities			
Purchase of property, plant and equipment	**(28,398)**	(19,643)	(56,792)
Development costs capitalised	**(7,948)**	(8,200)	(18,091)
Purchase of other intangibles	**(2,864)**	(2,620)	(4,161)
Sale of other intangibles	**-**	2,001	2,000
Sale of property, plant and equipment	**990**	3,241	4,713
Interest received	**575**	446	1,222
Dividends received from associates and joint ventures	**512**	614	614
Payments (to)/from pension scheme escrow account	**-**	(38)	(77)
Cash flows from investing activities	**(37,133)**	(24,199)	(70,572)
Financing activities			
Interest paid	**(99)**	(16)	(57)
Increase in borrowings	**1,169**	-	10,486
Repayment of borrowings	**(425)**	-	(87)
Repayment of lease liabilities	**(2,480)**	-	-
Dividends paid	**(33,478)**	(33,483)	(43,672)
Purchase of own shares	**-**	(404)	(404)
Cash flows from financing activities	**(35,313)**	(33,903)	(33,734)
Net (decrease)/increase in cash and cash equivalents	**(33,535)**	(4,458)	2,183
Cash and cash equivalents at the beginning of the period	**106,826**	103,847	103,847
Effect of exchange rate fluctuations on cash held	**(1,984)**	1,115	796
Cash and cash equivalents at the end of the period	**71,307**	100,504	106,826

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
30 January 2020

Notes

1. Basis of preparation

The Interim Report, which includes the condensed consolidated financial statements for the six months ended 31 December 2019, was approved by the Directors on 30 January 2020.

The condensed consolidated financial statements for the six months ended 31 December 2019 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 2019, except for income taxes which are accrued using the forecast tax rate for the financial year, and except for the adoption of new accounting standards as set out in note 2.

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 2019 is an extract from the Group's published Annual Report for that year, which has been delivered to the Registrar of Companies, and on which the auditor's report was unqualified and did not contain any emphasis of matter or statements under section 498(2) or 498(3) of the Companies Act 2006.

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

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

2. New accounting standards and policies

IFRS 16 'Leases'

Summary

IFRS 16 'Leases' replaces IAS 17 and related standards, and provides an accounting model under which substantially all leases are recognised on the balance sheet of the lessee. A 'right of use' asset is recognised, being the right to use the underlying asset of the lease, and a lease liability is also recognised on the balance sheet, being the obligation to make payments in respect of the use of the underlying asset.

The Group adopted IFRS 16 on 1 July 2019 using the modified retrospective transition approach (and has therefore not restated comparatives for the prior period) with the principal change being that leases previously classified as operating leases under IAS 17 were brought on to the balance sheet at 1 July 2019. The impact of IFRS 16 is disclosed later in this note.

In adopting IFRS 16 the Group took advantage of the following practical expedients permitted by the standard:

- The right of use assets were measured at an amount based on the lease liability at adoption, and initial direct costs incurred when obtaining leases were excluded from this measurement
- Reliance was placed on previous assessments of whether leases are onerous (the assessment of which determined that the impact of onerous leases was trivial)
- Operating leases with a remaining lease term of less than 12 months at 1 July 2019 were accounted for as 'short-term leases'

Impact – at transition and subsequently

As IFRS 16 no longer distinguishes between operating leases and finance leases, operating lease commitments disclosed at 30 June 2019 were replaced with a lease liability and recognised at 1 July 2019, as follows:

	£'000
Operating lease commitments as disclosed at 30 June 2019	16,390
Less: effect of discounting	(149)
Less: recognition differences and assumptions	(1,994)
Total lease liability recognised at 1 July 2019	14,247

The weighted average incremental borrowing rate applied to the Group's lease liabilities recognised in the consolidated balance sheet at 1 July 2019 was 2.4%.

The impact on the primary statements of adopting IFRS 16 at 1 July 2019 is summarised below:

Impact on the Consolidated balance sheet

	At 1 July 2019 £'000	**At 31 December 2019 £'000**
Right of use assets	14,550	12,950
Deferred tax assets	-	56
Non-current assets	14,550	13,006
Lease liabilities	4,799	4,463
Other payables	303	291
Current liabilities	5,102	4,754
Lease liabilities	9,448	8,469
Deferred tax liabilities	-	-
Non-current liabilities	9,448	8,469
Total assets less total liabilities	-	(217)
Currency translation reserve	-	12
Retained earnings	-	(229)
Total equity	-	(217)

Right of use assets at 1 July 2019 consisted of £11,377,000 relating to property leases occupied for trading purposes, £3,013,000 relating to vehicle leases and a small amount relating to machinery leases.

Impact on the Consolidated income statement

The impact on the Consolidated income statement for the six months ended 31 December 2019 is to increase operating profit by £272,000 and increase finance costs by £557,000, therefore reducing profit before tax by £285,000. The aggregate of depreciation and interest expense will generally result in higher expenses in the earlier periods of leases than would have been the case under IAS 17.

Impact on the Consolidated cash flow statement

There is no change to net cash flow from the adoption of IFRS 16. Under IAS 17 operating lease payments were treated as operating cash outflows, however under IFRS 16 payments made at lease inception and subsequently (both principal and interest) are classified as financing outflows. The Group therefore shows both higher cash inflows from operating activities and higher cash outflows from financing activities under IFRS 16.

Accounting policy

As a lessee

At the lease commencement date the Group recognises a right of use asset for the leased item and a lease liability for any lease payments due.

Right of use assets are initially measured at cost, being the present value of the lease liability plus any initial costs incurred in entering the lease and less any lease incentives received. Right of use assets are subsequently depreciated on a straight-line basis from the commencement date to the earlier of i) the end of the useful life of the asset, or ii) the end of the lease term.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate of the applicable entity. The lease liability is subsequently measured at amortised cost using the effective interest method and is remeasured if there is a change in future lease payments arising from a change in an index or rate (such as an inflation-linked increase), of if there is a change in the Group's assessment of whether it will exercise an extension or termination option. When this happens there is also a corresponding adjustment to the right-of-use asset.
Where the Group enters into leases with a lease term of 12 months or less, these are treated as 'short term' leases and are recognised on a straight-line basis as an expense in the Income Statement. The same treatment applies to low-value assets, which are typically IT equipment and office equipment.

<u>As a lessor</u>
The Group acts as a lessor for Renishaw-manufactured plant and equipment and determines at inception whether the lease is a finance or an operating lease.

Where the Group transfers the risks and rewards of ownership of lease assets to a third party, the Group recognises a receivable in the amount of the net investment in the lease, within Trade receivables. The lease receivable is subsequently reduced by the principal received, while an interest component is recognised as financial income in the Consolidated income statement.

Where the Group retains the risks and rewards of ownership of lease assets, it continues to recognise the leased asset in Property, plant and equipment. Income from operating leases is recognised on a straight-line basis over the lease term and recognised as Revenue rather than Other revenue as such income is not material.

3. Segmental information

The Group manages its business in two segments, comprising metrology and healthcare products. The results of these are regularly reviewed by the Board to allocate resources to segments and to assess their performance. Within the operating segment of metrology, there are multiple product offerings with similar economic characteristics, and where the nature of the products and production processes and their customer bases are similar. More details of the Group's products and services are given in the Strategic report of the 2019 Annual report.

Whilst future revenue is difficult to predict given that the Group's outstanding order book is typically around one month's worth of revenue value, larger consumer electronics orders in the 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.

6 months to 31 December 2019	**Metrology £'000**	**Healthcare £'000**	**Total £'000**
Revenue	**241,545**	**17,835**	**259,380**
Depreciation and amortisation	**21,954**	**1,116**	**23,070**
Operating profit before losses from fair value of financial instruments - derivatives	**21,350**	**(1,286)**	**20,064**
Share of profits from associates and joint ventures	**947**	**-**	**947**
Net financial gain/(expense)	**-**	**-**	**(2,508)**
Losses from the fair value of financial instruments – derivatives	**-**	**-**	**(8,570)**
Profit before tax	**-**	**-**	**9,933**

6 months to 31 December 2018			
Revenue	277,717	18,953	296,670
Depreciation and amortisation	18,468	903	19,371
Operating profit before losses from fair value of financial instruments	55,171	211	55,382
Share of profits from associates and joint ventures	2,185	-	2,185
Net financial gain/(expense)	-	-	5,259
Losses from the fair value of financial instruments - derivatives	-	-	(1,230)
Profit before tax	-	-	61,596

Year ended 30 June 2019

Revenue	532,940	41,019	573,959
Depreciation and amortisation	37,714	2,700	40,414
Operating profit before gains from fair value of financial instruments - derivatives	95,345	3,367	98,712
Share of profits from associates and joint ventures	3,815	-	3,815
Net financial expense	-	-	6,336
Gains from the fair value of financial instruments - derivatives	-	-	1,081
Profit before tax	-	-	109,944

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 2019 £'000	6 months to 31 December 2018 £'000	Year ended 30 June 2019 £'000
Goods, capital equipment and installation	**232,145**	269,569	519,782
Aftermarket services	**27,235**	27,101	54,177
Total group revenue	**259,380**	296,670	573,959

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 2019 £'000	6 months to 31 December 2018 £'000	Year ended 30 June 2019 £'000
APAC	**106,801**	131,181	240,115
EMEA	**88,998**	100,078	201,255
Americas	**63,581**	65,411	132,589
Total Group revenue	**259,380**	296,670	573,959

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 2019 £'000	6 months to 31 December 2018 £'000	Year ended 30 June 2019 £'000
China	**43,259**	65,246	111,002
USA	**52,698**	54,961	113,235
Japan	**30,635**	33,212	63,650
Germany	**27,178**	31,477	60,916

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

4. Financial income and expenses

	6 months to 31 December 2019 £'000	6 months to 31 December 2018 £'000	Year ended 30 June 2019 £'000
Financial income			
Currency gains	**-**	5,267	5,940
Fair value gains from 1 month forward currency contracts	**508**	-	76
Interest receivable	**575**	446	1,222
Total financial income	**1,083**	5,713	7,238
Financial expenses			
Interest on pension schemes' liabilities	**459**	438	845
IFRS 16 lease interest	**557**	-	-
Currency losses	**2,476**	-	-
Bank interest payable	**98**	16	57
Total financial expenses	**3,590**	454	902

Currency gains relates to revaluations of foreign currency denominated balances using latest reporting currency exchange rates. The gain recognised in the six months to 31 December 2018 largely related to a depreciation of sterling relative to the dollar affecting dollar denominated intra-group balances in the Company (Renishaw plc).

Certain long-term intragroup receivable balances for which settlement is neither planned nor likely to occur were reclassified as net investments in foreign operations on 3 December 2018, such that revaluations from future currency movements on designated balances will accumulate in the Currency translation reserve in Equity. Additionally, from 1 January 2019, a policy of entering into rolling one month forward currency contracts began, with fair value gains and losses being recognised in financial income, to partially offset currency movements on remaining intragroup balances. After these mitigating activities, currency losses in the six months to 31 Decemebr 2019 amounted to £2,476,000.

5. Taxation

The income tax expense in the Consolidated income statement has been estimated at a rate of 17.4% (December 2018: 15.5%) before a deferred tax asset 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 impairment arises from uncertainty over the recoverability of a portion of previously recognised losses against future taxable profits in our US business. The effective tax rate including the impairment for the 6 months to 31 December 2019 is 25.6%.

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

6. Earnings per share

The earnings per share for the six months ended 31 December 2019 is calculated on earnings of £7,395,000 (December 2018: £52,023,000) and on 72,778,904 shares (December 2018: 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 (EBT), which were purchased on 10 December 2018.

7. Dividends

Dividends paid during the period were:	**6 months to 31 December 2019 £'000**	6 months to 31 December 2018 £'000	Year ended 30 June 2019 £'000
2019 final dividend of 46.0p per share (2018: 46.0p)	**33,478**	33,483	33,483
2019 interim dividend of 14.0p	**-**	-	10,189
Total dividends paid during the period	**33,478**	33,483	43,672

All Directors have waived their right to the interim dividend. All other shareholders on the register on 6 March 2020 will be paid an interim dividend of 14.0p net per share on 6 April 2020, resulting in a dividend payable of £4,782,067.

8. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 1 July 2019	197,474	245,027	9,555	8,758	460,814
Additions	12,349	5,145	276	10,628	28,398
Transfers	34	1,077	-	(1,111)	-
Disposals	-	(3,099)	(687)	-	(3,786)
Currency adjustment	(5,077)	(3,929)	(242)	-	(9,248)
At 31 December 2019	**204,780**	**244,221**	**8,902**	**18,275**	**476,178**
Depreciation					
At 1 July 2019	31,893	158,567	6,877	-	197,337
Charge for the period	1,671	10,106	596	-	12,373
Released on disposals	-	(2,189)	(653)	-	(2,842)
Currency adjustment	(882)	(1,892)	(171)	-	(2,945)
At 31st December 2019	**32,682**	**164,592**	**6,649**	**-**	**203,923**
Net book value					
At 31 December 2019	**172,098**	**79,629**	**2,253**	**18,275**	**272,255**
At 30 June 2019	165,581	86,460	2,678	8,758	263,477

Additions to assets in the course of construction of £10,628,000 (December 2018: £5,528,000) comprise £8,412,000 (December 2018: £2,445,000) for freehold land and buildings and £2,216,000 (December 2018: £3,083,000) for plant and equipment.

At the end of the period, assets in the course of construction, not yet transferred, of £18,275,000 (December 2018: £5,958,000) comprise £14,269,000 (December 2018: £2,361,000) for freehold land and buildings and £4,006,000 (December 2018: £3,597,000) for plant and equipment.

9. Intangible assets

	Goodwill on consolidation £'000	Other intangible assets £'000	Internally generated development costs £'000	Software licences and intellectual property £'000	Total £'000
Cost					
At 1 July 2019	20,227	13,823	150,042	20,827	204,919
Additions	-	1,900	7,948	964	10,812
Currency adjustment	(510)	(7)	-	(55)	(572)
At 31 December 2019	**19,717**	**15,716**	**157,990**	**21,736**	**215,159**
Amortisation					
At 1 July 2019	8,220	11,260	108,954	17,429	145,863
Charge for the period	-	28	8,118	578	8,724
Impairment	403	1,571	-	-	1,974
Currency adjustment	-	7	-	(35)	(28)
At 31 December 2019	**8,623**	**12,866**	**117,072**	**17,972**	**156,533**
Net book value					
At 31 December 2019	**11,094**	**2,850**	**40,918**	**3,764**	**58,626**
At 30 June 2019	12,007	2,563	41,088	3,398	59,056

Impairments of £1,973,000 at 31 December 2019 have been recognised in Administrative expenses in the Consolidated income statement due to the uncertain future cash flows relating to these assets.

10. 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 and a convertible loan option, 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 2019 the total nominal value of USD contracts held for cash flow hedging purposes was $870,000,000, or £636,232,521. On the basis of a highly probable sales forecast according to IFRS 9 'Financial Instruments' of Renishaw plc (the Company) and Renishaw UK Sales Limited, a partial prospective discontinuation of contracts with nominal value of $133,130,000, or £96,802,000 (15.2% of total USD contracts) was necessitated. The fair value loss on such contracts at 31 December 2019 recognised in 'Gains/(losses) from the fair value of financial instruments – derivatives' was £3,030,000. Additionally, £3,317,000 of realised losses was accounted for in 'Gains/(losses) from the fair value of financial instruments – derivatives' relating to ineffective portions of contracts which matured in the six months to 31 December 2019. The remaining loss amount of £2,223,000 relates to fair value movements on option contracts, which are ineffective for cash flow hedging purposes.

On an ongoing basis as a consequence of the above, a 10% depreciation of the GBP:USD exchange rate would result in a £9,680,173 loss being recognised in the Consolidated Income Statement, while a 10% appreciation would result in a £8,800,157 gain.

Fair value gains and losses relating to this have been excluded from adjusted profit measures, see note 11 for further detail.

11. Alternative performance measures

Alternative performance measures are – Revenue at constant exchange rates, Adjusted profit before tax, Adjusted earnings per share and Adjusted operating profit.

Revenue at constant exchange rates is defined as Revenue recalculated using the same rates as were applicable to the previous year and excluding forward contract gains and losses.

Revenue at constant exchange rates	**6 months to 31 December 2019 £'000**	6 months to 31 December 2018 £'000
Statutory revenue as reported	**259,380**	296,670
Adjustment for forward contract losses	**7,324**	10,265
Adjustment to restate at previous year exchange rates	**(3,081)**	-
Revenue at constant exchange rates	**263,623**	306,935
Year on year revenue growth at constant exchange rates	**-14%**	

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

The gains and losses from fair value of financial instruments not effective for cash flow hedging have been excluded from statutory profit before tax, statutory earnings per share and statutory operating profit in arriving at adjusted profit before tax, adjusted earnings per share and adjusted operating profit to reflect the Board's intent that the instruments would provide effective hedges. This is classified as 'Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)' in the following reconciliations.

This includes gains or losses from fair value movements on derivatives deemed partially ineffective 31 December 2019. Such contracts are still expected to achieve management's hedging intent for the consolidated Group, despite failing certain elements of IFRS 9 hedge effectiveness criteria. This is classified as 'Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)' in the following reconciliations.

Restructuring costs accounted for in Cost of sales, Distribution costs and Administrative expenses relating to the planned closure of the Staffordshire site and reductions in direct manufacturing staff in the UK have also been excluded from these alternative performance measures.

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 2019 £'000**	6 months to 31 December 2018 £'000	Year ended 30 June 2019 £'000
Statutory profit before tax	**9,933**	61,596	109,944
Restructuring costs reported in Cost of sales, Distribution costs and Administrative expenses	**2,249**	-	-
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)			
- reported in revenue	**(3,133)**	(3,200)	(5,001)
- reported in (gains)/losses from the fair value of financial instruments - derivatives	**2,223**	1,230	(1,081)
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	**3,030**	-	-
Adjusted profit before tax	**14,302**	59,626	103,862

Adjusted earnings per share	**6 months to 31 December 2019 pence**	6 months to 31 December 2018 pence	Year ended 30 June 2019 pence
Statutory earnings per share	**10.2**	71.5	126.7
Restructuring costs reported in Cost of sales, Distribution costs and Administrative expenses	**2.5**	-	-
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)			
- reported in revenue	**(3.5)**	(3.6)	(5.6)
- reported in (gains)/losses from the fair value of financial instruments - derivatives	**2.5**	1.4	(1.2)
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	**3.4**	-	-
Adjusted earnings per share	**15.1**	69.3	119.9

Adjusted operating profit	**6 months to 31 December 2019 £'000**	6 months to 31 December 2018 £'000	Year ended 30 June 2019 £'000
Statutory operating profit	**11,493**	54,151	99,793
Restructuring costs reported in Cost of sales, Distribution costs and Administrative expenses	**2,249**		
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)			
- reported in revenue	**(3,133)**	(3,200)	(5,001)
- reported in (gains)/losses from the fair value of financial instruments - derivatives	**2,223**	1,230	(1,081)
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	**3,030**	-	-
Adjusted operating profit	**15,862**	52,181	93,711

Adjustments to segmental operating profit:

Metrology	**6 months to 31 December 2019 £'000**	6 months to 31 December 2018 £'000	Year ended 30 June 2019 £'000
Operating profit before gain/loss from fair value of financial instruments - derivatives	**21,350**	55,171	95,345
Restructuring costs reported in Cost of sales, Distribution costs and Administrative expenses	**2,249**		
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i)			
- reported in revenue	**(2,919)**	(2,998)	(4,745)
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (ii)			
- reported in revenue	**(3,318)**	-	-
Adjusted metrology operating profit	**17,362**	52,173	90,600

Healthcare	**6 months to 31 December 2019 £'000**	6 months to 31 December 2018 £'000	Year ended 30 June 2019 £'000
Operating loss before gain/loss from fair value of financial instruments - derivatives	**(1,286)**	211	3,367
Fair value (gains)/losses on financial instruments not eligible for hedge accounting (i) - reported in revenue	**(214)**	(202)	(256)
Adjusted healthcare operating profit	**(1,500)**	9	3,111

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 2019.

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.

On 6 January 2020 a third party acquired shares in our associate company, HiETA Technologies Limited. As part of the transaction, Renishaw plc converted a loan to share capital in HiETA, disposed of a proportion of our shareholding and the remaining shareholding was diluted following a share issue to the third party. Following the transaction, Renishaw plc has a 33.33% shareholding in the company. Given the high level of confidence at 31 December 2019 that the transaction would complete in January, a fair value gain of £2,700,000 has been recognised in the Consolidated income statement and the Consolidated balance sheet in respect of the convertible loan option. The fair value adjustment reflects a valuation for the company based on the cash consideration paid by the third party for it's shareholding.

13. Principal risks and uncertainties

A number of potential risks and uncertainties exist which could have an impact on the Group's performance. The Group has processes in place for identifying, evaluating and managing principal risks. These risks, together with a description of our approach to mitigating them, are set out on pages 40 to 42 of the Annual report 2019, which is available on the Group's website at www.renishaw.com.

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

Following the referendum in June 2016 and the subsequent triggering of Article 50 in March 2017, the UK is scheduled to leave the European Union on 31 January 2020 ("Brexit"). The decision has led to a higher level of uncertainty surrounding trading conditions, particularly between the UK and the EU. In the year ended 30 June 2019, 25% of group revenue resulted from trading with the EU.

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

With a strong direct presence in the EU, the Board believes that Renishaw is well placed to respond to changes to future trading arrangements between the EU and the UK. The establishment of a distribution warehouse in Ireland is complete which, if required, will significantly reduce the number of direct shipments from the UK to the EU post Brexit. Inventory holdings of certain components and finished goods have been increased at our various sites within the EU and UK to mitigate the risk of delays in customs and border clearances.

Other than set out above, the Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual report 2019 and confirm that they remain relevant for the second half of the financial year.

Financial calendar

2020 interim dividend record date	6 March 2020
2020 interim dividend payment date	6 April 2020
Investor day	12 May 2020
Announcement of 2020 full year results	3 August 2020
Publication of 2020 Annual report	Late August 2020
Annual general meeting	22 October 2020
2020 final dividend record date (provisional)	25 September 2020
2020 final dividend payment date (provisional)	29 October 2020

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