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Dear Shareholder

I am writing to you on behalf of the Remuneration Committee of Renishaw plc to set out proposed changes to the Company's remuneration policy. In line with the Companies Act, Renishaw will be submitting its remuneration policy for shareholder approval at the 2017 AGM. The Remuneration Committee has reviewed the existing policy, which was supported by 86% of voting shareholders when put to the AGM in 2014. Our proposed changes are outlined below. In reviewing the policy we have:

- taken into account feedback from the minority shareholder community as well as the majority shareholders,
- considered changes in market practice since 2014,
- reviewed developments in remuneration governance, including the commentary from many stakeholders and observers on the issue of executive pay.

At Renishaw the role of the Remuneration Committee is to ensure that this remarkable company continues to have a remuneration policy that supports its continued growth and innovative culture, provides advice and guidance to the management of the Company on talent, succession and associated remuneration matters, and ensures strong independent governance.

Proposals

1. Overall remuneration

The Company has a successful track record in retaining senior executives and leaders, with many of them having been with the business for many years, often starting in Renishaw's excellent graduate programmes. We expect that to continue, however, we must also be able within the confines of the policy, to have the capacity to attract and retain key executives. The proposed changes to the policy in this respect are modest but important in facilitating this goal. As a result, the policy outlines the competitive maxima the Committee believes are required, and for the first time places a cap on total remuneration.

2. Long term remuneration

Institutional investors and advisory bodies have often queried the absence at Renishaw of long term incentives. The Committee has considered this input, along with their own experiences and professional advice, and the views of the majority shareholders whose preference is not to adopt a standard LTIP. Consequently the Committee has devised a deferred annual equity incentive that we believe:

- has stretching performance goals,
- helps align the interests of Executive Directors and shareholders over the long term,
- is simple,
- better aligns the structure of remuneration for Executive Directors with that of other staff.

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In detail there are two elements:

a) Deferred annual equity incentive

The Remuneration Committee is proposing to provide an incentive to reward performance in excess of the present stretch annual bonus maximum. This incentive would be capped at 50% of salary and delivered in deferred shares to be held for a minimum of three years. The maximum aggregate variable pay opportunity would therefore be 150% of salary (up to 100% in cash and up to 50% in shares). The Remuneration Committee believes that the targets for the annual cash bonus and deferred annual equity incentive are robust, stretching, and aligned to the strategic growth plan for the business.

The following conditions would apply:

- Vesting subject to continued employment,
- Shares bought in the market,
- Awards for good leavers pro-rated for time,
- Malus and clawback provisions in the case of any material financial misstatement, error in calculation, or misconduct, and where recovery provisions remain in force for two years post vesting.

b) Executive shareholding guideline

It is also proposed to introduce for the first time a minimum shareholding guideline of 50% of salary for all Executive Directors. Any net deferred share awards from the deferred annual equity incentive (above) will be retained until this level is achieved. Although the proposed level of shareholding is below current market norms for other FTSE companies of Renishaw's size, the Committee believes it is appropriate at this stage as (in line with median FTSE practice) it reflects one times the maximum equity opportunity in the Renishaw package, and recognises the absence of any share incentive to date. This level of shareholding guideline will be kept under review.

We welcome your feedback in advance of finalising our policy for implementation in the next financial year. I would be pleased to receive your comments. I can be contacted via the Group Company Secretary, Norma Tang (Norma.Tang@Renishaw.com).

I look forward to hearing from you.

Yours sincerely



Kath Durrant
Chair of the Remuneration Committee