Gooch & Housego

ENABLING PHOTONIC TECHNOLOGIES

ANNUAL REPORT

SEPTEMBER 2016

Gooch & Housego PLC is a global leader in Photonics solutions for Industrial, Aerospace & Defence, Life Sciences and Scientific Research applications

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Financial Highlights

Revenue
(£ million)

86.1
+9.3%

2015 78.7

2016	86.1
2015	78.7
2014	70.1
2013	63.3
2012	60.9

Statutory profit before tax
(£ million)

10.1

2015 10.1

Adjusted profit before tax
(£ million)

14.2
+9.7%

2015 12.9

2016	14.2
2015	12.9
2014	11.5
2013	9.7
2012	8.2

Basic earnings per share
(pence)

29.1 -5.8%

2015 30.9

Adjusted basic earnings per share
(pence)*

42.5
+7.6%

2015 39.5

2016	42.5
2015	39.5
2014	35.6
2013	32.0
2012	28.2

Total dividends per share
(pence)

9.0
+9.8%

2015 8.2

2016	9.0
2015	8.2
2014	7.2
2013	6.3
2012	5.2

Net cash
(£ million)

11.7
-32.4%

2015 17.3

2016	11.7
2015	17.3
2014	8.7
2013	5.7
2012	(0.3)

*adjusted figures exclude the amortisation of acquired intangible assets, gain on bargain purchase, impairment of goodwill and exceptional items being restructuring, provision for export compliance and transaction costs.

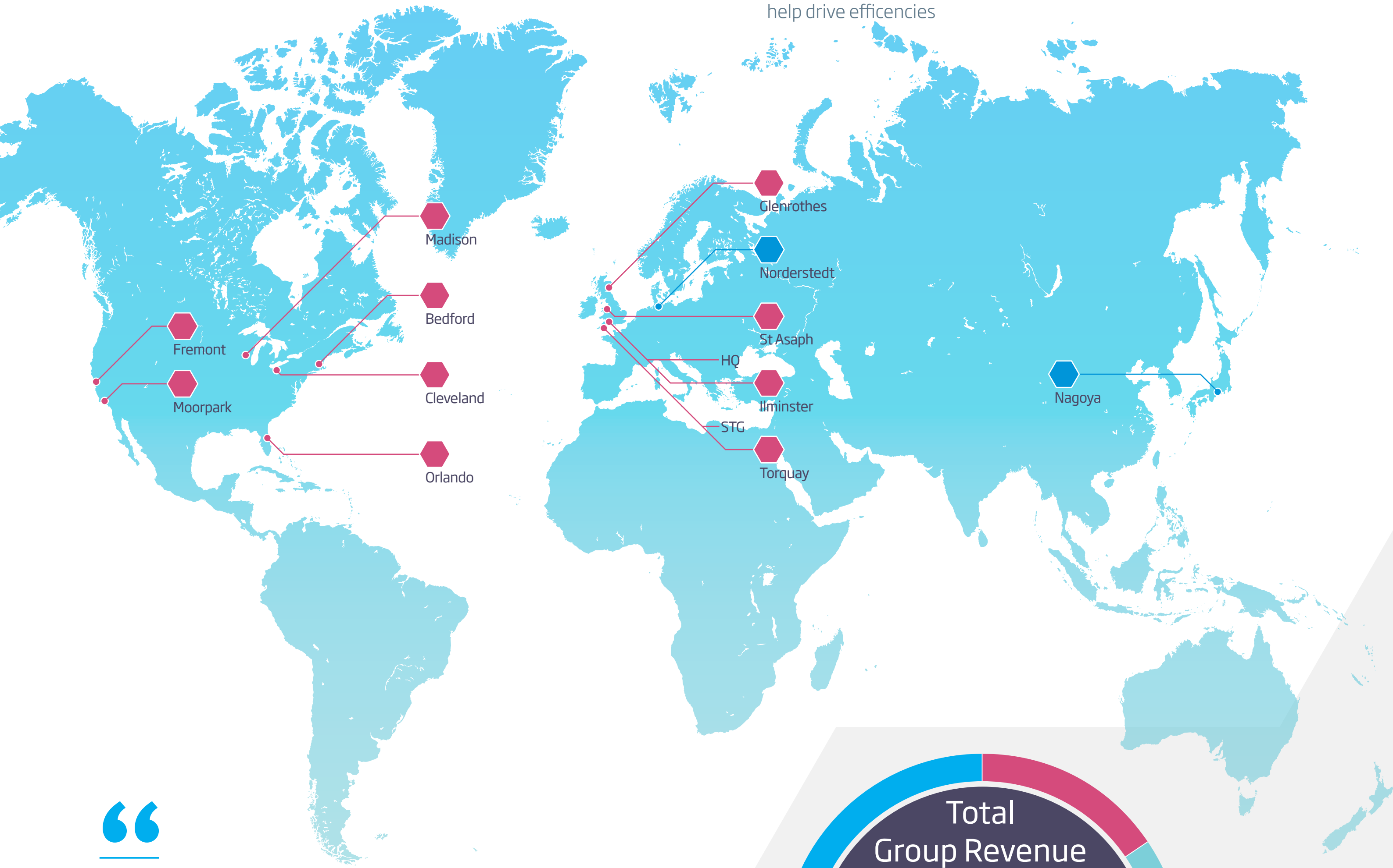
MANUFACTURING

SALES OFFICES

FREMONT, USA
New Fremont site provides much improved facilities and room for expansion

CLEVELAND, USA
Cleveland facility, which houses our world leading crystal growth capabilities, is being refurbished which will help drive efficencies

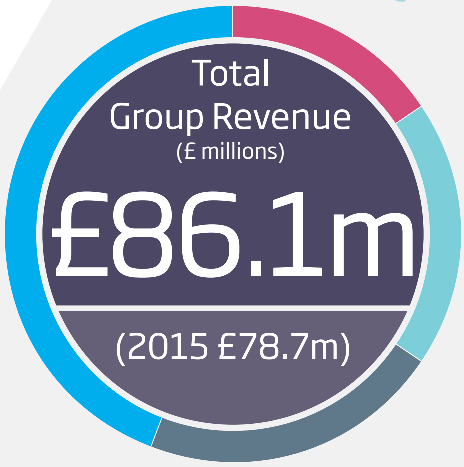
FAR EAST
Geographical footprint across the Far East, including China, Singapore and Japan



"During FY 2016 G&H made good progress with its strategic goals of further diversification and moving up the value chain; we met our financial objectives; made a number of strategically important investments and have acquired two highly complementary companies.

These strategic initiatives combined with a record year end order book mean we are well placed for future material growth"

Mark Webster
Chief Executive Officer



REVENUE BY GEOGRAPHIC REGION
(£ million)

USA	£34.9m / 40.6%
Continental Europe	£19.2m / 22.3%
United Kingdom	£17.2m / 20.0%
Asia Pacific and Other	£14.7m / 17.1%

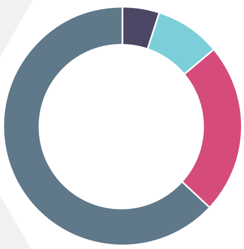
OPERATING & STRATEGIC HIGHLIGHTS

- Excellent performance from our fibre based business, in particular telecoms, satellite communications and fibre sensing
- Strong second half performance with good momentum going into FY17
- Two highly complementary acquisitions completed in the Aerospace & Defence sector
- Substantially upgraded a number of our real estate assets
- Ongoing performance improvement initiatives driving efficiencies
- Investment in R&D up 15.4%, 21 new products introduced and 5 new patents granted

FINANCIAL HIGHLIGHTS

- Revenue for the year £86.1m, 9.3% higher than 2015. Acquisitions contributed £2.4m in the year.
- Adjusted profit before tax up 9.7%
- Strong cash performance delivering net cash of £11.7m at year end, after investing £5.7m in acquisitions and £9.7m in property, plant & equipment (2015: £17.3m).
- Record year-end order book of £52.8m, up 45% from 30 September 2015
- Proposed final dividend of 5.7p. Full year dividend growth of 9.8%.

REVENUE BY SECTOR



Industrial (£millions)
54.3
63%

Aerospace & Defence (£millions)
20.0
23%

Life Sciences (£millions)
7.9
9%

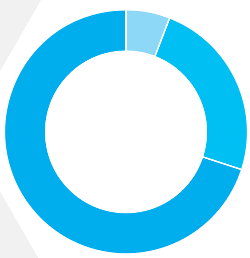
Scientific Research (£millions)
3.9
5%

HISTORICAL REVENUE BY SECTOR

(£ millions)

Year	Industrial	Aerospace & Defence	Life Sciences	Scientific Research
2016	54.3	20.0	7.9	3.9
2015	46.1	19.8	9.0	3.9
2014	39.8	18.8	7.3	4.1
2013	34.3	17.3	7.4	4.3
2012	35.8	15.4	5.7	3.9

REVENUE BY CURRENCY



$ USD
70%
£60.1m
2015
69%

£ GBP
24%
£20.7m
2015
24%

€ EUR
6%
£5.3m
2015
7%

Sectors and Applications

Gooch & Housego's wide range of photonic devices are deployed across a uniquely broad range of applications, often in challenging environments.

INDUSTRIAL

Photonics play an ever-increasing role in industrial manufacturing. G&H serves these applications and markets with a diverse product portfolio, from components to sub-assemblies and final test and measurement equipment.

Production Technologies

Laser Material Processing

Laser material processing is a broad term which encompasses production processes such as ablating, bending, cutting, curing, forming, fusing, marking, micro-machining, sintering, thermal annealing, via drilling, and welding.

For these applications, we design and manufacture products which are used in laser cavities, to steer and control or to modulate the beam.

Printing

In lithography and micro-lithography, the production process is inherently photonic in nature. Computer-to-plate technologies, flexographic, and offset printing production components utilize laser processing to create the printing tools.

We provide a variety of optical components into these applications where accurate transmitted wavefronts and high energy tolerance provide superior printed image quality and longevity in production.

Test and Measurement

Photonics is used across a wide variety of applications to ascertain quality, damage, motion, chemical composition, temperature, location, distance, and to automate these types of tests.

Sensing

Fibre optics are deployed in a wide variety of sensing applications. These applications may use fibre simply as the communication medium for speed, lack of ignition sources, or weight. They may also integrate fibre gratings as the sensor to leverage the superior resolution.

We supply fibre optic and acousto-optic sub-assemblies and components to equipment manufacturers and installers of these systems.

Telecommunications

We serve the more demanding applications within telecommunications. Our customers deploy our fibre-based products in undersea networks and in space for satellite-to-satellite communications.

In addition we supply specialist crystals into 40G and 100G modulation systems.

AEROSPACE & DEFENCE

Defence and avionics markets have been important drivers for our investment in operational quality and program management.

We continue to invest in our continuous improvement and lean manufacturing programs, as well as production equipment and metrology to better serve our most demanding aerospace and defence customers.

Communications

Tactical communications require rugged, hi-reliability components and sub-systems; in some instances light-weight for maximum mobility.

We support a number of C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance) applications including RF over fibre, secure fibre optic networks and surveillance and target acquisition.

Our military-grade components are designed to survive under extreme conditions, manufactured in AS9100C facilities, and qualified to the necessary Telcordia, BSI, DIN, or MIL specifications as required.

Imaging under Extreme Conditions

Sights, telescopes, periscopes, and other imaging systems have long played a role in defence. In recent years photonics has broadened imaging systems to a wide variety of conditions (night, fog and haze, smoke, sand storm, aerial, and space) and adapted to a range of situations. G&H provides an array of photonic components, sub-assemblies, and systems into these applications which include building and asset surveillance, fire-fighting, policing and LIDAR mapping.

Target Designation and Range-Finding used on Land-Based and Airborne Systems

From missiles to guided bombs, photonic targeting and range-finding systems ensure correct deployment of munitions. Extreme conditions require athermalized, instant "on" systems.

G&H designs and delivers a variety of sub-systems and components to prime contractors.

Countermeasures for Ground-Based Systems and Airborne Platforms

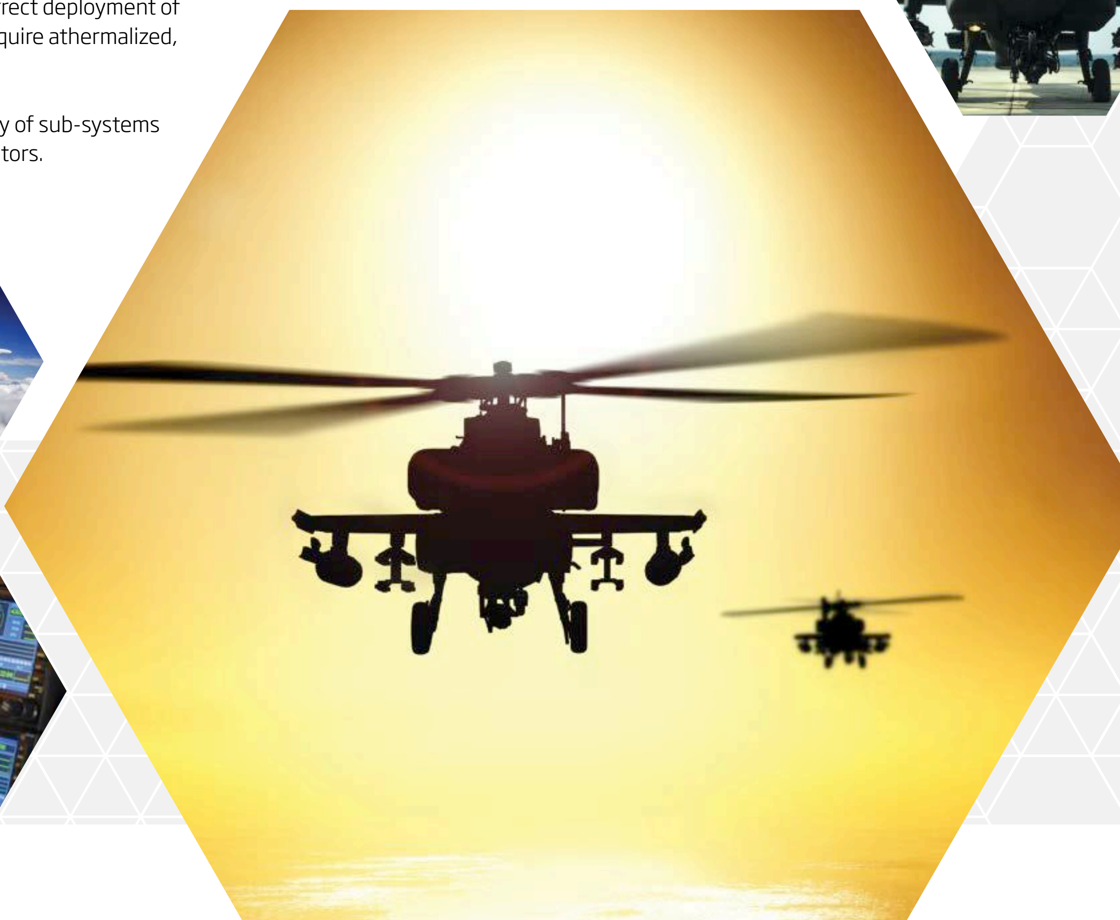
Infrared countermeasures protect military assets from missile attacks. These systems require accurate modulation of the infrared energy under extreme environmental conditions.

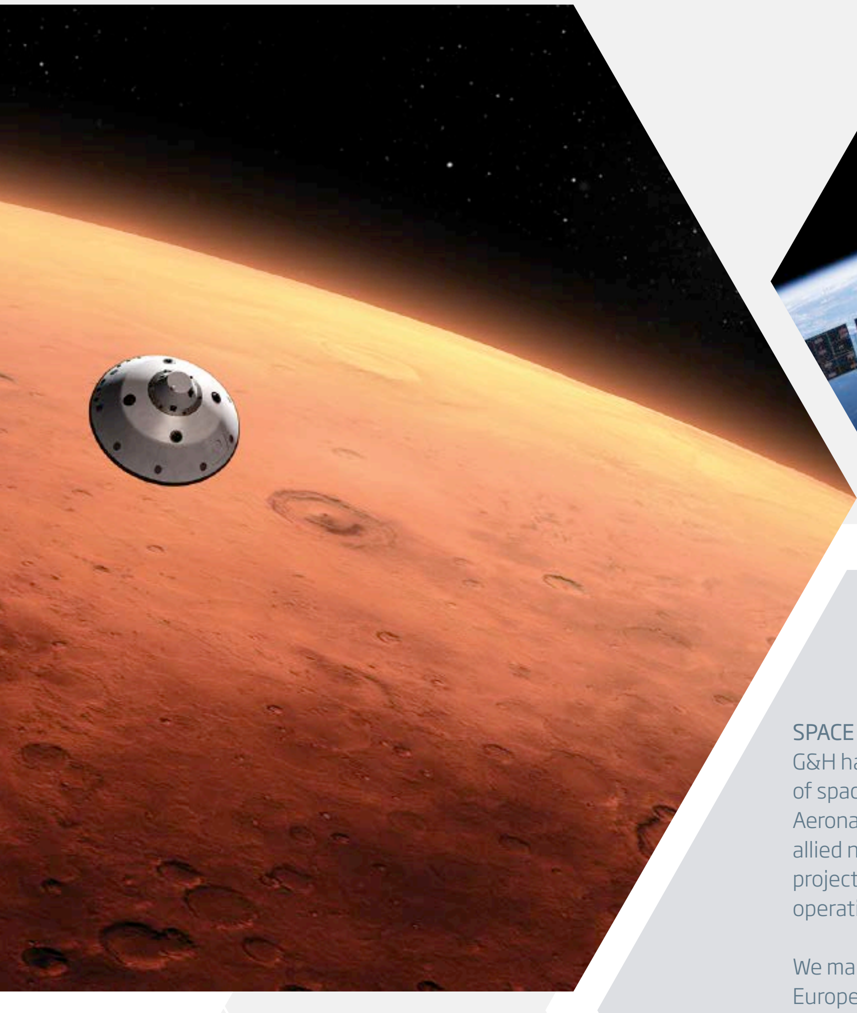
We provide fibre optic, acousto-optic, and nonlinear crystal products which are used in customer-specific countermeasure applications, both ground based and airborne.

Gyroscopes for Navigation

Gyroscopes are used in inertial navigation systems in aircraft, guided missiles, submarines, ships, and spacecraft for rotation sensing to measure or maintain orientation.

We design and produce ring laser gyroscopes and fibre optic gyroscopes which are deployed in commercial aircraft as well as missiles, satellites, and other military vehicles.





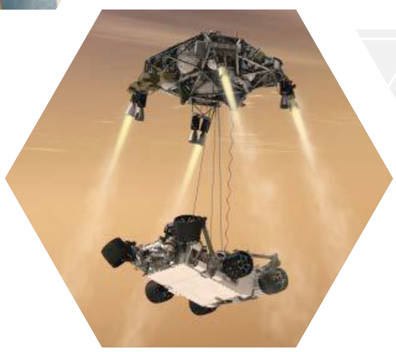
SPACE

G&H has a proven track record in the design and development of space hardware for European Space Agency (ESA), National Aeronautics and Space Administration (NASA), and other western allied national space agencies, missions and other, commercial projects, with components, modules and systems integrated within operational satellites and on board the probes and rovers.

We maintain a leading role in research and development programs in Europe, the USA and Asia, through multiple projects and contracts centered on optical inter- and intra-satellite communication links. Our work on space projects fuels the company roadmap on a new generation of product lines.

G&H works with major prime contractors and government agencies on ground-breaking scientific and technology development programs for navigation, earth observation and communication.

Our enabling technologies span our core capabilities in Acousto-Optics, Fibre-Optics and Precision Optics.



LIFE SCIENCES

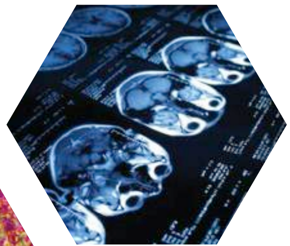
G&H serves the life sciences markets with photonics engineering solutions from across the company's technology portfolio.

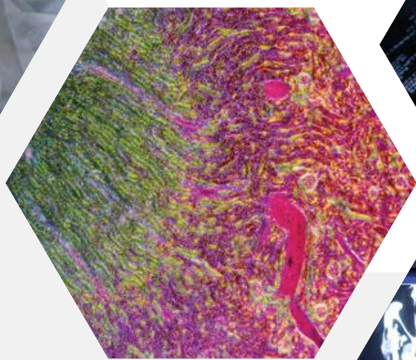
Optical Coherence Tomography (OCT)

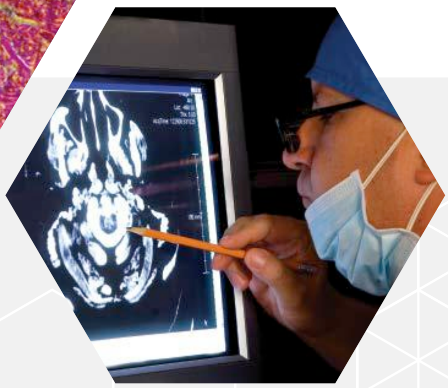
Widely used for ophthalmic imaging, OCT has proven invaluable in improving the diagnosis of glaucoma and macular degeneracy. We serve most of the world's leading manufacturers of OCT retinal imaging systems.

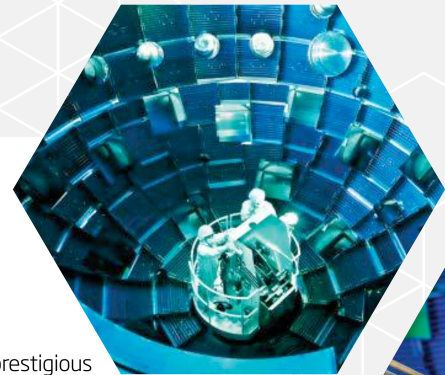
Medical and Cosmetic Laser Systems

G&H is helping develop new fibre-delivered laser products which enable less invasive surgical techniques. Applications include cataract replacement, vision correction, prostate surgery, varicose vein treatment, and mole treatment in addition to tattoo removal, teeth whitening, freckle removal, and wrinkle reduction.





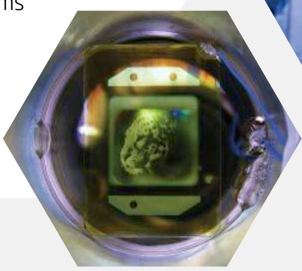




SCIENTIFIC RESEARCH

G&H works with some of most prestigious Big Science projects in the world.

We are a primary supplier of many critical optical components such as very large frequency conversion crystals used in the world's most powerful laser system at the National Ignition Facility (NIF) at Lawrence Livermore National Laboratory. We supply similar products to the Commissariat à l'énergie atomique et aux énergies alternatives (CEA) and other inertial confinement fusion (ICF) programs around the world.



Chairman's Statement

I am pleased to report that your company has performed well in 2016 and has continued to make good progress in delivering on its strategic objectives. The year was characterised by mixed trading conditions. After a slow start, activity increased as the year progressed and was particularly strong in the second half, following a trend that has continued into the start of the new financial year. This trading pattern presented considerable challenges in terms of manufacturing capacity planning towards the end of the period, but investments in additional skills and a programme of internal efficiency improvements across the organisation ensured that these challenges were successfully met. Other notable achievements include the completion of two acquisitions and the relocation of one of our largest manufacturing facilities.

Headline revenues increased 9.3% year on year, with approximately 55% of total sales in the second half. Your company has continued to deliver profitable growth with adjusted profit before tax increasing by 9.7%. The business remains in a strong net cash position at £11.7 million (2015 : £17.3 million) despite making two acquisitions in the year and making material investments in capital assets to drive the business forward.

We have started the current financial year with a favourable trading environment. This is driven by the order book for our fibre based business, in particular high reliability undersea fibre couplers, fibre based satellite communications, fibre sensing and critical components used in microelectronic manufacturing. At the year end the order book stood at £52.8 million, an increase of 45% compared with the same time last year.

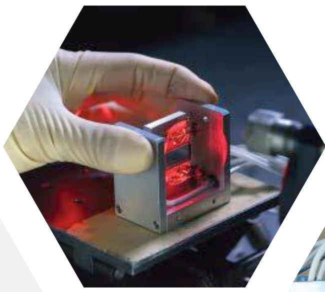
In July 2016 your company completed two acquisitions in the Aerospace & Defence sector; one in the UK and the other in the US. These acquisitions continue to further our strategic objectives of broadening our product offerings and diversifying our markets, both geographically and by sector. Kent Periscopes Ltd designs, develops and manufactures periscopes and sighting systems for Armoured Fighting Vehicles ("AFVs"). Alfalight specialises in diode and diode-pumped lasers for the US defence sector.

Significant progress was made in the year in relocating and upgrading a number of our real estate assets. The relocation of our Palo Alto operations to nearby Fremont was a major undertaking but it has provided much improved facilities and room for growth at a similar ongoing cost. We have continued to upgrade and expand our Torquay facility, allowing us to manage the considerable increases in demand we have seen in this site over the past two years. 2016 also saw the commencement of the refurbishment of our Cleveland facility, which will help drive much needed operational efficiency as well as showcasing the site's unique world leading crystal growth capabilities to customers.

Having spent eight years as a non-executive Director, Paul Heal has decided not to stand for re-election at the AGM in February 2017. Paul has played an integral role in the development of Gooch & Housego as a business over those years and I would like to record my thanks to Paul for his support and guidance, which have been invaluable. We have begun a process to identify a replacement for Paul.

In summary, 2016 has been a busy and successful year for Gooch & Housego. We have acquired two businesses, continued our drive for operational excellence, relocated one of our largest facilities and materially expanded another. All of this has been achieved against a backdrop of challenging, if ultimately favourable, trading conditions. As we enter 2017, the strength of the US Dollar against the British Pound will benefit the business in the short term, but there remains uncertainty in world markets. With a strong balance sheet, good cash flow, excellent order book and enhanced facilities, processes and systems, the Company is well positioned to exploit exciting growth opportunities in photonics. I would like to thank my fellow directors and employees of Gooch & Housego for making 2016 another successful year for the Company.

Gareth Jones
Chairman
29 November 2016



"Your company has performed well in 2016 and has continued to make good progress in delivering on its strategic objectives."

Chief Executive Officer's Statement

> During FY 2016 G&H made good progress with its strategic goals of further diversification and moving up the value chain; we met our financial objectives; made a number of strategically important investments and have acquired two highly complementary companies."

Overview

Gooch and Housego(G&H) has made good progress towards achieving its twin strategic goals of further diversification and moving up the value chain. We have continued to focus on driving a higher level of organic growth from our portfolio of world leading products and technologies, invested in a number of strategically important areas and have acquired two highly complementary companies during FY 2016.

G&H's FY 2016 financial expectations were met, with revenue and adjusted profit growth of 9.3% and 9.7% respectively. This was achieved despite challenging first quarter market conditions in our industrial laser business and is testament to the resilience of the business and our active policy of diversification designed to offset the impact of the economic cycle on some of our core markets.

In addition to pursuing further diversification we want to build a company that moves up the value chain by selling sub-systems and systems wherever possible. The Systems Technology Group (STG), based at our Torquay site, is dedicated to helping G&H achieve this and now has over 30 engineers and scientists. They bring a wide range of skills such as electronic, software and mechanical engineering, which are necessary if we are to present a complete sub-system or system to our customers.

The most notable success of the STG during FY 2016 has been the growth of the strategically important space satellite communications business. Funding has been secured from the European Space Agency, UK Space Agency and other sources to pursue leading edge research and we have won our first commercial contract for the development of critical subsystems used in inter satellite communications.

Our performance improvement plan has made further progress during the course of the year. The aim is to develop a more unified business where the skills, expertise and technologies across our nine sites are better leveraged throughout G&H and our customers are presented with a more complete and professional offering.

G&H's operations group has now established small globally focused teams representing each of the key manufacturing disciplines. They hold each site to the same high standards and have made a good start on introducing lean manufacturing principles. The recently introduced A&D business development executives have brought enhanced access to tier 1 companies and helped develop new A&D focused R&D projects. In FY 2016 we hired our first Life Science business development executive in the USA and intend to achieve similar positive results in this sector. A more targeted approach has been taken towards R&D, with better funded projects and this has resulted in a record 21 new products in FY 2016.

The Industrial sector represents 63% of G&H's revenue and has provided most of the growth during FY 2016. A&D and Life Sciences give a better balance to our business, provide significant opportunities for our technologies and have greater potential than Industrials for moving up the value chain. It is our intention to grow A&D and Life Sciences to levels where we can, over time, establish a similar critical mass to our Industrial sector. This will be achieved through a mix of investment in R&D and acquisitions.

To this end, we acquired two A&D businesses during 2016:
- Kent Periscopes Ltd (Kent) is a UK based supplier of periscopes, vehicle sights and related equipment for land based armoured vehicles. Its proven capability in system level optical products in harsh environments and impressive 'blue chip' customer list make it a great fit. Kent will benefit from G&H's greater global reach and complementary technologies.
- The trade and assets of Alfalight Inc, a designer and manufacturer of high reliability, laser based, electro-optic systems for defence and security applications, based in Madison, Wisconsin. It is highly complementary to our existing Boston, Massachusetts site and will be incorporated into this business unit.

The completion of substantial infrastructure investment in our Torquay site has enabled us to meet the challenge of the exceptional year on year growth of our high reliability fibre couplers for undersea cables. Our Palo Alto facility has now completed its move across the San Francisco Bay to a purpose built facility in Fremont, with plenty of room for further growth for its core business, based on fibre lasers and 40G / 100G modulation systems for land based telecommunications. The Cleveland site which houses our strategically important crystal growth facility will complete its upgrade project during FY 2017.

G&H is in a strong position financially and is well positioned to make further investment in the business.

Markets and Applications

Industrial

The Industrial sector represents 63% of G&H's revenue and is composed of a diverse range of industrial applications aligned to our world class photonic technologies, including microelectronic manufacturing, semiconductor manufacturing and test, remote sensing, metrology and telecommunications.

Our Industrials division grew by £8.2 million or 17.9% compared to previous year and this is reflective of a number of positive market trends in this sector. This growth was achieved despite the challenging market conditions for microelectronic manufacturing in China and the far east, which saw a slow down in the first quarter. The industrial laser market did pick up markedly for the rest of the year and when combined with record orders for our fibre based business it led to a higher second half weighting than last year and a strong overall performance.

There is a general trend towards fibre optic solutions across a range of applications and this is especially so for lasers used in materials processing applications. Fibre lasers are gaining share from solid state lasers and at the same time increasing the number of applications where lasers have utility; this is due to fibre lasers often providing improved reliability and flexibility at a lower cost.

G&H is a world leader in acousto-optic products for industrial lasers and is well positioned to take advantage of this trend. Fibre laser components now represent a higher proportion of our business than the traditional conduction cooled or water cooled "Q-switches" for solid state lasers. The ground breaking Fibre-Q used for a range of laser modulation applications was the recipient of a prestigious Queen's Award for Enterprise in the Innovation category this year. We remain committed to further investment in new products and cost reduction initiatives in this area to enable us to retain our market leading position.

This year saw the first contract for our precision measurement system used on smart phone/ tablet production lines and is an area of good future potential.

The semiconductor manufacture and test market showed strong growth during FY 2016. Laser technology is essential to enhance miniaturisation and speed in this fast moving sector, which means that we see this as a good growth driver for G&H over the medium term.

Remote sensing took a step forward this year with a hard-earned security and surveillance contract for an oil pipeline.

The need for ever more data capacity from government, industry and the consumer has driven an especially strong telecommunications performance. G&H provides the more technically challenging elements to both land based and undersea telecommunications systems. There has been a significant 'uptick' in demand for our ultra high reliability fibre couplers which are used in amplifiers on the sea bed in the undersea cable network. This growth is driven by 'non-traditional' investors in these undersea networks from 'Silicon Valley' that want to control their own traffic.

Aerospace & Defence

A&D represented 23% of our revenue in FY 2016, and was flat on the previous year. This reflects a sector that for G&H's range of technological capabilities is a target rich environment, but a business that has not yet reached a critical mass. The two recent A&D acquisitions coupled with the investment in new areas of growth such as SWIR lenses, for low light environments and our developing position in space satellite communications are key 'steps on the way' to achieving this.

Product quality, reliability and performance are essential success criteria in the A&D arena and that plays to G&H's strengths. We have well established positions in target designation, range finding, ring laser and fibre optic gyroscope navigational systems, infra red and RF countermeasures and have recently added SWIR lenses, for low light environments and space photonics. The customers for our products encompass the major A&D companies in both Europe and the USA.

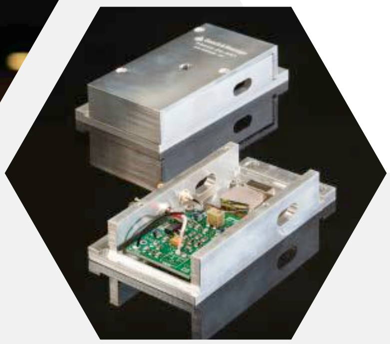
Our fibre optic and infrared capabilities very much reflect the 'direction of travel' for this sector as our A&D customers upgrade their products to lighter, more durable and reliable technologies. Many of our customers in this sector prefer to buy sub-systems and integrate them into their systems and though the quality barriers to this are challenging we have succeeded with some high profile companies in selling sub systems rather than just high quality critical components and are actively trying to move more customers up the value chain.

Space satellite communication is entering into a new period of development based on lighter, more efficient and robust fibre optic technology and G&H is at the leading edge of this revolution.

Life Sciences

Life Sciences represents 9% of G&H's revenue and after a strong year last year sales were down. As with A&D we see good potential for our technologies in this sector, a greater ability to move up the value chain than with Industrials, but a business that has not yet reached critical mass. It is therefore susceptible to the ordering patterns of one or two customers. The desired "future state" will be achieved through a combination of investment in R&D and acquisitions.

The principal applications are in optical coherence tomography (OCT), laser surgery and microscopy. OCT is widely used in ophthalmology and G&H has developed a strong position with the main participants in this market. The potential for this technology to be used in other areas of medical diagnostics is high and we have a number of programmes with medical diagnostic companies designed to exploit these opportunities.



> G&H is in a strong position financially and is well positioned to make further investment in the business."

Laser surgery is a fast growing area particularly in ophthalmology, prostate and aesthetic treatments and has the potential to be exploited beyond these current areas of high use.

G&H has established a sub-system presence with a number of our customers and our aim is to extend this during FY 2017.

Scientific Research

G&H's scientific research market is dominated by a small number of 'big science' projects in the fields of nuclear fusion research and synchrotron radiation sources. It provides 5% of our revenue and revenue is flat year-on-year. This is a prestigious and profitable sector for G&H where we have some unique capabilities and over time this is an area that should provide steady growth, and we will continue to selectively invest in this area.

Outlook

During FY 2016 G&H made good progress with its strategic goals of further diversification and moving up the value chain; we met our financial objectives; made a number of strategically important investments and have acquired two highly complementary companies.

We are committed to make further R&D investment in our targeted high growth areas. These include fibre optic lasers, fibre optic sensing, precision inspection equipment for microelectronic manufacturing, laser surgery, A&D sub systems, OCT medical diagnostics and space satellite communications.

G&H intends to build on the good progress made with our performance improvement programme by: further improving operational efficiency, with particular reference to the introduction of lean manufacturing across all our sites; continuing to invest in A&D business development, establishing similar business development activity in Life Sciences and focussing our resources on fewer, but higher return R&D projects.

We will continue with an active policy of making further progress towards a more diverse and balanced business by building critical mass in A&D and Life Sciences through a mix of R&D investment and acquisitions.

These strategic initiatives combined with a record year end order book mean the Board remains confident that Gooch and Housego is well positioned to deliver further progress in FY 2017 and beyond.

Mark Webster
Chief Executive Officer
29 November 2016

Market Overview Industrial

APPLICATIONS, PRODUCTS AND MARKETS

Industrial Lasers for materials processing applications. Gooch & Housego supplies *Q-switches* and other *acousto-optic, electro-optic and fibre optic* products. The end users for industrial lasers are extensive due to the ubiquitous adoption of this technology in manufacturing. The microelectronics industry represents the largest end market. During 2016 this sector was down during the first quarter, but recovered strongly throughout the year to show a year on year increase.

Telecommunications specifically for high reliability and high performance applications. The products supplied into this market are based upon the Group's *fibre optic, crystal growth and precision optics technologies*. The end users of these products are typically global telecommunication equipment companies, and more recently large technology companies, for applications such as undersea and long haul telecommunication networks and tuneable lasers. The demand for more data from government, industry and particularly the consumer, has driven especially strong growth in this sector, something we see continuing into 2017 and beyond.

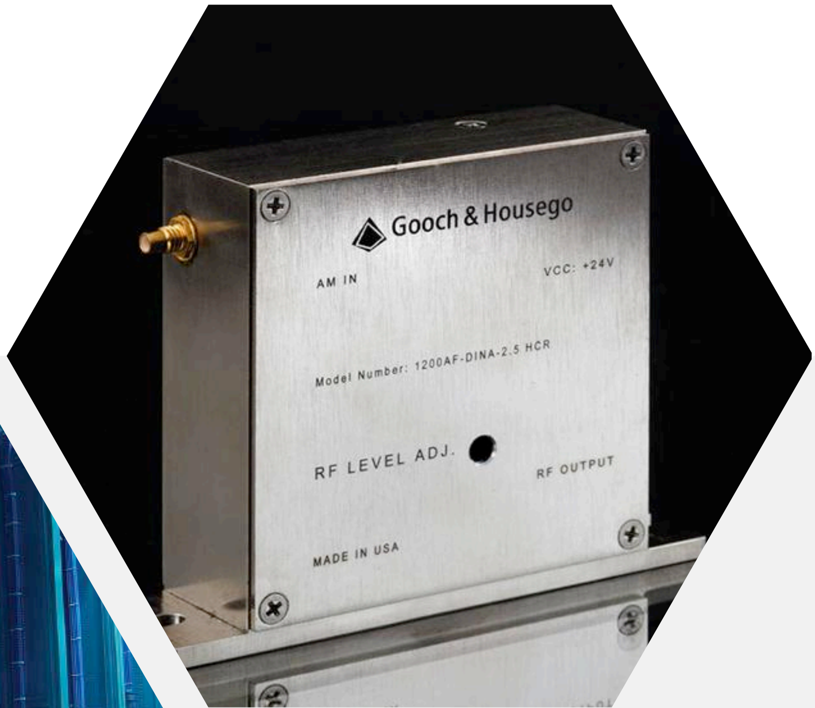
Metrology for laser-based, high-precision, non-contact measurement systems. The Group principally supplies its *precision optics, acousto-optics and instrumentation systems* into this market; the customers are typically blue-chip OEMs. This market has grown throughout the year as a result of improved customer focus and successful product launches from our instrumentation facility in Orlando.

Remote sensing for applications including asset protection, perimeter security, strain, temperature and pressure sensing. Gooch & Housego supplies *fibre optic and acousto-optic components and sub-assemblies,* including the recently developed Fibre-Q. Manufacturers of these systems address diverse end markets such as wind energy and oil and gas. This has been a significant growth area in 2016, following strong orders for Fibre-Q based subassemblies, used in oil pipeline protection.

Semiconductor for lithography and test and measurement applications. The products supplied into this market are *precision optics and acousto-optics*. Customers are typically global semiconductor equipment manufacturers. This market is closely aligned with the micro-electronics industry and has demonstrated good growth across the year.

GROWTH STRATEGY

- To continue to invest in R&D and engineering in order to bring new products to existing markets and to develop existing products, such that we remain at the cutting edge of technology. During 2016 Gooch & Housego introduced a record thirteen new products that address its Industrial market.
- To focus on niche markets that play to the strengths of Gooch & Housego, principally those that demand high levels of quality, reliability and survivability in harsh environments.
- To expand into and develop new geographical markets that offer high growth opportunities, through leveraging and expanding the Group's global sales organisation.
- To continue to focus our energies and investment on making the transition from a components supplier to a manufacturer of sub-assemblies, instruments and systems, where appropriate.
- To invest in longer term R&D projects.
- To make strategic acquisitions. Gooch & Housego will continue to seek high quality acquisition opportunities as a route to grow its Industrial business



Revenue
(£millions)
54.3
+17.8%
2015 46.1

Percentage of Revenue
63%
2015 59%

Adjusted Operating Profit
(£millions)
10.8
+12.5%
2015 9.6

Market Overview
Aerospace & Defence

APPLICATIONS, PRODUCTS AND MARKETS

Target designation and range finding used on both land-based and airborne systems. The products supplied into this market are based upon our *precision optics and electro-optics technologies*. Our customers are US and European defence contractors. In 2016 this business was lower than in previous years due to the timing of programmes.

Guidance and navigation components for ring laser gyroscope and fibre optic gyroscope inertial navigation systems. The products supplied into this market are based upon our *precision optic and fibre optic technologies*. Gooch & Housego navigation components are used in a variety of end markets, including civil and military aircraft, missiles, satellites and space exploration. In 2016 this business was lower than in previous years due to lower demand from a key customer and price pressure, which affected margins.

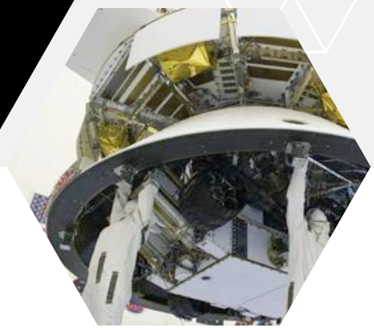
Countermeasures for ground based systems and airborne platforms. The products supplied into this market are based upon *fibre optic, acousto-optic and non-linear optics technologies*. The customers are US and European defence contractors.

Space Photonics G&H is leveraging its heritage of ultra-high reliability components for space applications in order to address the next generation requirement for fibre optics on satellites. We are working with both the European Space Agency and commercial organisations to develop and deploy sub-systems for inter-satellite and satellite to ground communications, radio over fibre and optically inter-connected on-board processors within telecommunications satellites.

Surveillance, Displays and Secure Communications for land based Armoured Fighting Vehicles ("AFVs"). This capability was added during the year following the acquisition of Kent Periscopes Ltd. This business has a proven track record of providing system level products for harsh environments, to an impressive list of blue chip defence companies and is a solid contributor to our record year end order book.

GROWTH STRATEGY

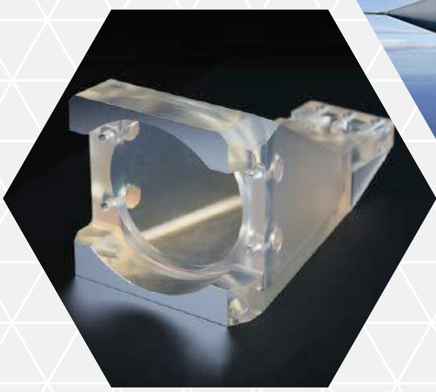
- To continue to focus energy and investment to move from being a components supplier to a sub-systems provider. Our Aerospace & Defence customers are moving their own business models away from sub-system manufacture and are looking for companies such as Gooch & Housego that are capable of providing a full service in this area.
- To continue to invest in manufacturing processes and engineering in order to meet the exacting expectations of this sector, which is becoming increasingly demanding in terms of quality and price.
- To make strategic acquisitions that will provide synergies, are complementary to our existing A&D business and will help us build a critical mass in this sector. Gooch & Housego acquired two companies in the Aerospace & Defence sector in July 2016. Kent Periscopes Ltd designs, develops and manufactures periscopes and sighting systems for AFVs. G&H also acquired the trade and assets of Alfalight, an expert in diode and diode pumped lasers for use in the US defence sector.
- To introduce a greater number of new products, including products which look to fill a "market gap" as well as projects initiated by our customers. During 2016 Gooch & Housego introduced four new products that address its Aerospace & Defence market.



Revenue
(£millions)
20.0
+1.0%
2015 19.8

Adjusted Operating Profit
(£millions)
1.5
-28.6%
2015 2.1

Percentage of Revenue
23%
2015 25%



Market Overview
Life Sciences

APPLICATIONS, PRODUCTS AND MARKETS

Optical Coherence Tomography (OCT) is primarily used in retinal imaging for the diagnosis of glaucoma and macular degeneration. Gooch & Housego provides a family of *fibre optic* products in this market, ranging from discrete components to full optical systems. Customers include most of the world's leading manufacturers of OCT retinal imaging systems. This market was lower than in previous years due to customers' product lifecycles becoming more mature. We are working on the next generation of products with key customers.

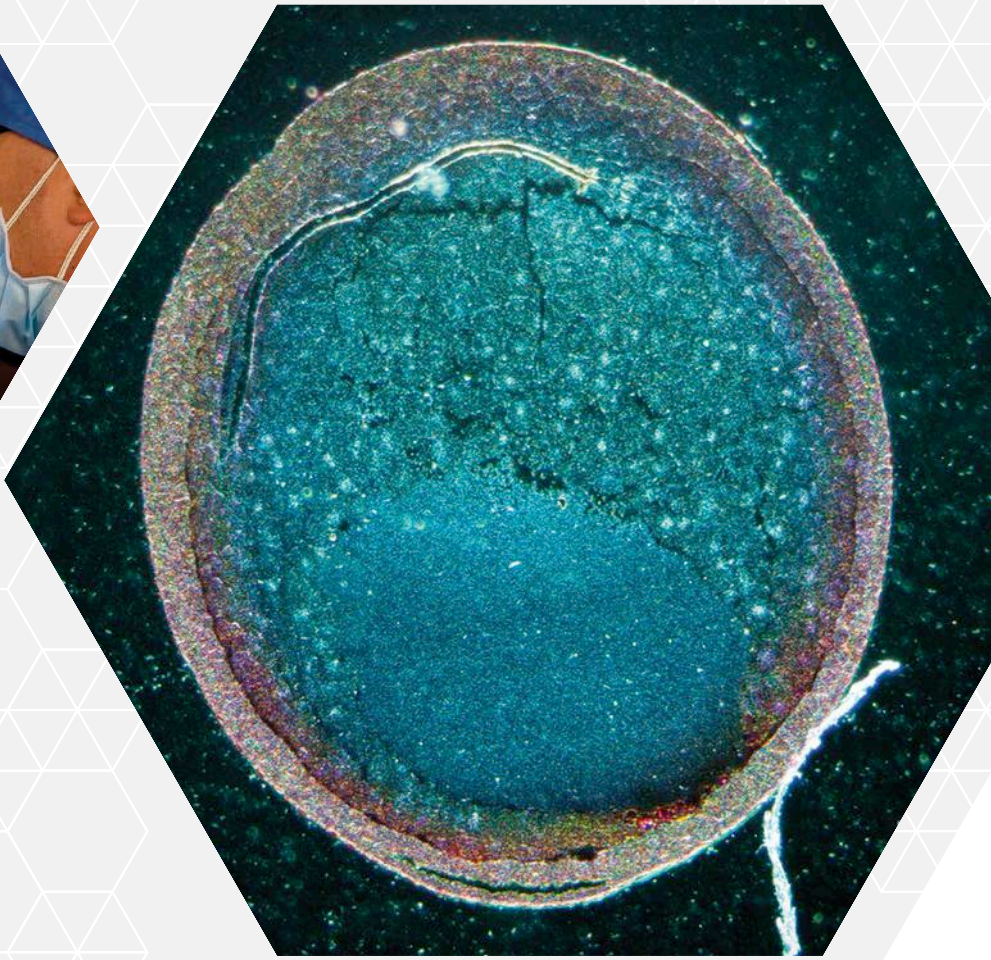
Laser surgery is used in a wide range of applications including prostate surgery, scar correction, cataract surgery, freckle, mole and tattoo removal as well as wrinkle reduction and teeth whitening. The products supplied into this market are based upon *electro-optic, fibre optic and acousto-optic technologies*. The customers in this market include both laser system manufacturers and biomedical equipment manufacturers. This market remained buoyant in the year and continues to be a growth area.

Microscopy modern, laser-based techniques are revolutionising the field of microscopy. Gooch & Housego's acousto-optic devices and hyperspectral imaging systems are used to control the multiple laser sources and analyse complex images. The end customers are typically medical equipment manufacturers. This market was stable in the year for G&H.

The growth strategy for Life Sciences mirrors that for Aerospace & Defence in many respects. This is particularly true in terms of the size of the available market and the desire of the customer base to "pull" Gooch & Housego up the value chain.

GROWTH STRATEGY

- To continue to invest in longer term R&D projects and to develop the existing portfolio of products, to ensure that they remain competitive. During 2016 Gooch & Housego introduced five new products that address its Life Sciences market.
- Where appropriate seek to sell the full range of our Life Sciences products to a wider range of customers.
- To make strategic acquisitions that are synergistic, are complementary to our existing Life Science business and will help us build critical mass in this sector. Gooch & Housego will continue to seek high quality acquisitions as a route to grow its Life Sciences business should the opportunity arise.



Revenue
(£millions)

7.9
-12.2%

2015 9.0

Percentage of Revenue

9%

2015 11%

Adjusted Operating Profit
(£millions)

1.6
+0.0%

2015 1.6

Market Overview
Scientific Research

APPLICATIONS, PRODUCTS AND MARKETS

Nuclear fusion research & energy... laser technology is being used to recreate the conditions found in the core of the sun. At these temperatures and pressures isotopes of hydrogen fuse to form helium and in doing so release huge amounts of energy – the energy that powers the sun and stars. One of the most exciting potential applications of this research is using laser fusion to provide limitless quantities of clean, carbon-free energy to meet the world's growing needs. The products supplied into this market utilise a wide range of the Company's technologies including crystal growth, precision optics, thin-film coatings and fibre optics. Gooch & Housego supplies many of the world's leading nuclear fusion energy research facilities. Gooch & Housego is sole supplier of many critical optical components used in the world's most powerful laser system at the National Ignition Facility (NIF) at Lawrence Livermore National Laboratory in Northern California.

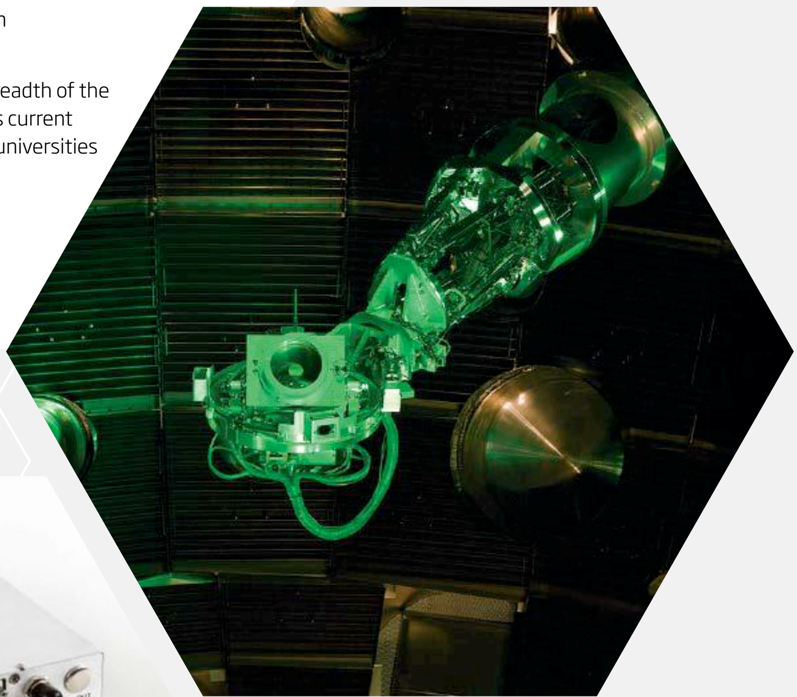
Instrumentation for applications in agricultural, solar, marine and industrial research. An example of an industrial research application is the development of Light Emitting Diode (LED) illumination systems. Instrumentation products are supplied from our Orlando facility and include *photometers, radiometers, spectroradiometers* and their associated *calibration services*. The customer base ranges from universities and research institutes to Government agencies and national standards laboratories.

A small number of "Big Science" projects, which are reliant on government funding, dominate this market.

The products supplied into this market span the complete breadth of the Company's technology portfolio. Many of Gooch & Housego's current products have evolved from early stage collaborations with universities and this is an area the Company continues to focus on.

GROWTH STRATEGY

- To maintain and develop the business's capabilities in crystal growth and ultra-precision optics for nuclear fusion research and energy, university research and "Big Science" projects. Gooch & Housego is the custodian of some of the world's most advanced optical technologies.
- To continue to invest in R&D to develop and commercialise the next generation of Instrumentation products.



Revenue
(£millions)
3.9
+0.0%
2015 3.9

Adjusted Operating Profit
(£millions)
0.7
+0.0%
2015 0.7

Percentage of Revenue
5%
2015 5%

Financial and Operating Review

PERFORMANCE OVERVIEW

The business has once again delivered strong profitable growth.

Group revenue for the year was a record £86.1 million. This represents an increase of £7.3 million, or 9% over the previous year of £78.7 million. During the year Gooch & Housego acquired two businesses, which contributed a combined £2.4 million to group revenue and £0.3m in profit before tax in the year. On a constant currency basis revenue was 3% higher than the previous year.

During 2016, Gooch & Housego invested £9.7 million in property, plant and equipment and £5.7 million in acquisitions. Despite this the business has maintained a net cash position of £11.7 million at 30 September 2016 (2015 : £17.3 million), through strong operating cash flows.

In the financial year under review, adjusted operating margins were 16.6%, compared to 16.6% in 2015. Margin was influenced by a number of factors during the year. Whilst there were price pressures in our navigation and fibre laser components businesses, this was counteracted by the business benefiting from volume driven margin increases in our Torquay fibre based and Orlando instrumentation businesses.

REVENUE

	2016		2015	
Year ended 30 September	£'000	%	£'000	%
Industrial	54,296	63%	46,054	59%
Aerospace & Defence (A&D)	19,977	23%	19,804	25%
Life Sciences	7,904	9%	8,978	11%
Scientific Research	3,874	5%	3,866	5%
Group Revenue	86,051	100%	78,702	100%

In our Industrial segment, revenue grew by 18% from £46.1 million last year to £54.3 million this year. Revenue in our Aerospace & Defence business was broadly flat, and our Life Sciences business fell from £9.0 million to £7.9 million. Sales into our smallest segment, Scientific Research, remained stable at £3.9 million.

GROUP EARNINGS PERFORMANCE

All amounts in £'000	Adjusted		Reported	
Year ended 30 September	2016	2015	2016	2015
Operating profit	14,258	13,102	10,184	10,294
Net finance costs	(88)	(188)	(88)	(188)
Profit before taxation	14,170	12,914	10,096	10,106
Taxation	(3,865)	(3,380)	(3,048)	(2,647)
Profit for the year	10,305	9,534	7,048	7,459
Basic earnings per share (p)	42.5p	39.5p	29.1p	30.9p

The Group adjusted profit before tax amounted to £14.2 million (2015: £12.9 million) and represented a net margin of 16.5% which is broadly consistent with the previous year. Statutory profit before tax was £10.1 million compared with £10.1 million last year, including the one-off costs associated with the Palo Alto facility move, restructuring costs, provision for regulatory risk compliance and acquisition costs.

The adjusted effective rate of tax was 27.3% (2015: 26.2%). The effective rate of tax of 30.2% (2015: 26.2%) was higher due to the inclusion of the Research and Development Expenditure Credit ("RDEC") within operating profit for the year and the effect of the impairment of goodwill and gain on bargain purchase, neither of which are subject to tax. The rate reflects a combination of the varying tax rates applicable throughout the countries in which the Group operates, principally the UK and the USA.

The effective rate of tax should benefit in the future from further reductions in the UK tax rate, although the proportion of profit generated in the USA, where tax rates are higher, will affect this.

Adjusted earnings per share (EPS) increased from 39.5p to 42.5p. Basic EPS was 29.1p compared with 30.9p last year.

NON GAAP MEASURES

The Company uses a number of non GAAP measures which are shown in the table above and in the segmental analysis. These measures are used to illustrate the impact of non-recurring and non-trading items on the Company's financial results. These are the impact of the amortisation of acquired intangible assets and costs associated with restructuring activities, the provision for regulatory risk compliance and also include the gain on bargain purchase of Alfalight and impairment of goodwill in 2016. The Company also uses the term EBITDA (Earnings before interest, taxation, depreciation and amortisation), which is a commonly used measure of operating performance and cash flow.

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

	Operating Profit		Net finance costs		Taxation		Earnings per share	
Year ended 30 September	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 pence	2015 pence
Reported	10,184	10,294	(88)	(188)	(3,048)	(2,647)	29.1p	30.9p
Amortisation of acquired intangible assets	1,263	1,604	-	-	(333)	(419)	3.8p	4.9p
Gain on bargain purchase	(578)	-	-	-	-	-	(2.4p)	-
Impairment of goodwill	771	-	-	-	-	-	3.2p	-
Provision for regulatory compliance risk	500	-	-	-	-	-	2.1p	-
Restructuring costs	1,652	1,204	-	-	(391)	(314)	5.2p	3.7p
Transaction fees	466	-	-	-	(93)	-	1.5p	-
Adjusted	14,258	13,102	(88)	(188)	(3,865)	(3,380)	42.5p	39.5p

SEGMENTAL ANALYSIS

Industrial

Our Industrial business grew strongly during the year, with revenues of £54.3 million, compared with £46.1 million last year. This growth was largely driven by a combination of our sensing, instrumentation and telecommunications businesses. Revenue from the Group's industrial laser business segment, after a poor first quarter, showed an increase compared with the previous year. The traditional Q Switch now represents 10% of total group revenue (2015: 9.9%).

After adjusting for the costs associated with the Palo Alto facility move and restructuring, operating profit for the Industrial sector as a whole was 12% higher at £10.8 million, compared with £9.6 million last year. This primarily reflects a combination of the growth in our Torquay fibre business and our instrumentation business.

Aerospace & Defence (A&D)

A&D revenue was £20.0 million, broadly flat on last year, although this is being flattered by the acquisitions which contributed revenue of £2.4m in this sector. The business provides both components and sub-systems to the Company's European and US A&D customers. We continue to believe this business represents a growth opportunity for Gooch & Housego, as optical technologies continue to be increasingly deployed in this market sector. This sector has been significantly strengthened this year with the acquisitions in July of Kent Periscopes and Alfalight. Operating margins in this sector fell as a result of the timing of some programme business and tighter margins on our navigation components business.

Life Sciences

In 2016 Life Sciences revenue was down by 12% compared to the prior year. Sales of electro-optic products into the laser surgery market remained strong, but this was offset by a decline in sales into Optical Coherence Tomography due to customers' product lifecycles becoming more mature. Despite this, adjusted operating profit in this sector was in line with the previous year due to a more beneficial mix. We are working on the next generation products with key customers and continue to believe this market offers a significant growth opportunity.

Scientific Research

Our activities in the Scientific Research market are dominated by a small number of large, long-term programmes. This market was stable in 2016 and this resulted in a consistent financial performance when compared to the previous year.

RESEARCH & DEVELOPMENT (R&D)

Gooch & Housego continues to invest in R&D in all areas of the business and regards this as fundamental to the continued growth of the company. There were a record 21 product releases in 2016, together with five new patents granted.

Expenditure on R&D in the year to 30 September 2016 increased by 15.4% from £6.4 million to £7.4 million. A proportion of this increase was funded through UK and European grant funding. R&D expenditure represented 8.6% of revenue (2015: 8.0%). The Group capitalised £0.7m (2015: £0.7 million) of development expenditure.

SITE PERFORMANCE

In 2015 G&H took the decision to re-locate its Palo Alto facility to nearby Fremont. This decision was based on a landlord change which threatened the long term viability of Palo Alto as a location. This move is now complete and has provided a much improved facility and room for growth at a similar rent. The move itself took longer than expected due to regulatory licence and landlord contractual issues. The delay contributed an additional £0.9 million in costs in the first six months of 2016.

The Torquay site has recently been expanded and upgraded allowing us to manage the capacity challenges that come with a 2.5 fold increase in demand for Hi-Reliability undersea fibre couplers. Further investment in capacity at this site will continue throughout 2017.

Our continuous improvement programme is proceeding well. Operationally the move to a lean manufacturing environment across all of our sites is set to deliver efficiency savings in 2017 and the drive for fewer more productive R&D projects combined with enhanced business development support has started to deliver an increased number of product opportunities.

As reported last year, the Company has committed to upgrading its Cleveland, Ohio facility. This facility, which houses the business's world leading crystal growth capabilities, is a key contributor to current and future profitability and will benefit from the proposed modernisation. The refurbished facility will help drive much needed operational efficiency as well as showcasing our capabilities to customers. The upgrade is expected to be a two-year programme costing in the region of $5 million.

NON TRADING ITEMS

Restructuring costs of £1.7 million (2015: £1.2 million) related to the re-location of our Palo Alto facility to Fremont and to restructuring costs arising from the efficiency savings the business was able to derive from its operational efficiency measures.

Management have booked a provision for export compliance risk of £0.5m in the year. Further details are given in note 23.

> The business has once again delivered strong profitable growth.”

BALANCE SHEET

The Group's total equity at the end of the year was £90.2 million, an increase of £11.8 million over the prior year. This increase comprised £6.0 million due to foreign exchange and £5.8 million from retained earnings.

Additions to property, plant and equipment totalled £8.4m (excluding acquisitions). The main additions related to investment in plant and machinery, the expansion of our Torquay facility, the refurbishment of our Cleveland facility and the Palo Alto facility move.

Working capital was 24.5% of revenue in the current year compared to 20.3% in 2015. This metric has been adversely affected by the acquisitions in July and the impact of the GBP:USD exchange rate on balance sheet values.

Inventory at the year end was £19.0 million, an increase of £3.0 million over the prior year. Once the impact of currency and the inventory attributable to the acquisitions are removed, the underlying inventory fell by £0.5m, or 3%, in the year.

Trade receivables have increased by £8.8 million from £11.7 million in 2015 to £20.5 million at this year-end. This is a function of a strong shipment profile towards the end of the year, the acquisitions and the impact of foreign exchange rates.

Cash balances at 30 September 2016 were £23.2 million, compared with £22.6 million at 30 September 2015. Net cash flows from operating activities generated £12.6 million, compared with £13.6 million last year. During the year the business moved from a net cash position of £17.3 million as at 30 September 2015 to a net cash position of £11.7 million, following the acquisition of Alfalight & Kent Periscopes and the £9.7 million invested in property, plant and equipment.

MOVEMENT IN NET CASH

All amounts in £m	Gross Cash	Gross Debt	Net Cash
At 1 October 2015	**22.6**	**(5.3)**	**17.3**
Operating cash flows	15.7	-	15.7
Debt repayment (net of drawdown)	5.4	(5.4)	-
Acquisitions	(5.7)	-	(5.7)
Net capital expenditure	(10.3)	-	(10.3)
Working capital	(1.8)	-	(1.8)
Interest, tax and dividends	(3.5)	-	(3.5)
Exchange movement	0.8	(0.8)	-
At 30 September 2016	**23.2**	**(11.5)**	**11.7**

ORDER BOOK

As at 30 September 2016, the Group order book stood at £52.8 million, compared to £36.3 million at the end of the 2015 financial year, a 45% increase. The acquisition of Alfalight and Kent Periscopes added £11.4 million to the order book. On a constant currency basis the order book was 36% higher. Book to bill ratios for the business as a whole were 1.01 times (six month rolling average) as at 30 September 2016.

STAFF

The Group workforce increased from 700 at 30 September 2015 to 755 at the end of September 2016, an increase of 55. This is a net position and therefore reflects both the reductions in staffing resulting from the work the business has done in driving efficiency improvements and the additional headcount that has come from the recent acquisitions.

DIVIDENDS

The Directors propose a final dividend of 5.7p per share making a total dividend per share for the year of 9.0p (2015: 8.2p), an increase of 9.8%. The final dividend, if approved, will be payable on 3 March 2017 to shareholders on the Company's share register as at the close of business on 16 December 2016.

KEY PERFORMANCE INDICATORS (KPIS)

The Group objective is to deliver sustainable, long-term growth in revenue and profits. This is to be achieved through the execution of the Board's strategies.

In striving to achieve these strategic objectives, the main financial performance measures monitored by the Board are:

Total revenue growth	2016	2015	2014
At actual exchange rates	9%	12%	11%
At constant exchange rates	3%	8%	16%

The Board is focused on driving revenue growth by investing both organically and through acquisitions. The Group business has delivered underlying growth which was particularly strong in the second half of the year.

Target market revenue	2016	2015	2014
Aerospace & Defence (£m)	20.0	19.8	18.8
Life Sciences (£m)	7.9	9.0	7.3

The Group target markets of Aerospace & Defence and Life Sciences provide a route to sustainable growth, and a more diversified revenue base. These markets also provide significant opportunities for Gooch & Housego to migrate up the value-chain from materials and components to higher value sub-assemblies, modules and systems in response to the trend for our larger customers to outsource increasingly complex parts of their business. The decline in revenue from Life Sciences was driven by lower demand from one area of our Life Sciences markets.

Net cash analysis	2016	2015	2014
Net cash (£m)	11.7	17.3	8.7

In order to balance business risk with the investment needs of the Company, management closely monitors and manages net cash. This year, following the acquisition of Alfalight and Kent Periscopes and the investment in capital assets the net cash position reduced from £17.3 million to £11.7 million.

Earnings per share (EPS)	2016	2015	2014
Adjusted diluted EPS (pence)	41.7p	38.9p	35.2p

As a result of a strong trading performance, the business has been able to deliver growth in adjusted diluted EPS of 7.2%, from 38.9p to 41.7p in 2016.

The revenue, cash and earnings per share targets for the year were met.

Strategy Overview

Gooch & Housego's strategy is built around the twin pillars of diversification and moving up the value chain. In order to ensure its strategic goals are met management considers investment in R&D, acquisitions and strategic partnerships.

STRATEGIES

DIVERSIFICATION

To develop, through R&D and acquisition, a presence in new markets that offer the potential for significant growth as a result of their adoption of photonic technology, while also reducing our exposure to cyclicality in any particular sector.

Progress

a) Diversification within the Industrial market. In 2016, Gooch & Housego grew its business in the areas of:
   - Instrumentation
   - Telecommunications
   - Sensing

b) Aerospace & Defence.
   - Acquisition of Alfalight & Kent Periscopes Limited

c) Life Sciences
   - Recruitment of Life Sciences business development manager

MOVING UP THE VALUE CHAIN

To leverage our excellence in materials and components to move up the value-chain to more complex sub-assemblies and systems.

Progress

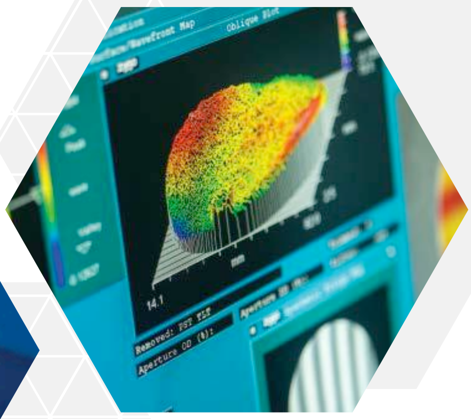
- Continued expansion of the Systems Technology Group to further focus the business's drive up the value chain.
- Acquisition of Alfalight & Kent Periscopes Limited

ORGANIC RESEARCH & DEVELOPMENT

To leverage Gooch & Housego's world leading products, technologies and capabilities to develop innovative new products.

Progress

- In 2016 the company's organic research & development programmes have delivered a record twenty one new products. In addition, five new patents have been awarded.
- Expansion of the STG via recruitment.
- The Group continues to invest in longer term R&D projects in all of its key markets. Investment in R&D increased by 15.4% in 2016.



Principal Risks and Uncertainties

Gooch & Housego adopts a formal risk identification and management process designed to ensure that risks are properly identified, prioritised, evaluated and mitigated to the extent possible. A formal group wide risk register is maintained and approved by the Board on an annual basis.

The following risks are, in the opinion of the Board, the principal risks which affect Gooch & Housego.

RISK	MITIGATION
Retention of key personnel	
The Group recognises the importance of retaining and developing its highly skilled management team and workforce in order to achieve its strategic objectives.	The Group maintains development and reward schemes to encourage individuals to play a long term role in the future development of the Group.
Future trading levels and order book	
Adverse changes in the major markets in which the Group operates can have a significant impact on the Group's performance.	Gooch & Housego PLC has seen significant growth in its business in recent years. Through its strategies of market diversification and moving up the value chain, the Group seeks to provide routes to new markets and reduce the dependence on any one market sector. Whilst the continued growth in the business is difficult to predict, the year-end order book was 45% higher than the previous year, including the effect of acquisitions.
Financing	
Although currently in a net cash position, management expects to require debt financing in order to achieve the Group's growth strategy. Any restriction in the availability of such financing could affect the Group's strategy.	As at 30 September 2016, the Group was in a net cash position of £11.7m (2015: net cash of £17.3m). The Group operates within certain banking covenants which it has reported under and complied with during the financial year. The Group undertakes detailed and regular financial planning and forecasting reviews to minimise any financial risk due to changing market conditions. Further details are given in note 22.
Research and Development	
The development of new processes and products involves risks such as development timescales, which may take longer than originally forecast and hence involve more cost. There are also technical risks associated with development programmes that mean expected results may not be delivered.	Expenditure is only capitalised once the commercial and technical feasibility of a product is proven. These risks are minimised by operating managed research and development programmes which are reviewed against cost and technical progress expectations. During the year, £0.7m of product development costs have been capitalised.
Non-compliance with legislation	
There is a risk of failure to comply with legislation which applies to the Group in the various territories in which it operates.	The Group has compliance staff in its key territories who develop the control framework and perform regular audits.
Foreign exchange	
The business is exposed to the impact of foreign currency variances on trading transactions and on the translation of the net assets of overseas subsidiaries. This exposure is principally to the US Dollar.	Monthly cash management reporting and forecasting is in place to facilitate management of this risk. The exposure is partially naturally hedged because a significant proportion of operating costs are denominated in US Dollars. The Group does not undertake speculative foreign currency transactions.
Quality	
The Group prides itself on the highest standards of product quality and customer satisfaction. In doing this, it recognises that a failure to maintain such standards would be detrimental to its future trading performance.	An ongoing emphasis is placed on quality control and customer communication. During 2016, the quality team has continued to develop the company's quality control systems.

The strategic report has been approved by the Board of Directors and signed on its behalf by:

Mark Webster
Chief Executive Officer
29 November 2016

Board of Directors

EXECUTIVE DIRECTORS

Mark Webster

Chief Executive Officer
(Appointed January 2015)

Mark was previously Chief Executive Officer of Bio Products Laboratory Ltd. He has extensive executive experience and has held a number of senior leadership roles, such as Senior Vice President, Bayer Healthcare AG, Head of Global Strategic Marketing and M&A/Business Development, Shire Pharmaceuticals Group PLC and Vice President, Abbott Laboratories Inc.

Mark was a non-executive Director of Gooch & Housego PLC before becoming an Executive Officer. He has also been a non-executive Director at Abcam PLC.

Mark holds an honours degree in Chemistry from the University of Durham.

Andrew Boteler

Chief Financial Officer
(Appointed August 2009)

Andrew Boteler is a Chartered Accountant, having trained with Ernst & Young and qualified in 1993. He has an honours degree from Exeter University.

In 2002 Andrew was part of the team that bought out the US telecommunications components group JDSU's UK fibre optics business, to establish SIFAM Fibre Optics Ltd. There, he held the position of Finance Director until the company was acquired by Gooch & Housego PLC in May 2007.

Between 2007 and 2009 Andrew held the positions of Head of Finance for Europe, Middle East and Africa and Acting Chief Financial Officer for Gooch & Housego PLC, before joining the Board in August 2009.

Alex Warnock

Chief Operating Officer
(Appointed November 2014)

Alex Warnock is a Chartered Engineer and member of the Institute of Engineering & Technology and Institute of Directors. Prior to joining Gooch & Housego PLC, Alex held senior positions at Optos PLC, most recently Chief Operating Officer. He has also worked in senior roles at Johnson & Johnson and Pace Micro Technology Inc. Alex has an honours degree in Electrical and Electronic Engineering. He has lived and worked in the USA and Germany.

NON-EXECUTIVE DIRECTORS

Gareth Jones

Non-Executive Chairman

(Appointed January 2015. Gareth was formerly Chief Executive Officer from January 2003)

Gareth Jones has an honours degree in Physics from Imperial College and is a Fellow of the Institute of Physics. He joined Gooch & Housego in 1978 and was instrumental in the development of new products and capabilities that helped transform the business from a craft-based optical engineering company into today's global technology business.

Gareth became Technical Director in 1985 and Managing Director in 1995. In 1997 he was a member of the team that led Gooch & Housego's IPO on the Alternative Investment Market. In 2000, he left Gooch & Housego to become a Partner in a leading UK venture capital firm. He re-joined Gooch & Housego in 2003 as Chief Executive Officer.

Paul Heal

(Appointed January 2008)

Paul Heal retired from his position as a client service Partner with PricewaterhouseCoopers at the end of 2007, leaving a role he had held for 20 years. Based in their Bristol office, he was primarily responsible for middle market clients ranging from smaller listed companies (market cap <£250m) to venture capital backed and privately owned businesses. Gooch & Housego PLC was a client of Paul's prior to September 2003 and he advised the company through the preparation for IPO, and acted as reporting accountant for the flotation in 1997.

Paul is a non-executive Director of a number of other commercial and charitable organisations. Commercial directorships include Andrews and Partners (Estate Agents) and the West of England Trust (including Jordans Limited and Jordan Publishing Limited). He is a Trustee of The Theatre Royal, Bath and The Andrews Charitable Trust.

Paul Heal will retire at the forthcoming Annual General Meeting.

Dr Peter Bordui

(Appointed February 2012)

Peter Bordui has twenty five years' experience in the photonics industry in senior leadership roles within Bookham, NewFocus, JDSU and Crystal Technology (at the time a subsidiary of Siemens) and has held a number of additional non-executive director roles. He is a governing trustee of a private charitable foundation and a director of the non-profit organisation American Citizens Abroad.

Peter has bachelors, masters and PhD degrees from MIT.

Peter has taken on the role of Senior Independent Director from 1 October 2016.

Brian Phillipson

(Appointed 1 September 2015)

Brian has extensive experience of the Aerospace & Defence industry in both Strategic and Operational roles across a range of locations. Most recently he has been a Board Member and Business Unit MD at Marshall Aerospace and Defence Group. Previously he held a number of senior roles within BAe Systems PLC, including Director of Strategy; Group Managing Director Major Programme Assurance; Group Managing Director Sea Systems; and first CEO, then later COO, of Eurofighter GmbH based in Munich.

Brian holds an MA (Hons) in Engineering from Cambridge University.

Brian Phillipson took over the role of Chairman of the Remuneration Committee with effect from 1 October 2016.

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2016.

A review of the development and performance of the Group during the year and its future prospects is set out in the Financial Highlights on page 1 and in the Financial and Operating Review on pages 20 to 23. An outline of the business's principal activities, strategy and the Group's progress in the year towards these strategies is given in the Strategic Report on pages 8 to 25. An analysis of the segmental information by market sector is given on pages 12 to 19.

KEY FINANCIAL PERFORMANCE INDICATORS ("KPIS")

The Group uses a selection of KPIs to monitor and review the performance of the business. These are detailed from page 23 of the Financial and Operating Review.

DIVIDENDS

During the year ended 30 September 2016 a final dividend of 5.2p per share was paid for the previous financial year. The final 2014 dividend of 4.6p per share was paid in the year ended 30 September 2015. A further interim dividend of 3.3p per share was paid for the half year ended 31 March 2016 (2015: 3.0p).

For the year ended 30 September 2016, the Directors propose that a final dividend of 5.7p per share be paid.

SUBSTANTIAL SHAREHOLDINGS

As at 15 November 2016, the following shareholders had notified the Company that they held an interest in 3% or more of its issued ordinary share capital:

Shareholder	Number	% holding
Octopus Investments	3,230,536	13.32%
Standard Life Investments	2,178,597	8.98%
Schroder Investment Management	2,089,281	8.61%
Investec Wealth & Investment	2,032,895	8.38%
BlackRock Investment Management	1,974,913	8.14%
Franklin Templeton Investment Management	1,435,000	5.92%
JM Finn & Co	814,575	3.36%
Hargreave Hale	749,104	3.09%

Save for these interests, the Directors have not been notified that any person is directly or indirectly interested in 3% or more of the issued ordinary share capital of the Company.

DIRECTORS

The Directors in office during the year and up to the date of signing the financial statements and their beneficial interests in the issued ordinary share capital of the Company were as follows:

	Number of shares at 30 September 2016	Number of shares at 30 September 2015
Non-executive Directors		
Gareth Jones	55,401	55,401
Paul Heal	13,085	13,085
Dr Peter Bordui	–	–
Brian Phillipson	-	-
Executive Directors		
Mark Webster	-	-
Andrew N Boteler	26,181	26,181
Alex Warnock	-	-

Details of Directors' interests in options to subscribe for shares of the Company are given in the Remuneration Committee Report.

TREASURY POLICIES

The Group's treasury policies are designed to manage financial risk to the Group that arises from operating in a number of foreign currencies and to maximise interest income on cash deposits, whilst maintaining the security of these deposits. As an international group of companies, the main exposure is in respect of foreign currency risk on the trading transactions undertaken by group companies and on the translation of the net assets of overseas subsidiaries. This exposure is principally to the US dollar.

Monthly cash management reporting and forecasting is in place to facilitate management of this currency risk. The operations of group treasury take place at head office.

All balances not immediately required for group operations are placed on short-term deposit with leading international highly rated financial institutions.

At a transactional level, the Group seeks to offset its exposure to foreign exchange movements by contracting with significant supply partners in US Dollars and undertakes regular financial reviews to assess whether it would be appropriate for the Group to enter into currency hedging contracts to mitigate the currency risk. During the year there were no forward contracts in place.

The Group's bank borrowings are denominated in US Dollars, which acts as a partial hedge of a net investment against its US Dollar denominated companies within the Group.

RESEARCH AND DEVELOPMENT

The Group has a continuing commitment to a high level of research and development. This commitment is to actively develop new technologies and capabilities that will become a key part of the Group's future product portfolio and revenue.

DIRECTORS' INDEMNITIES

The Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

EMPLOYEE INVOLVEMENT

The Group is committed to including all employees in the performance and development of the business. An established employee appraisal and reward scheme is in operation and employees are appraised regularly with relevant development support provided by the Group.

The Group attaches considerable importance to informing and involving its employees on matters which concern them and in the achievement of its business objectives. The Group has a formal employee communication plan involving regular meetings between management and employees and the provision of a comprehensive employee handbook.

STATEMENT ON EQUAL EMPLOYMENT OPPORTUNITIES

The Group is committed to providing equal employment opportunities for all employees and applicants for employment. The company does not discriminate in employment opportunity or practices on the grounds of gender, race, religion or belief, age, disability, sexual orientation, or any other characteristic protected by national laws under which the Group operates. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group. If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Our employees have diverse backgrounds, skills, and ideas that collectively contribute to the Company's success. The Group operates to national standards of diversity in employment including the Affirmative Action Program (AAP) in the United States which is designed to attract, retain and develop a diverse pool of talent and which operates to an audit and reporting system.

> “Strong cash performance delivering net cash of £11.7m after investing £5.7m in acquisitions and £9.7m in property, plant and equipment.”

CORPORATE GOVERNANCE

The Board recognises the importance of good corporate governance and has put in place procedures it considers appropriate.

The Board currently comprises three executive and four non-executive Directors. The directors holding office during the period of this report and their biographies are detailed from page 26 and are also available on our website; www.goochandhousego.com

The Board focuses on formulation of strategy, management of effective business controls and review of business performance. The Board is specifically responsible for the approval of annual and interim results and interim management statements, acquisitions and disposals, major capital expenditure, borrowings, director and company secretary appointments and removals, any material litigation, strategic forecasting and major development projects.

A framework of delegated authorities is in place that details the structure of delegation below Board level and includes matters reserved to the Board.

All the non-executive Directors are considered by the Board to be independent in character and judgement.

In accordance with the Company's Articles of Association all directors will retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

The Board has three formally constituted committees, the Audit committee, the Remuneration committee and the Nomination committee.

Board membership and meeting attendance is presented in the following table.

Executive Directors	
Mark Webster	8/8
Andrew Boteler	8/8
Alex Warnock	8/8
Non-executive Directors	
Gareth Jones	7/8
Paul Heal	8/8
Peter Bordui	8/8
Brian Phillipson	8/8

RISK MANAGEMENT AND INTERNAL CONTROL

The Directors acknowledge that they are responsible for the Group's system of internal financial control. The system can provide only reasonable, and not absolute, assurance against material misstatements and losses.

There are defined lines of responsibility and delegation of authorities. There are also internal financial controls in existence which are centrally maintained and documented and provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business.

The Group does not have an internal audit department, but senior finance staff perform a formal, annual review of all the sites' internal controls.

Annual budgets and three year strategic plans are prepared for each company. Financial and operational reports enable the Board to compare performance against budget and to take action where appropriate.

During the year the Group continued to develop its risk management policy, which is reviewed on a regular basis. Gooch & Housego has also developed and published its policies in relation to the Bribery Act and fraud.

FINANCIAL RISK MANAGEMENT

An explanation of the Group's financial risk management objectives is contained in note 5.

ENVIRONMENTAL POLICY

The policy of the Group is to meet the statutory environmental requirements placed upon it and to apply good environmental practice in its operations while recognising that it is contractually obliged to meet its customer requirements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as each Director is aware, there is no relevant audit information of which the Company's and Group's auditors are unaware. Each Director has taken all the steps that he ought to have taken in his duty as a Director to make himself aware of any relevant audit information and to establish that the Company's and Group's auditors are aware of that information.

GOING CONCERN

Based on Management's operating projections and cash flow forecasts, the Directors believe that the Group will generate sufficient cash and have access to working capital facilities to enable it to meet its funding requirements for at least the next 12 months and comply with its banking covenants.

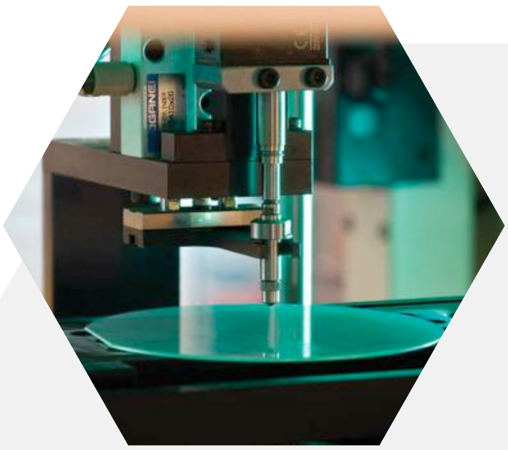
Accordingly, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

INDEPENDENT AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company and the Group will be proposed at the Annual General Meeting.

Approved and signed on behalf of the Board of Directors by:

Mark Webster
Director
29 November 2016



Audit Committee Report

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly monitored, controlled and reported. The Audit Committee consists of the Chairman and three Independent Non-executive Directors and it has an appropriate balance between those individuals with finance or accounting training and those from a general business background.

The Committee has met with the external auditors on three occasions during the year, together with the Executive Directors. At meetings attended by the external auditors, time is allowed for the Audit Committee to discuss issues with the external auditors without the Executive Directors being present.

There were no material changes in the reporting standards that affect our consolidated financial statements in 2016.

ROLE OF THE COMMITTEE

The Audit Committee operates under formal terms of reference which are reviewed annually. The Committee considers that it has discharged its responsibilities as set out in its terms of reference to the extent appropriate in the year. The Audit Committee:

- Monitors the integrity of the Company's financial statements and reviews significant financial reporting judgements.
- Reviews the effectiveness of financial and regulatory compliance controls and systems.
- Oversees the relationship with the external auditors including agreeing their fee, scope of any non-audit services and fee and assessing their independence and effectiveness.

AREAS OF FOCUS FOR THE AUDIT COMMITTEE

The following have been areas of focus during 2016:

- Financial reporting at the half year and full year
- Performance of the external audit, including meeting with the auditors at the planning and completion stages of their work for both the half and full year
- Governance policies and procedures
- Assessments of the effectiveness of the external audit process and effectiveness of the Audit Committee
- Review of significant accounting policies and internal financial control systems
- Review of the Group's risk register
- Appropriateness of the Group's non-audit service policy
- Consideration of key judgements and areas of focus affecting the financial statements

Paul Heal
Chairman of the Audit Committee
29 November 2016

MEMBERSHIP AND ATTENDANCE AT MEETINGS HELD IN 2016

Non-executive Directors	
Gareth Jones	2/3
Dr Peter Bordui	3/3
Paul Heal	3/3
Brian Phillipson	3/3
Executive Directors	
Mark Webster	3/3
Andrew Boteler	3/3
Alex Warnock	3/3

Nomination Committee Report

The Nomination Committee, which consists of the Chief Executive Officer and all four Non-Executive Directors, is responsible for the composition of the Board.

ROLE OF THE COMMITTEE

- Reviews the composition of the Board and its committees.
- Identifies and recommends for Board approval suitable candidates to be appointed to the Board.
- Considers succession planning for Directors and other senior executives and in doing this considers diversity, experience, knowledge and skills.

AREAS OF FOCUS FOR THE NOMINATION COMMITTEE

- Succession Planning
- Search for senior executives

ADVISORS

The Nomination Committee did not appoint any advisors during the year.

Paul Heal will retire during the year ending 30 September 2017. The Nomination Committee have determined the selection criteria for his successor and a formal search will commence early in FY17.

Peter Bordui
Chairman of the Nomination Committee
29 November 2016

MEMBERSHIP AND ATTENDANCE AT MEETINGS HELD IN 2015

Non-executive Directors	
Gareth Jones	1/1
Paul Heal	1/1
Dr Peter Bordui	1/1
Brian Phillipson	1/1
Executive Directors	
Mark Webster	1/1

Remuneration Committee Report

INTRODUCTION

It is an objective of the Group to attract and retain Directors of high calibre and reward them in a way which encourages the creation of value for shareholders. The Committee undertakes the determination of executive Directors' annual remuneration packages and these are reviewed with effect from 1 October each year. No executive Director plays a part in the discussion about their remuneration.

Although not a member of the committee, the Chief Executive Officer submits a report outlining proposals and is usually requested to present the report to the committee. After presenting the report he withdraws from the meeting and does not participate in the decision making or voting processes.

Executive Directors are paid a basic salary together with annual bonus payments based on the achievement of Group profitability and cash targets. In addition, executive Directors participate in a share option scheme and receive benefits in kind, including medical expenses and insurance.

Non-executive directors are paid a fee to attend board meetings and to serve as members of the Audit, Nomination and Remuneration committees. Further payments may be made in respect of additional services provided at the request of the Company.

MEMBERSHIP AND ATTENDANCE AT MEETINGS HELD IN 2016

Non-executive Directors	
Gareth Jones	2/2
Dr Peter Bordui	2/2
Paul Heal	2/2
Brian Phillipson	2/2

2016 PERFORMANCE

Gooch & Housego has continued to perform well in 2016, delivering strong financial performance and continuing to make progress in its key strategic goals of diversification and moving up the value chain.

In terms of financial performance, adjusted profit before tax increased by 9.7% to £14.2m. Once again a strong cash performance resulted in the Group reporting a net cash position of £11.7m, after significant investment in property, plant and equipment, and two acquisitions. The increasing strength of the balance sheet meant that the Company was able to recommend a 9.8% increase in the total dividend for the year.

Diversification and delivering growth have continued to be the principal strategic themes of the business. The trend towards a more balanced spread of business across the Company's principal market sectors has continued. New product development at both the operational sites and within the Systems Technology Group continues to deliver with 21 new products being launched in 2016. The business has made progress on its drive for operational efficiency, through its continued adoption of lean principles. Finally the business has strengthened its Life Sciences Business Development capability which is expected to deliver growth for the business in the short to medium term.

The Executive Directors' 2016 bonus outcomes were 54% of maximum, reflecting the strong results for the year.

2017 PROPOSALS

Gooch & Housego's objective is to set salaries for its Directors within a range and also uses variable remuneration mechanisms to ensure that individuals only receive substantial remuneration for exceptional performance.

We continue to review the remuneration framework to ensure that it is appropriate to attract and retain executives of the right calibre.

The committee values all feedback from shareholders and hopes to receive your support at the forthcoming AGM.

REMUNERATION POLICY TABLE

The table below summarises our policy for 2016/17:

Element of remuneration	Purpose and link to strategy	Policy and approach	Opportunity	Planned changes
Base Salary	Takes into account experience and personal contribution to the company's strategy Attracts and retains executives of the quality required to deliver the company's strategy	• Reviewed annually with changes effective from 1 October if applicable • Consideration given to individual and company performance • General pay increases across the wider workforce are also taken into consideration • Where the company considers it appropriate and necessary, larger increases may be awarded in exceptional circumstances	Base salary increases are applied in line with the outcome of the annual review	No
Annual Bonus	Incentivise achievement of short-term financial targets that the Committee considers to be critical drivers of business growth	• Awarded annually • Award level is based upon level of normalised diluted earnings per share and operating cash flow against internal targets • 50% of the maximum bonus is payable for reaching threshold targets • Maximum bonus is achieved for reaching 10% over threshold targets	Maximum of 100% of base salary	No
Pension	Provide employees with market competitive pension scheme	• Defined contribution personal pension plan • Company contributes 10% of salary	10% of base salary The Committee keeps the benefit policy and benefit levels under regular review	No
Benefits	Provide employees with market competitive benefits	• Executive Directors receive private health insurance, life assurance and long term disability insurance	The Committee keeps the benefit policy and benefit levels under regular review	No
Long Term Incentive Plan (LTIP)	Incentivise executive performance over the longer term Performance measures linked to the long-term strategy of the business and the creation of shareholder value over the longer term	• Award levels are determined by reference to an individual's position and performance prior to grant • Awards vest after three years subject to achievement of performance conditions (as set out later in the report)	Maximum award of 120% of base salary	No

DIRECTORS' REMUNERATION

2016	Basic pay £000	Performance Related Bonus £000	Benefits in kind £000	Pension contribution £000	Subtotal 2016 £000	Share Options £000	Total 2016 £000
Executive							
M Webster	294	146	34	-	474	-	474
A Boteler	178	100	6	25	309	308	617
A Warnock	225	119	12	16	372	-	372
Non-executive							
G Jones	36	-	4	38	78	499	577
P Heal	40	-	-	-	40	-	40
Dr P Bordui	18	-	-	-	18	-	18
B Phillipson	37	-	-	-	37	-	37
	828	365	56	79	1,328	807	2,135

2015	Basic pay £000	Performance Related Bonus £000	Benefits in kind £000	Pension contribution £000	Subtotal 2015 £000	Share Options £000	Total 2015 £000
Executive							
M Webster	275	175	19	-	469	-	469
A Boteler	152	123	5	40	320	-	320
A Warnock[1]	192	134	54	18	398	-	398
Non-executive							
G Jones[2]	85	-	6	39	130	-	130
P Heal	39	-	-	-	39	-	39
Dr P Bordui	18	-	-	-	18	-	18
B Phillipson[3]	3	-	-	-	3	-	3
Dr J Blogh[4]	18	-	-	-	18	-	18
	782	432	84	97	1,395	-	1,395

The above disclosure has been audited.

[1] A Warnock was appointed on 10 November 2014.

[2] G Jones was Chief Executive Officer until 31 December 2014.

[3] B Phillipson was appointed on 1 September 2015.

[4] Dr J Blogh retired on 31 December 2014.

DIRECTORS' PENSION ARRANGEMENTS
During the year the Company contributed to a money purchase pension scheme on behalf of the executive Directors. The number of Directors who are currently accruing benefits under a pension scheme is 2 (2015: 2). Contributions to a scheme on behalf of continuing Directors amount to 10% of the Director's basic salary. Gareth Jones sacrificed part of his salary in exchange for increased company pension contributions, until the arrangement ceased on 31 August 2016. Mark Webster has sacrificed his entitlement to company pension scheme contributions in exchange for an increase to his salary of an equal amount. Alex Warnock and Andrew Boteler have both sacrificed part of their pension entitlement for an increase in salary of the same amount.

BENEFITS IN KIND
The benefits in kind for Mark Webster include relocation expenses of £23,000.

DIRECTORS' CONTRACTS
The Executive Directors have rolling service contracts that are subject to either six or twelve months' notice. The Chairman and non-executive Directors do not have contracts of service.

DIRECTORS' INTEREST IN SHARES OF THE COMPANY
The Directors' interests in the shares of the Company are set out in the Directors' Report on page 28.

SHARE OPTIONS EXERCISED

2016	Scheme	Number of Share Options No.	Market Price p	Exercise Price p	Exercise Date	Total Gain £'000
Executive						
A Boteler	LTIP	27,500	878.2	0.0	08/01/16	242
A Boteler	LTIP	7,576	875.0	0.0	11/01/16	66
G Jones	LTIP	27,500	878.2	0.0	08/01/16	242
G Jones	LTIP	29,376	875.0	0.0	11/01/16	257
2015	Scheme	Number of Share Options No.	Market Price p	Exercise Price p	Exercise Date	Total Gain £'000
Executive						
G Jones	VCP	50,000	685.0	0.0	09/12/14	343
G Jones	VCP	62,500	685.0	0.0	15/01/15	428
G Jones	VCP	62,900	705.0	0.0	03/03/15	443
G Jones	CSOP	9,933	925.0	151.0	29/06/15	77

The VCP and CSOP exercises in the 2015 table above include options disclosed in the Directors' Remuneration table for the year ended 30 September 2013.

SHARE OPTION SCHEMES

At 30 September 2016 Gooch & Housego had one active share based incentive scheme as detailed below:

THE GOOCH & HOUSEGO 2013 LONG TERM INCENTIVE PLAN

The Gooch & Housego 2013 LTIP was adopted on 9 April 2013. Under the plan, awards will be made annually to key employees based on a percentage of salary or management grade. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Company three years after the grant date, with the exception of the April 2013 grant which vested in December 2015. The exercise price of all awards is nil.

	– Number of ordinary shares under option –						
	Date of grant	At 01.10.2015	Awarded in year	Exercised in year	Lapsed in year	At 30.09.2016	Expiry Date
Executive							
M Webster	17.12.2014	91,496	–	–	–	91,496	17.12.2018
M Webster	23.12.2015	–	36,080	–	–	36,080	23.12.2019
A Warnock	17.12.2014	69,355	–	–	–	69,355	17.12.2018
A Warnock	23.12.2015	–	26,949	–	–	26,949	23.12.2019
A Boteler	09.04.2013	35,076	–	(35,076)	–	–	16.12.2016
A Boteler	01.12.2013	25,911	–	–	–	25,911	16.12.2017
A Boteler	17.12.2014	28,226	–	–	–	28,226	17.12.2018
A Boteler	23.12.2015	–	22,661	–	–	22,661	23.12.2019
Non Executive							
G Jones	09.04.2013	56,876	–	(56,876)	–	–	16.12.2016
G Jones	01.12.2013	39,822	–	–	–	39,822	16.12.2017

The Gooch & Housego 2013 Long Term Incentive Plan specifies that the Company will operate within the standard dilution limit of 10% of the Company's issued share capital over a 10 year period, but excluding the dilution arising from the 2010 Value Creation Plan.

During the year to 30 September 2016, £638,000 (2015: £485,000) was charged to the income statement in respect of the IFRS 2 share based payments charge on all share option schemes (valued using the Monte Carlo option pricing model) and £36,000 (2015: £122,000) in respect of employer's national insurance contributions, based on a year end share price of £10.10 (2015: £8.33).

Brian Phillipson
Chairman of the Remuneration Committee
29 November 2016

Independent Auditors' Report

TO THE MEMBERS OF GOOCH & HOUSEGO PLC

REPORT ON THE GROUP FINANCIAL STATEMENTS

OUR OPINION

In our opinion, Gooch & Housego plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 30 September 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

WHAT WE HAVE AUDITED

The financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), comprise:

- the Group Balance Sheet as at 30 September 2016;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement and the Notes to the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ADEQUACY OF INFORMATION AND EXPLANATIONS RECEIVED

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OTHER MATTER

We have reported separately on the company financial statements of Gooch & Housego plc for the year ended 30 September 2016.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
29 November 2016

For the year ended 30 September 2016

Group Income Statement

	Note	2016 £000	2015 £000
Revenue	7	86,051	78,702
Cost of revenue		(53,752)	(47,659)
Gross profit		32,299	31,043
Research and Development		(6,697)	(5,712)
Sales and Marketing		(6,469)	(5,626)
Administration		(11,425)	(10,353)
Other income and expenses	9	2,476	942
Operating profit	11	10,184	10,294
Finance income	12	39	26
Finance costs	12	(127)	(214)
Profit before income tax expense		10,096	10,106
Income tax expense	13	(3,048)	(2,647)
Profit for the year		7,048	7,459
Basic earnings per share	15	29.1p	30.9p
Diluted earnings per share	15	28.6p	30.4p

Reconciliation of operating profit to adjusted operating profit:

		2016 £000	2015 £000
Operating profit		10,184	10,294
Amortisation of acquired intangible assets	17	1,263	1,604
Gain on bargain purchase	32	(578)	-
Impairment of goodwill	17	771	-
Provision for regulatory compliance risk	23	500	-
Restructuring costs	11	1,652	1,204
Transaction fees	11	466	-
Adjusted operating profit		14,258	13,102

Group Statement of Comprehensive Income

	Note	2016 £000	2015 £000
Profit for the year		7,048	7,459
Other comprehensive income – items that may be reclassified subsequently to profit or loss			
Fair value adjustment of interest rate swap net of tax		-	21
Currency translation differences	26	5,954	1,800
Other comprehensive income for the year net of tax		5,954	1,821
Total comprehensive income for the year attributable to the shareholders of Gooch & Housego PLC		13,002	9,280

For the year ended 30 September 2016

Group Balance Sheet

	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	16	32,384	24,915
Intangible assets	17	29,916	20,155
Deferred income tax assets	24	2,674	2,552
		64,974	47,622
Current assets			
Inventories	18	18,973	16,013
Income tax assets		394	854
Trade and other receivables	19	22,679	14,394
Cash and cash equivalents	20	23,167	22,556
		65,213	53,817
Current liabilities			
Trade and other payables	21	(19,624)	(14,059)
Borrowings	22	(4)	(39)
Income tax liabilities		(891)	(411)
Provision for other liabilities and charges	23	(940)	(342)
		(21,459)	(14,851)
Net current assets		43,754	38,966
Non-current liabilities			
Borrowings	22	(11,494)	(5,189)
Deferred income tax liabilities	24	(4,806)	(3,032)
Deferred consideration	32	(2,256)	-
		(18,556)	(8,221)
Net assets		90,172	78,367
Shareholders' equity			
Called up share capital	25	4,852	4,818
Share premium account	26	15,530	15,530
Merger reserve	26	2,671	2,671
Cumulative translation reserve	26	6,984	1,030
Retained earnings	26	60,135	54,318
Total equity		90,172	78,367

The financial statements for Gooch & Housego PLC, registered number 00526832, on pages 38 to 60 were approved by the Board of Directors on 29 November 2016 and signed on its behalf by:

Mark Webster
Director

Andrew N Boteler
Director

For the year ended 30 September 2016

Group Statement of Changes in Equity

	Note	Called up share capital £000	Share premium account £000	Merger reserve £000	Hedging rederve £000	Retained earnings £000	Total equity £000
At 1 October 2014		4,774	15,420	2,671	(21)	47,093	69,937
Profit for the financial year		-	-	-	-	7,459	7,459
Other comprehensive income for the year		-	-	-	21	1,800	1,821
Total comprehensive income for the year		-	-	-	21	9,259	9,280
Dividends	14	-	-	-	-	(1,823)	(1,823)
Shares issued		44	110	-	-	(38)	116
Fair value of employee services		-	-	-	-	485	485
Tax credit relating to share option schemes		-	-	-	-	372	372
Total contributions by and distributions to owners of the parent recognised directly in equity		44	110	-	-	(1,004)	(850)
At 30 September 2015		4,818	15,530	2,671	-	55,348	78,367
At 1 October 2015		4,818	15,530	2,671	-	55,348	78,367
Profit for the financial year		-	-	-	-	7,048	7,048
Other comprehensive income for the year		-	-	-	-	5,954	5,954
Total comprehensive income for the year		-	-	-	-	13,002	13,002
Dividends	14	-	-	-	-	(2,055)	(2,055)
Shares issued		34	-	-	-	(34)	-
Fair value of employee services		-	-	-	-	638	638
Tax credit relating to share option schemes		-	-	-	-	220	220
Total contributions by and distributions to owners of the parent recognised directly in equity		34	-	-	-	(1,231)	(1,197)
At 30 September 2016		4,852	15,530	2,671	-	67,119	90,172

For the year ended 30 September 2016

Group Cash Flow Statement

	2016 £000	2015 £000
Cash flows from operating activities		
Cash generated from operations	13,897	14,692
Income tax paid	(1,324)	(1,067)
Net cash generated from operating activities	12,573	13,625
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(5,687)	-
Purchase of property, plant and equipment	(9,710)	(3,053)
Sale of property, plant and equipment	-	635
Purchase of intangible assets	(629)	(793)
Interest received	39	26
Interest paid	(111)	(189)
Net cash used in investing activities	(16,098)	(3,374)
Cash flows from financing activities		
Drawdown of borrowings	5,426	5,168
Repayment of borrowings	(39)	(8,777)
Proceeds from issues of share capital	-	115
Dividends paid to ordinary shareholders	(2,055)	(1,823)
Net cash generated from / (used in) financing activities	3,332	(5,317)
Net (decrease) / increase in cash	(193)	4,934
Cash at beginning of the year	22,556	17,094
Exchange gains on cash	804	528
Cash at the end of the year	23,167	22,556

For the year ended 30 September 2016

Notes to the Group Cash Flow Statement

Reconciliation of cash generated from operations	2016 £000	2015 £000
Profit before income tax	10,096	10,106
Adjustments for:		
- Amortisation of acquired intangible assets	1,263	1,604
- Amortisation of other intangible assets	355	301
- Gain on bargain purchase of Alfalight	(578)	-
- Impairment of goodwill	771	-
- Depreciation	3,042	2,715
- Loss on disposal of property, plant and equipment	-	508
- Share based payment charge	638	485
- Finance income	(39)	(26)
- Finance costs	127	214
Total	5,579	5,801
Changes in working capital		
- Inventories	223	(729)
- Trade and other receivables	(4,706)	(1,101)
- Trade and other payables	2,705	615
Total	(1,778)	(1,215)
Cash generated from operating activities	13,897	14,692

Reconciliation of net cash inflow to movements in net cash

	2016 £000	2015 £000
(Decrease) / increase in cash in the year	(193)	4,934
Drawdown of borrowings	(5,426)	(5,168)
Repayment of borrowings	39	8,777
Changes in net cash resulting from cash flows	(5,580)	8,543
Finance leases acquired	(25)	-
Translation differences	(55)	99
Movement in net cash in the year	(5,660)	8,642
Net cash at 1 October	17,328	8,686
Net cash at 30 September	11,668	17,328

Analysis of net cash

	At 1 Oct 2015 £000	Cash flow £000	Exchange movement £000	Non cash movement £000	At 30 Sep 2016 £000
Cash at bank and in hand	22,556	(193)	804	-	23,167
Debt due after 1 year	(5,189)	(5,426)	(859)	-	(11,474)
Finance leases	(39)	39	-	(25)	(25)
Net cash	17,328	(5,580)	(55)	(25)	11,668

For the year ended 30 September 2016

Notes to the Financial Statements

1. GENERAL INFORMATION

Gooch & Housego PLC (the "Company") is incorporated and domiciled in the United Kingdom. The Company is listed on the Alternative Investment Market ("AIM Market") of the London Stock Exchange. The address of the registered office of the Company is given on page 72.

The consolidated financial statements of the Group for the year ended 30 September 2016 comprise the Company, Gooch & Housego PLC, and its subsidiaries (together referred to as the "Group"). A listing of the Company's subsidiaries is set out on page 68.

The Group is a manufacturer of specialist optoelectronic components, materials and systems and specialist instrumentation and life sciences devices. The Group has facilities in the United Kingdom, Germany and the United States.

2. BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) at fair value and in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRIC Interpretations in issue at 30 September 2016, and with those parts of the Companies Act 2006 applicable to companies preparing financial statements in accordance with IFRS. The financial statements have been prepared on a going concern basis.

3. APPLICATION OF IFRS

Adoption of new standards

There has been no material impact from the adoption of new standards or revised standards or interpretations which are relevant to the Group:

- IFRS10 Consolidated financial statements (Amendment)
- IAS 1 Presentation of financial statements (Amendment)
- IAS 16 Property, plant and equipment (Amendment)

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 October 2016 or later periods but which the Group has chosen not to adopt early. These include the following which are relevant to the Group:

- IFRS 15 Revenue from contracts with customers (effective for periods beginning on or after 1 January 2018);
- IFRS 9 Financial instruments (effective for periods beginning on or after 1 January 2018); and
- IFRS 2 (Amendment) Classification and measurement of share based payment transactions (effective for periods ending on or after 1 January 2018)
- IFRS 16 Leases (effective for accounting periods ending on or after 1 January 2019)
- IAS 12 (Amendment) Amendments to the recognition of deferred tax assets for unrealised losses (effective for accounting periods ending on or after 1 January 2017)

The group does not expect that these standards and interpretations, issued but not yet effective, will have a material impact on results or net assets of the Group.

4. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all of the years presented, unless otherwise stated.

Consolidation

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued, the fair value of contingent or deferred consideration and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the business combination are charged to the income statement. The excess of the costs of a business combination over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of a business combination is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Should the fair value of contingent or deferred consideration vary from the actual value on settlement date, the difference is recognised directly in the income statement.

Transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gooch & Housego (UK) Limited, Gooch & Housego (Torquay) Limited, Spanoptic Limited, Kent Periscopes Limited, G&H (US Holdings) Limited and G&H (Property) Holdings Limited are exempt from the requirement to file audited accounts by virtue of Section 479C of the Companies Act 2006.

Segment reporting

A business segment is a grouping of operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A market segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments.

The chief operating decision maker in determining a business or operating segment is the Board of Directors.

Foreign currency translation

a. Functional and presentation currency

The consolidated financial statements are presented in Pounds Sterling, which is the Group's presentation currency. Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

b. Transactions and balances

Foreign currency transactions are translated into an entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

For the year ended 30 September 2016

c. Subsidiaries

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

No depreciation is charged on freehold land or capital work in progress. Certain plant used in the manufacturing process which is constructed from precious metals is not depreciated.

Depreciation on other assets is calculated to allocate their cost over their estimated useful lives, as follows:

• Freehold buildings	2-3%	Straight line
• Leasehold property	over term of lease	Straight line
• Plant and machinery	10-20%	Straight line
• Fixtures, fittings and computers	10-33%	Straight line
• Motor vehicles	25%	Reducing balance

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Where an asset's carrying amount is greater than its estimated recoverable amount, the asset's carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or an asset's value in use.

Intangible assets

a. Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the net identifiable assets of the acquired business. Goodwill arising from business combinations is included in 'intangible assets'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment testing requires an estimation of the 'value in use' of the Cash-generating unit (the "CGU") to which goodwill is allocated using appropriately discounted cash flow projections. Any impairment is recognised immediately as an expense to the income statement and is not subsequently reversed.

For the purpose of impairment testing a CGU is defined as either a business segment or an operating entity, as appropriate.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

b. Patents, Trademarks and Licenses

Internally incurred costs associated with the filing and perfection of patents and trademarks are capitalised and carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over their useful economic lives and are charged to Research and Development in the income statement.

Acquired patents, trademarks and licences are shown at historical cost. Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over their useful economic lives.

c. Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are capitalised and recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Capitalised software costs are amortised using the straight line method over their estimated useful lives of up to 5 years and charged to Administration in the income statement.

d. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Development costs incurred after the point at which the commercial and technical feasibility of the product have been proven, and the decision to complete the development has been taken and resources made available, are capitalised. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development costs are amortised using the straight line method over their estimated useful life lives, which is typically 5 years, and are charged to Research and Development in the income statement.

e. Acquired intangibles

Other acquired intangible assets are stated at fair value less accumulated amortisation and impairment losses.

The useful life of each of these assets is assessed based on the differing natures of each of the intangible assets acquired. Amortisation is charged on a straight-line basis over the estimated useful life of the assets acquired and charged to administration in the Income Statement.

• Customer relationships	up to 10 years
• Brand names	up to 10 years
• Acquired patents, trademarks and licences	up to 3 years

Government grants

Government grants are accounted for on an accruals basis. Grants are credited to the income statement over the life of the project. Where grants are used to fund the acquisition of property, plant and equipment, the grant is initially credited to deferred income then credited to the income statement over the estimated economic life of the asset.

For the year ended 30 September 2016

Impairment of non-financial assets

The Group assesses at each balance sheet date whether an asset may be impaired. If any such indicator exists, the Group tests for impairment by estimating the recoverable amount which is the higher of the value in use and the fair value less costs to sell. If the recoverable amount is less than the carrying value of the asset, the asset is impaired and the carrying value is reduced to its recoverable amount. In addition to this, assets with indefinite lives are tested for impairment annually. Non-financial assets other than goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months from the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Long term contract balances included in work in progress comprise costs incurred on long term contracts, net of any amounts transferred to trading expenditure, after deducting foreseeable losses and related payments on account. Costs include all direct material and labour costs incurred in bringing a contract to its state of completion at the year end. Provisions for estimated losses on contracts are made in the period in which such losses are foreseen. Long term contract balances do not include attributable profit. The amount by which customer billings exceed the revenue recognised on a contract is shown as a payment on account.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'Administration costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'Administration costs' in the income statement.

Cash and cash equivalents

Cash and cash equivalents for the purpose of the cash flow statement includes cash in hand and deposits held on call with banks with original maturities of three months or less.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Borrowing costs are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial instruments

Financial instruments are initially recognised at fair value on the date that a contract is entered into and are subsequently remeasured at their fair value. The Group documents the relationship between the hedging instrument and the hedged item and, on a periodic basis, assesses whether the hedge is effective.

Current and deferred income tax

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using rates enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Amounts claimed under the RDEC scheme have been recognised within operating profit.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income and equity, in which case it is recognised in other comprehensive income and equity.

In the UK and US, the Company is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share options"

For the year ended 30 September 2016

below, a compensation expense is recorded in the Company's income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases, a deferred income tax asset is recorded. The deferred income tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity.

Employee benefits

a. Pension obligations

The Group operates money purchase pension schemes for UK employees and Section 401(k) plans for US employees. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b. Profit share and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

c. Share options

The Group operates a number of share option schemes. In accordance with IFRS 2 the fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

Employer's National Insurance in the United Kingdom and equivalent taxes in other jurisdictions are payable on the exercise of certain share options. In accordance with IFRS 2, this is treated as a cash-settled transaction. A provision is made, calculated using the fair value of the Company's shares at the balance sheet date, pro-rated over the vesting period of the options.

At each balance sheet date, for awards with non market vesting conditions, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The fair value of the options under the Gooch & Housego 2013 Long Term Incentive Plan are determined by using the Monte Carlo option pricing model.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

The Group monitors and assesses its warranty provision requirement on a continuing basis. The provision for other liabilities and charges provides for the anticipated cost of repair and rectification of products under warranty, based on historical repair and replacement costs. In addition the Directors will also assess expected changes in future costs based on current information.

Exceptional items

Transactions are classified as exceptional where they relate to an event that falls outside the ordinary activities of the business and where individually or in aggregate they have a material impact on the financial statements.

Leases

Leases which transfer substantially all the risks and rewards of ownership of an asset are treated as a finance lease. Assets held under a finance lease are capitalised at their fair value at the inception of the lease and depreciated over the estimated useful economic life of the asset or lease term if shorter.

Finance charges are associated with the finance lease are expensed in proportion to the capital amount outstanding.

All other leases are classified as operating leases. Operating lease rentals are expensed in equal annual amounts over the lease term.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

a. Sale of goods

Revenue is recognised when the risks and rewards of the underlying sale have been transferred to the customer, and when collectability of the related receivable is reasonably assured. Depending on the terms of business, this occurs either on the dispatch/delivery of the goods supplied or on acceptance by the customer.

b. Long term contracts

Revenue is recognised on long term contracts by reference to the stage of completion of the contract activity at the balance sheet date. Revenue and profits are determined by estimating the outcome of the contract and determining the costs and profit attributable to the stage of completion.

Where the outcome of the contract cannot be reliably estimated, contract costs are recognised as an expense when incurred and revenue is recognised to the extent of the costs incurred that are expected to be recoverable. In both cases, any expected contract loss is recognised immediately.

c. Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

For the year ended 30 September 2016

5. FINANCIAL RISK MANAGEMENT

Capital risk management

Management considers capital as equity, as shown in the Group balance sheet, excluding net debt.

The Group's objectives when managing capital are to safeguard the Group's ability

- to continue as a going concern,
- to provide returns for shareholders and benefits for other stakeholders and
- to maintain an optimal capital structure to reduce the cost of capital.

The Board is satisfied that these objectives have been met during the year. Actions taken during the year to achieve these objectives are outlined in the Chief Executive Officer's Review.

In order to maintain or adjust the capital structure, the Group may

- adjust the amount of dividends paid to shareholders,
- return capital to shareholders,
- issue new shares,
- sell assets to reduce debt and
- vary the level of debt financing.

While the Group's debt to equity ratio is consistently monitored, changes in the Group's need for capital and the selection of the source and funding of capital are assessed against a number of criteria which may have a direct effect on the Group debt to equity ratio.

The Group's capital needs include, but are not solely limited to, its

- investment in non-current assets;
- investment in working capital; and
- acquisition of businesses, technologies and other intangible assets.

The criteria against which the Group's capital needs are assessed include, but are not limited to,

- availability of and cost of debt financing;
- ability to raise equity financing at an acceptable share price; and
- ratio of debt to equity.

Financial risks

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Where considered appropriate, the Company will use derivative financial instruments to hedge risk exposures during the year.

i. Market risk

a. Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar.

Foreign exchange risk arises from

- future commercial transactions;
- recognised assets and liabilities; and
- net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

No financial derivatives have been entered into to manage foreign exchange exposure.

As a significant amount of the Group's profit is earned by its US subsidiaries, the Group's profit is sensitive to movements in the US Dollar exchange rate. If the average US Dollar exchange rate for the year had been consistent with the closing exchange rate at 30 September 2015, with all other variables constant, post tax profits for the year would have been £447,000 lower (2015: £207,000 lower) as a result of the translation in US Dollars.

Equity is more sensitive to movement in the US Dollar exchange rate as a significant amount of the Group's net assets are held in the Group's US subsidiaries. If the US Dollar weakened by 10% against Pound Sterling with all other variables held constant, the net assets of the Group would be £1,821,000 lower (2015: £3,600,000 lower). If the US Dollar strengthened by 10% against Pound Sterling with all other variables held constant, the net assets of the Group would be £2,226,000 higher (2015: £4,900,000 higher).

b. Cash flow interest rate risk

The Group has cash balances of £23.2m which are held in interest bearing current accounts. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from its revolving credit facility. A 1% increase in the cost of borrowing would have resulted in an annualised increase in interest expense of £68,000 (2015: £51,000) had the Group's borrowings been in place throughout the year.

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. During 2015 and 2016, the Group's borrowings at variable interest rates were denominated in Pound Sterling and US Dollars as detailed in Note 22.

ii. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's trade receivables.

a. Trade and other receivables

The management of credit risk exposure is the responsibility of each business unit which has credit policies in place to mitigate the risk. The credit policies seek to verify a customer's credit worthiness prior to trading and maintain the level of trading within agreed credit limits. Changes to credit limits require authorisation in accordance with internal control policies.

The Group is exposed to concentration of credit risk. The Group's top ten customers in 2016 accounted for 26% of the Group's revenue (2015: 28%). No individual customer made up more than 6% of revenue in either the current or prior year.

The Group's trade receivables are analysed in note 19.

b. Cash

Cash is held in current and deposit accounts with financial institutions which have credit ratings of A- or greater.

iii. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group aims to achieve a balance between certainty of funding and a flexible, cost effective borrowing structure.

The Company's facilities comprise a committed revolving credit facility of $15m which is fully drawn and an uncommitted undrawn flexible acquisition facility of $20m, both available until 30 April 2019. These are analysed in Notes 22 and 29.

For the year ended 30 September 2016

The Group aims to ensure that there are sufficient funds or credit lines available to supplement cash flows generated from trading to meet known obligations in the next twelve months.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) requires the Directors to make critical accounting estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will on occasions fail to equal actual results.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Impairment of goodwill

The Group tests goodwill for impairment at least annually. This requires an estimation of the value in use of the Cash Generating Units (the "CGUs") to which goodwill is allocated. As set out in Note 17, estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present values of those cash flows.

Provision for impairment of trade receivables

The Group assesses trade receivables for impairment which requires an estimation of the likelihood of payment forfeiture by customers. In making this assessment, the Directors will consider the payment history of the customer as well as the customer's future viability.

Inventory provision

The Group continually monitors and assesses the provision for old and slow moving inventory. Factors considered by the Directors include the expected future usage and the potential obsolescence and deterioration of the Inventory.

Warranty provision

The Group monitors and assesses its warranty provision requirement on a continuing basis. In addition to considering historical repair and replacement costs, the Directors will also assess expected changes in future costs based on current information.

Share options

In accordance with IFRS 2, share options are measured at fair value at the date of grant. The fair value determined is then expensed in the Group income statement on a straight line basis over the vesting period, with a corresponding adjustment in equity. The fair value of the options under the Gooch & Housego 2013 Long Term Incentive Plan were measured by using the Monte Carlo option pricing model. The valuation of share options requires several judgements to be made in respect of the number of options that are expected to be exercised. Details of the assumptions included in the valuation of options are disclosed in Note 27.

Provisions for income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

For the year ended 30 September 2016

7. SEGMENTAL ANALYSIS

The Company's segmental reporting reflects the information that management uses within the business. The business is divided into four market sectors, being Aerospace & Defence, Life Sciences, Industrial and Scientific Research, together with the Corporate cost centre.

The industrial business segment primarily comprises the industrial laser market for use in the semiconductor and microelectronic industries, but also includes other industrial applications such as metrology and telecommunications. Scientific Research covers academic and government funded research including major multi-national projects.

For year ended 30 September 2016	Aerospace & Defence £000	Life Sciences £000	Industrial £000	Scientific Research £000	Corporate £000	Total £000
Revenue						
Total revenue	19,977	7,904	59,875	3,874	-	91,630
Inter and intra-division	-	-	(5,579)	-	-	(5,579)
External revenue	19,977	7,904	54,296	3,874	-	86,051
Divisional expenses	(18,055)	(6,017)	(42,719)	(2,881)	(1,342)	(71,014)
EBITDA[1]	1,922	1,887	11,577	993	(1,342)	15,037
EBITDA %	9.6%	23.9%	21.3%	25.6%	-	17.5%
Depreciation and amortisation	(545)	(335)	(1,776)	(310)	(431)	(3,397)
Operating profit before amortisation of acquired intangible assets	1,377	1,552	9,801	683	(1,773)	11,640
Amortisation of acquired intangible assets, gain on bargain purchase and goodwill impairment	-	-	-	-	(1,456)	(1,456)
Operating profit	1,377	1,552	9,801	683	(3,229)	10,184
Operating profit margin %	6.9%	19.6%	18.1%	17.6%	-	11.8%
Add back amortisation of intangibles, impairment of goodwill, gain on bargain purchase and non-recurring items	108	53	960	37	2,916	4,074
Adjusted operating profit	1,485	1,605	10,761	720	(313)	14,258
Adjusted profit margin %	7.4%	20.3%	19.8%	18.6%	-	16.6%
Finance costs	-	-	-	-	(88)	(88)
Profit before income tax expense	1,377	1,552	9,801	683	(3,317)	10,096

[1]EBITDA = Earnings before interest, tax, depreciation and amortisation

Management have added back the amortisation of intangibles, gain on bargain purchase, impairment of goodwill, restructuring costs, provision for export compliance risk and transaction fees in the above analysis. This has been shown because the Directors consider the analysis to be more meaningful excluding the impact of this non-recurring expense.

For year ended 30 September 2015	Aerospace & Defence £000	Life Sciences £000	Industrial £000	Scientific Research £000	Corporate £000	Total £000
Revenue						
Total revenue	19,880	8,978	51,892	3,866	-	84,616
Inter and intra-division	(76)	-	(5,838)	-	-	(5,914)
External revenue	19,804	8,978	46,054	3,866	-	78,702
Divisional expenses	(17,112)	(7,067)	(35,885)	(3,058)	(783)	(63,905)
EBITDA[1]	2,692	1,911	10,169	808	(783)	14,797
EBITDA %	13.6%	21.3%	22.1%	20.9%	-	18.8%
Depreciation and amortisation	(572)	(322)	(1,746)	(129)	(130)	(2,899)
Operating profit before amortisation of acquired intangible assets	2,120	1,589	8,423	679	(913)	11,898
Amortisation of acquired intangible assets	-	-	-	-	(1,604)	(1,604)
Operating profit	2,120	1,589	8,423	679	(2,517)	10,294
Operating profit margin %	10.7%	17.7%	18.3%	17.6%	-	13.1%
Add back restructuring costs	20	23	1,156	5	-	1,204
Operating profit excluding restructuring costs	2,140	1,612	9,579	684	(2,517)	11,498
Adjusted profit margin %	10.8%	18.0%	20.8%	17.7%	-	14.6%
Finance costs	-	-	-	-	(188)	(188)
Profit before income tax expense	2,120	1,589	8,423	679	(2,705)	10,106

[1]Management have added back the cost of the Melbourne site closure in the above analysis. This has been shown because the Directors consider the analysis to be more meaningful excluding the impact of this non-recurring expense.

All of the amounts recorded are in respect of continuing operations.

For the year ended 30 September 2016

Analysis of net assets/(liabilities) by location:

	2016 Assets £000	2016 Liabilities £000	2016 Net Assets £000	2015 Assets £000	2015 Liabilities £000	2015 Net Assets £000
United Kingdom	70,336	(30,580)	39,756	50,359	(12,999)	37,360
USA	59,077	(9,112)	49,965	50,193	(9,679)	40,514
Continental Europe	726	(318)	408	872	(389)	483
Asia Pacific	48	(5)	43	15	(5)	10
	130,187	(40,015)	90,172	101,439	(23,072)	78,367

For the year to 30 September 2016 non-current asset additions were £2.0m (2015: £2.0m) for the UK and for the USA £7.3m (2015: £2.1m). There were no additions to non-current assets in respect of Europe (2015: £nil) or the Asia Pacific region (2015: £nil). The value of non-current assets in the USA was £34.7m (2015: £24.4m), the United Kingdom £30.1m (2015: £23.3m) and Europe £nil (2015: £0.4m). There were no non-current assets in the Asia-Pacific region.

Analysis of revenue by destination:

	2016 £000	2015 £000
United Kingdom	17,247	14,897
USA	34,918	34,762
Continental Europe	19,189	16,890
Asia Pacific and Other	14,697	12,153
Total revenue	86,051	78,702

8. EXPENSES BY NATURE

	Note	2016 £000	2015 £000
Raw materials and consumables		27,424	23,749
Changes in stocks of finished goods and work in progress		1,357	(1,701)
Employee costs	10	38,280	35,697
Other operating charges		6,429	6,985
Depreciation		3,042	2,715
Amortisation of acquired intangible assets		1,263	1,604
Amortisation of other intangible assets		355	301
Gain on bargain purchase – Alfalight		(578)	-
Impairment of goodwill		771	-
Other income and expenses	9	(2,476)	(942)
		75,867	68,408

9. OTHER INCOME AND EXPENSES

	2016 £000	2015 £000
Grants receivable	2,220	1,404
Loss on disposal of property, plant and equipment	-	(453)
Restructuring costs	-	(85)
Amounts claimed under the RDEC	270	-
Other (expense) / income	(14)	76
	2,476	942

For the year ended 30 September 2016

10. EMPLOYEE BENEFIT EXPENSE

	2016 £000	2015 £000
Wages and salaries	30,971	28,899
Social security costs	2,551	2,602
Share based payment charge	638	485
Medical and other insurance	2,851	2,501
Other pension costs	1,269	1,210
	38,280	35,697

The monthly number of employees during the year was:

	2016 Number	2015 Number
Manufacturing	471	464
Sales, finance and administration	204	210
	675	674

Key management compensation

	2016 £000	2015 £000
Salaries and other short-term benefits	4,908	4,426
Share based payments	638	485
Other pension costs	230	256
	5,776	5,167

Key management comprise the Executive Board and the senior operational staff.

Directors' remuneration, including the highest paid Director, has been included on page 35 of the Remuneration Committee Report. These disclosures have been audited.

11. OPERATING PROFIT

Operating profit is stated after charging / (crediting):

	2016 £000	2015 £000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	45	44
Fees payable to the Company's auditors and its associates for other services:		
- audit of the Company's subsidiaries pursuant to legislation	110	89
- taxation compliance services	78	57
- taxation advisory services	117	11
- taxation advisory services related to abortive acquisitions	10	-
- due diligence services related to grant funding	97	-
Net gains on foreign exchange	(860)	(214)
Operating lease rentals	1,520	1,571
Transaction fees	466	-

Restructuring costs of £1,652,000 were incurred in the year (2015: £1,204,000). These related to the Palo Alto site move (£929,000) and redundancy costs of £723,000. The costs have been included in the income statement within cost of revenue, administration costs and other income and expenses as appropriate.

12. FINANCE INCOME AND COSTS

	2016 £000	2015 £000
Finance income comprises:		
- Bank interest	39	26
Finance costs comprise:		
- Bank interest	(126)	(210)
- Finance lease interest	(1)	(4)
	(127)	(214)

For the year ended 30 September 2016

13. INCOME TAX EXPENSE

Analysis of tax charge in the year

	2016 £000	2015 £000
Current taxation		
UK Corporation tax	1,760	1,480
Overseas tax	887	724
Adjustments in respect of prior year tax charge	(77)	(983)
Total current tax	2,570	1,221
Deferred tax		
Origination and reversal of temporary differences	218	274
Adjustments in respect of prior year deferred tax	290	1,152
Impact of change in the UK tax rate	(30)	-
Total deferred tax	478	1,426
Income tax expense per income statement	3,048	2,647

The taxation expense for the year is higher (2015: higher) than the standard rate of corporation tax in the UK. An explanation of the differences is detailed below:

	2016 £000	2015 £000
Profit before income tax expense	10,096	10,106
Profit at the effective standard rate of tax of 20.0% for the year (2015: 20.5%)	2,019	2,072
Income not subject to tax	(116)	-
Permanent differences	134	(215)
Adjustments in respect of foreign tax rates	828	621
Re-measurement of deferred tax - change in UK tax rate	(30)	-
Adjustments in respect of prior year	213	169
Total tax expense	3,048	2,647

Factors affecting the future tax charge

Overseas tax losses of £3.8m (2015: £3.3m) and UK tax losses of £0.8m (2015: £0.8m) are available to offset against future profits of the Group. The utilisation of these losses is not sufficiently certain to recognise a deferred tax asset.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and 18% from 1 April 2020. The Finance Bill 2016 replaced the 18% rate with 17% and was substantively enacted on 15 September 2016. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in the financial statements.

The Group operates internationally; as a result, it is subject to various overseas tax rules and regulations. A change in the assessment of their implementation could result in an increase in G&H's tax liability, though no such change is currently considered necessary.

14. DIVIDENDS

	2016 £000	2015 £000
Final 2015 dividend paid in 2016: 5.2p per share (Final 2014 dividend paid in 2015: 4.6p per share)	1,254	1,101
2016 Interim dividend paid: 3.3p per share (2015: 3.0p)	801	722
	2,055	1,823

The Directors propose a final dividend of 5.7p per share making the total dividend paid and proposed in respect of the 2016 financial year 9.0p (2015: 8.2p).

For the year ended 30 September 2016

15. EARNINGS PER SHARE

The calculation of earnings per 20p Ordinary Share is based on the profit for the year using as a divisor the weighted average number of Ordinary Shares in issue during the year. The weighted average number of shares for the year ended 30 September is given below:

	2016 Number	2015 Number
Number of shares used for basic earnings per share	24,248,471	24,115,878
Dilutive shares	436,112	405,311
Number of shares used for dilutive earnings per share	24,684,583	24,521,189

A reconciliation of the earnings used in the earnings per share calculation is set out below:

	2016		2015	
	£000	pence per share	£000	pence per share
Basic earnings per share	7,048	29.1p	7,459	30.9p
Amortisation of acquired intangible assets (net of tax)	930	3.8p	1,184	4.9p
Goodwill impairment	771	3.2p	-	-
Gain on bargain purchase of Alfalight	(578)	(2.4p)	-	-
Provision for regulatory compliance	500	2.1p	-	-
Restructuring costs (net of tax)	1,261	5.2p	891	3.7p
Transaction fees (net of tax)	373	1.5p	-	-
Total adjustments net of income tax expense	3,257	13.4p	2,075	8.6p
Adjusted basic earnings per share	10,305	42.5p	9,534	39.5p
Basic diluted earnings per share	7,048	28.6p	7,459	30.4p
Adjusted diluted earnings per share	10,305	41.7p	9,534	38.9p

Basic and diluted earnings per share before amortisation and other adjustments has been shown because, in the opinion of the Directors, it provides a useful measure of the trading performance of the Group.

16. PROPERTY, PLANT AND EQUIPMENT

	Capital work in progress £000	Freehold land land and buildings £000	Leasehold property £000	Plant and machinery £000	Fixtures, fittings and computers £000	Motor vehicles £000	Total £000
Cost or valuation							
At 1 October 2014	1,250	9,905	3,714	23,604	2,596	60	41,129
Additions	2,564	5	16	1,282	296	-	4,163
Disposals	-	(959)	(784)	(258)	(90)	(11)	(2,102)
Reclassification	(151)	-	-	125	26	-	-
Exchange rate differences	50	50	217	698	40	1	1,056
At 30 September 2015	3,713	9,001	3,163	25,451	2,868	50	44,246
Additions	6,894	-	4	1,247	217	-	8,362
Acquired	-	-	22	290	112	-	424
Disposals	-	-	-	(4)	(4)	-	(8)
Reclassification	(8,013)	-	7,636	359	40	-	22
Exchange rate differences	255	12	1,180	1,842	122	2	3,413
At 30 September 2016	2,849	9,013	12,005	29,185	3,355	52	56,459
Accumulated depreciation							
At 1 October 2014	-	1,596	1,264	12,508	1,584	37	16,989
Charge for the year	-	182	299	2,043	184	7	2,715
Disposals	-	(327)	(308)	(233)	(90)	(10)	(968)
Exchange rate differences	-	20	80	444	50	1	595
At 30 September 2015	-	1,471	1,335	14,762	1,728	35	19,331
Charge for the year	-	168	401	2,190	277	6	3,042
Acquired	-	-	7	151	68	-	226
Disposals	-	-	-	-	(4)	-	(4)
Exchange rate differences	-	13	227	1,156	83	1	1,480
At 30 September 2016	-	1,652	1,970	18,259	2,152	42	24,075
Net book value							
At 1 October 2014	1,250	8,309	2,450	11,096	1,012	23	24,140
At 30 September 2015	3,713	7,530	1,828	10,689	1,140	15	24,915
At 30 September 2016	2,849	7,361	10,035	10,926	1,203	10	32,384

At 30 September 2016, plant and machinery purchased under a hire purchase or finance lease agreement had a cost of £38,000 (2015: £258,000) and net book value of £25,000 (2015: £83,000).

No interest was capitalised in the year (2015: £Nil).

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17. INTANGIBLE ASSETS

	Goodwill £000	Acquired intangible assets £000	Capitalised R&D, Patents and licences £000	Software and other intangibles £000	Total £000
Cost					
At 1 October 2014	21,688	11,189	1,522	1,633	36,032
Additions	-	-	870	83	953
Reclassification	-	-	(35)	-	(35)
Exchange rate differences	347	282	47	17	693
At 30 September 2015	22,035	11,471	2,404	1,733	37,643
Additions	-	-	624	70	694
Acquired	4,620	4,768	52	5	9,445
Disposals	-	-	(3)	(1)	(4)
Reclassification	-	-	(22)	-	(22)
Exchange rate differences	1,970	805	68	42	2,885
At 30 September 2016	28,625	17,044	3,123	1,849	50,641
Accumulated amortisation and impairment					
At 1 October 2014	5,654	7,807	585	1,318	15,364
Charge for the year	-	1,604	172	129	1,905
Disposals	-	-	(35)	-	(35)
Exchange rate differences	-	229	7	18	254
At 30 September 2015	5,654	9,640	729	1,465	17,488
Charge for the year	771	1,263	218	137	2,389
Acquired	-	-	3	3	6
Disposals	-	-	(3)	(1)	(4)
Exchange rate differences	-	778	29	39	846
At 30 September 2016	6,425	11,681	976	1,643	20,725
Net book value					
At 1 October 2014	16,034	3,382	937	315	20,668
At 30 September 2015	16,381	1,831	1,675	268	20,155
At 30 September 2016	22,200	5,363	2,147	206	29,916

Goodwill is allocated according to each operating site as follows: Cleveland (£2.1m), Ilminster (£1.5m), Torquay (£1.6m), Moorpark (£6.4m), Boston (£5.1m), Palo Alto (£0.9m) and St Asaph (£4.6m).

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment testing requires an estimation of the 'value in use' of the CGU. The value in use calculations use pre-tax cash flow projections based on the latest projections approved by the Board for year one. For the purposes of the impairment review, the following key assumptions were made in respect of the cash flows beyond year one:

- Projected gross profit margins of 22% to 44%
- Average growth in EBITDA to 2021 of up to 10%, and 2% thereafter
- 7.9% post tax discount rate used to discount cash flows

The projected gross profit margin and average growth is based on past performance and the Directors' expectations for the foreseeable future.

The Boston cash generating unit did not meet its target for the year. However, it continues to contribute to the Group's Space Photonics activities and management expect activity levels to increase. The impairment calculation for the Boston cash generating unit utilises a specific set of growth assumptions based on revenue increasing by an average of 7% per annum in the period to 30 September 2021, which results in an average annual forecast EBITDA of £0.8m over the same period. Following this year's impairment review, and in recognition of the result for the year, the Directors consider it appropriate to impair the goodwill by £0.8m. If the discount rate were increased to 8.6%, or if the average annual EBITDA in the period to 30 September 2021 were reduced by £0.2m, a further impairment of £0.8m would arise. However, the trade and assets of Alfalight Inc. were acquired by the Boston cash generating unit and the Directors expect the results of the enlarged business to improve significantly going forward. They are therefore satisfied that no further impairment is necessary.

The impairment calculation for the Moorpark cash generating unit is based on an average annual forecast EBITDA to 2021 of £1.2m. The headroom on the calculation (of £1.2m) would be reduced to zero if the average annual EBITDA to 2021 were reduced by £0.3m or the discount rate increased to 8.7%. The Directors are satisfied that no impairment is necessary.

For the year ended 30 September 2016

18. INVENTORIES

	2016 £000	2015 £000
Raw materials	6,955	5,200
Work in progress	8,689	6,615
Finished goods	3,329	4,198
	18,973	16,013

The cost of inventories recognised as an expense and included in cost of revenue amounted to £56.8m (2015: £49.0m).

The movement in the inventories provision is as follows:	2016 £000	2015 £000
At 1 October	3,582	4,195
Acquired	264	-
Increase in / (Utilisation of) provision	71	(778)
Exchange rate movement	291	165
At 30 September	4,208	3,582

19. TRADE AND OTHER RECEIVABLES

	2016 £000	2015 £000
Trade receivables	20,451	11,730
Other receivables	1,326	891
Grant funding held in trust account	230	1,259
Prepayments	672	514
	22,679	14,394

The carrying amount of the Group's trade and other receivables is denominated in the following currencies:

	2016 £000	2015 £000
Pound Sterling	9,929	3,530
US Dollar	11,861	8,712
Euro	884	2,148
Yen	5	4
	22,679	14,394

The ageing of trade receivables by due date is as follows:	2016 £000	2015 £000
Current	14,567	9,383
1 to 3 months	4,701	2,295
Over 3 months	1,402	235
	20,670	11,913
Less provision for impairment	(219)	(183)
Net trade receivables	20,451	11,730

The movement on the provision for impairment of trade receivables is as follows:

	2016 £000	2015 £000
At 1 October	183	200
Utilisation of provision	-	(26)
Increase in provision	28	-
Exchange rate movement	8	9
At 30 September	219	183

For the year ended 30 September 2016

20. CASH AND CASH EQUIVALENTS

	2016 £000	2015 £000
Cash at bank and on hand	23,167	22,556

21. TRADE AND OTHER PAYABLES

	2016 £000	2015 £000
Trade payables	6,386	4,917
Other taxation and social security	553	691
Grant funding held in trust account	230	1,259
Accruals	12,455	7,192
	19,624	14,059

22. BORROWINGS

	2016 £000	2015 £000
Current:		
Finance leases	4	39
	4	39
Non-current:		
Bank borrowings	11,473	5,189
Finance leases	21	-
	11,494	5,189
Total borrowings	11,498	5,228

The carrying values of the bank borrowings and finance leases are not materially different from their fair values and are included as part of the fair value disclosure for all financial instruments in note 29.

Gooch & Housego's primary lending bank is The Royal Bank of Scotland plc. The Group's facilities comprise a $15m dollar revolving credit facility and a $20m flexible acquisition facility. At 30 September 2016, the balance drawn on the revolving credit facility was $15m (2015: $8m).

The facilities above are committed until 30 April 2019 and attract an interest rate of between 0.9% and 1.8% above LIBOR dependent upon the Company's leverage ratio.

Maturity profile of bank and other borrowings

	2016 £000	2015 £000
Within one year	4	39
Between two and five years	11,494	5,189
	11,498	5,228

23. PROVISION FOR OTHER LIABILITIES AND CHARGES

The movements in the Group provision for other liabilities and charges during the year are as follows:

	2016 £000	2015 £000
At 1 October	342	447
Acquired with Kent Periscopes Limited	38	-
Utilised during year	-	(118)
Charged to the income statement	556	-
Exchange movements	4	13
At 30 September	940	342

The Group provision for other liabilities and charges includes amounts provided for the anticipated cost of repair and rectification of products under warranty, based on known exposures and historical occurrences.

Following a routine audit our internal export compliance team identified two isolated potential violations of export control laws which apply to the business. After identifying these, voluntary disclosures were made to the relevant authorities. Management have taken legal advice which indicated that a penalty may be imposed. A provision for £500,000 has therefore been made in respect of this contingent liability.

For the year ended 30 September 2016

24. DEFERRED TAX ASSETS AND LIABILITIES

The movements in the Group's deferred tax assets and liabilities during the year are as follows:

	2016 £000	2015 £000
At 1 October	(480)	808
Charged to the income statement	(478)	(1,426)
Acquired	(28)	-
Arising on acquired intangible assets	(1,121)	-
Credited directly to equity	45	78
Exchange movements	(70)	60
Net liability 30 September	(2,132)	(480)

The deferred tax provided for in the financial statements is disclosed under the following balance sheet headings and can be analysed as follows:

	2016 £000	2015 £000
Deferred income tax assets		
Intangible assets	1,071	905
Share options	573	528
Provisions	788	1,114
Other timing differences	242	5
	2,674	2,552
Deferred income tax liabilities		
Property, plant and equipment	(2,446)	(1,975)
Intangible assets	(2,360)	(1,057)
	(4,806)	(3,032)
Deferred tax balance at 30 September	(2,132)	(480)

Overseas tax losses of £3.8m (2015: £3.3m) and UK tax losses of £0.8m (2015: £0.8m) are available to offset against future profits of the Group. The Group has not recognised a deferred income tax asset of £1.3m (2015: £1.2m) in respect of these losses due to uncertainty as to whether they would be utilised within the foreseeable future.

No deferred tax has been provided in relation to unremitted earnings from overseas subsidiaries on the basis that no incremental tax charge is currently anticipated to arise upon remittance of these earnings to the UK.

25. CALLED UP SHARE CAPITAL

The movements in the Group's deferred tax assets and liabilities during the year are as follows:

	2016 Number	2015 Number	2016 £000	2015 £000
Issued and fully paid				
At 1 October	24,091,118	23,871,210	4,818	4,774
Shares issued and fully paid	168,906	219,908	34	44
At 30 September	24,260,024	24,091,118	4,852	4,818

During the year 168,906 shares (2015: 204,482 shares) were allotted under share option schemes.

For the year ended 30 September 2016

26. RESERVES

	Share premium account £000	Merger reserve £000	Cumulative translation reserve £000	Retained earnings £000
At 1 October 2015	15,530	2,671	1,030	54,318
Profit for the financial year	-	-	-	7,048
Dividends paid	-	-	-	(2,055)
Shares issued	-	-	-	(34)
Fair value of share options	-	-	-	638
Tax credit relating to share options	-	-	-	220
Currency translation differences	-	-	5,954	-
At 30 September 2016	15,530	2,671	6,984	60,135

27. SHARE OPTIONS

The Company operates the Gooch & Housego 2013 Long Term Incentive Plan (the "2013 LTIP").

The Gooch & Housego 2013 Long Term Incentive Plan

On 9 April 2013, a new Long Term Incentive Plan was adopted. Under the plan, awards will be made annually to key employees based on a percentage of salary. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Company three years after the grant date.

There have been four grants of options under the 2013 Long Term Incentive Plan, the details of which are given below. The remuneration report provides further details on the share options awarded and exercised during the financial year.

The 2013 Long Term Incentive Plan Awards were valued using the Monte Carlo option pricing model. The expected volatility used in the model was based on the historical volatility of the Company's share price over the three years prior to the grant date.

			Grant date	
	23 Dec 2015	17 Dec 2014	1 Dec 2013	9 Apr 2013
No. of options granted	147,458	260,193	144,875	179,150
Expected volatility	25%	29%	33%	43%
Risk free rate	0.9%	0.8%	0.9%	2.7%
Fair value (£)	629,506	878,475	441,252	429,795

A reconciliation of total share option movements is shown below:

	2016		2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	546,300	-	490,589	3.1p
Awarded	147,458	-	260,193	-
Exercised	(168,906)	-	(204,482)	9.0p
Lapsed	(12,000)	-	-	-
Outstanding at 30 September	512,852	-	546,300	-
Exercisable at 30 September	-	-	26,741	-

The weighted average fair value of options granted in the year was 427.0p per option (2015: 338.0p per option). For the options exercised, the average market price was 887.0p per share.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Expiry date	Exercise price per share option	Number of share options	
			2016	2015
2010 VCP	6-Jan-2020	0.0p	-	26,741
2013 LTIP	8-Apr-2023	0.0p	512,852	519,559
			512,852	546,300

The total charge for the year relating to share options was £638,000 (2015: £485,000), all of which related to equity-settled share based payment transactions.

For the year ended 30 September 2016

28. OPERATING LEASES

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 £000	2015 £000
Within one year	1,199	797
Between two to five years	3,652	2,291
	4,851	3,088

29. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise bank borrowings, cash at bank, finance leases and various items such as trade receivables and trade payables that directly arise from its operations. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk.

The Board's policy on these risks is set out in note 5.

Operations are financed through a mixture of retained profits, cash reserves, bank borrowings and finance leases. Other than finance leases the Board's policy is to use variable rate borrowings whenever possible.

The currency profile for the Group's financial assets and liabilities are set out below.

	Financial assets		Financial liabilities	
	2016 £000	2015 £000	2016 £000	2015 £000
Pound Sterling	11,269	8,764	24	39
US Dollars	9,999	12,571	11,474	5,189
Euro	1,857	1,208	-	-
Yen	42	13	-	-
	23,167	22,556	11,498	5,228

The financial assets listed in the above table are subject to floating rates of interest. The interest rates on the financial liabilities are provided in Note 22. The financial assets include cash at bank but exclude short-term receivables, prepayments and other receivables. The financial liabilities includes bank borrowings and finance leases. Other short-term payables are excluded from this disclosure.

30. CAPITAL COMMITMENTS

	2016 £000	2015 £000
Authorised and contracted but not provided for	264	4,367

All capital commitments relate to property, plant and equipment.

31. RELATED PARTY TRANSACTIONS

In addition to duties performed in his role as a non-executive director, Dr Peter Bordui has provided additional consultancy services at the request of the company. Fees during the year to 30 September 2016 amounted to £19,140 (2015: £18,720). At the balance sheet date the balance outstanding totalled £4,785 (2015: £4,680). The transactions are performed in the normal course of business on an arm's length basis and the outstanding balance is unsecured. Dr Peter Bordui has ceased his consultancy services with effect from 1 October 2016.

No other material contracts or arrangements have been entered into during the year, nor existed at the end of the year, in which a director or key manager had a material interest.

Details of key management compensation are given in note 10.

For the year ended 30 September 2016

32. ACQUISITIONS

Kent Periscopes Limited

On 8 July 2016, the Group completed the acquisition of the entire issued share capital of Kent Periscopes Limited, a St Asaph, Wales based manufacturer of periscopes and vehicle sights. The acquisition strengthened the Group's position in the aerospace and defence sector.

The consideration for the acquisition was £8m, paid in cash on completion, and a further £2.5m contingent deferred consideration based on the performance of the business for a two year period post acquisition.

The fair value of the assets acquired is summarised as follows:

	Provisional fair value
Property, plant and equipment	148
Intangible assets	3,291
Cash	3,376
Trade and other receivables	2,162
Inventory	1,455
Trade and other payables	(3,959)
Current and deferred tax liabilities	(810)
Hire purchase and finance lease liabilities	(27)
Net assets acquired	5,636
Consideration paid:	
Cash paid on completion	8,000
Deferred consideration	2,256
Goodwill	4,620

The fair value of the intangible assets represents the estimated fair value of Kent's order book, its customer relationships and its brand. These have been valued using a discounted cash flow model. The deferred consideration has been discounted using the company's weighted average cost of capital.

The goodwill arising on acquisition reflects items not separately recognised, including the expertise of Kent's employees and their contacts in target markets.

Post-acquisition, the acquired business contributed £1.5 million of revenue and £0.0 million of profit after tax excluding central costs to the consolidated income statement.

Alfalight Inc.

On 6 July 2016, the Group completed the acquisition of the trade and certain assets of Alfalight Inc, a Madison, Wisconsin based expert in diode and diode pumped solid state lasers. The acquisition strengthened the Group's position in the aerospace and deference sector.

The consideration for the acquisition was £1.1m, paid in cash on completion.

The fair value of the assets acquired is summarised as follows:

	Provisional fair value
Property, plant and equipment	50
Intangible assets	1,528
Trade and other receivables	480
Inventory	295
Trade and other payables	(171)
Current and deferred tax liabilities	(541)
Net assets acquired	1,641
Consideration paid:	
Cash	1,063
Gain on bargain purchase	578

The fair value of the intangible assets represents the estimated fair value of Alfalight's customer relationships and its brand. These have been valued using a discounted cash flow model.

The gain on bargain purchase of £0.6 million, representing the excess of net assets acquired over the consideration paid, has been credited to the income statement.

Post-acquisition, the acquired business contributed £0.9 million of revenue and £0.2 million of profit after tax excluding central costs to the consolidated income statement.

Independent Auditors' Report

TO THE MEMBERS OF GOOCH & HOUSEGO PLC

REPORT ON THE GROUP FINANCIAL STATEMENTS

OUR OPINION

In our opinion, Gooch & Housego plc's company financial statements (the "financial statements"):
- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

WHAT WE HAVE AUDITED

The financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), comprise:
- the Company Balance Sheet as at 30 September 2016; and
- the Company Cash Flow Statement and the Notes to the Company Cash Flow Statement for the year then ended;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law, and as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statematements.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ADEQUACY OF ACCOUNTING RECORDS AND INFORMATION AND EXPLANATIONS RECEIVED

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

As explained more fully in the Statement of Director's Responsibilities set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OTHER MATTER

We have reported separately on the group financial statements of Gooch & Housego plc for the year ended 30 September 2016.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
29 November 2016

For the year ended 30 September 2016

Company Balance Sheet

		2016		2015	
	Note	£000	£000	£000	£000
Non-current assets					
Investments	5		27,169		19,170
Property, plant and equipment	6		7,482		7,936
Intangible assets	7		156		297
Deferred income tax assets	9		681		476
			35,488		27,879
Current assets					
Other receivables	8	2,769		5,031	
Cash and cash equivalents		7,211		8,126	
		9,980		13,157	
Current liabilities					
Trade and other payables	10	(3,774)		(1,995)	
Net current assets			6,206		11,162
Non-current liabilities					
Deferred income tax liabilities	9		(101)		(82)
Net assets			41,593		38,959
Shareholders' equity					
Called up share capital	11		4,852		4,818
Share premium account			15,530		15,530
Retained earnings			21,211		18,611
Total equity			41,593		38,959

The financial statements on pages 62 to 71, were approved by the Board of Directors on 29 November 2016 and signed on its behalf by:

Mark Webster
Director

Andrew N Boteler
Director

For the year ended 30 September 2016

Company Statement of Changes in Equity

	Note	Called up share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
At 1 October 2014		4,774	15,420	13,645	33,839
Profit for the financial year		-	-	5,970	5,970
Total comprehensive income for the year		-	-	5,970	5,970
Dividends	4	-	-	(1,823)	(1,823)
Proceeds from shares issued		44	110	(38)	116
Fair value of employee services		-	-	485	485
Tax credit relating to share option schemes		-	-	372	372
Total contributions by and distributions to owners of the parent recognised directly in equity		44	110	(1,004)	(850)
At 30 September 2015		4,818	15,530	18,611	38,959
At 1 October 2015		4,818	15,530	18,611	38,959
Profit for the financial year		-	-	3,750	3,750
Total comprehensive income for the year		-	-	3,750	3,750
Dividends	4	-	-	(2,055)	(2,055)
Proceeds from shares issued		34	-	(34)	-
Fair value of employee services		-	-	638	638
Tax credit relating to share option schemes		-	-	301	301
Total contributions by and distributions to owners of the parent recognised directly in equity		34	-	(1,150)	(1,116)
At 30 September 2016		4,852	15,530	21,211	41,593

Company Cash Flow Statement

	2016 £000	2015 £000
Cash flows from operating activities		
Cash generated from / (used by) operations	4,280	(510)
Income tax paid	(41)	(26)
Net cash generated from / (used by) operating activities	4,236	(536)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(7,999)	-
Purchase of property, plant and equipment	(15)	(33)
Purchase of intangible assets	(13)	(142)
Interest received	36	25
Net cash used in investing activities	(7,991)	(150)
Cash flows from financing activities		
Repayment of borrowings	-	(1,550)
Proceeds from issues of share capital	-	116
Dividends received from subsidiary companies	4,905	7,150
Dividends paid to ordinary shareholders	(2,055)	(1,823)
Interest paid	(13)	(6)
Net cash generated from financing activities	2,837	3,887
Net (decrease) / increase in cash	(915)	3,201
Cash at beginning of the year	8,126	4,925
Cash at the end of the year	7,211	8,126

For the year ended 30 September 2016

Notes to the Company Cash Flow Statement

Reconciliation of cash generated from operations	2016 £000	2015 £000
Profit before income tax	2,561	5,755
Adjustments for:		
- Dividends received from subsidiaries	(4,905)	(7,150)
- Amortisation of other intangible assets	154	143
- Depreciation	469	474
- Share based payment obligations	638	484
- Finance income	(36)	(25)
- Finance costs	13	37
Total	(3,667)	(6,037)
Changes in working capital		
- Trade and other receivables	4,038	(613)
- Trade and other payables	1,348	385
Total	5,386	(228)
Cash generated from / (used by) operating activities	4,280	(510)

Analysis of net cash

	At 1 Oct 2015 £000	Cash flow £000	At 30 Sep 2016 £000
Cash at bank and in hand	8,126	(915)	7,211
Net cash	8,126	(915)	7,211

For the year ended 30 September 2016

1. COMPANY ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared under the historical cost convention as modified by financial assets and liabilities (including derivative financial instruments) at fair value and in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRIC interpretations in issue at 30 September 2016, and with those parts of the Companies Act 2006 applicable to companies preparing financial statements in accordance with IFRS. The financial statements have been prepared on a going concern basis.

The accounting policies have been consistently applied over the period reported.

Adoption of new standards

There has been no material impact from the adoption of new standards or revised standards or interpretations which are relevant to the Company:
- IAS 1 Presentation of financial statements (Amendment)
- IAS 16 Property, plant and equipment (Amendment)

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 October 2016 or later periods but which the Company has chosen not to adopt early. These include the following which are relevant to the Company:
- IFRS 9 Financial instruments (effective for periods beginning on or after 1 January 2018); and
- IFRS 2 (Amendment) Classification and measurement of share based payment transactions (effective for periods ending on or after 1 January 2018)
- IFRS 16 Leases (effective for accounting periods ending on or after 1 January 2019)
- IAS 12 (Amendment) Amendments to the recognition of deferred tax assets for unrealised losses (effective for accounting periods ending on or after 1 January 2017)

The Company does not expect that these standards and interpretations, issued but not yet effective, will have a material impact on results or net assets of the Company.

Pension schemes

The Company operates a money purchase pension scheme for Directors and staff. The assets of the scheme are held in separately administered funds. Contributions are recognised as an employee benefit expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share options

The Company operates a number of share option schemes. In accordance with IFRS 2 the fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

Employer's National Insurance in the United Kingdom and equivalent taxes in other jurisdictions are payable on the exercise of certain share options. In accordance with IFRS 2, this is treated as a cash-settled transaction. A provision is made, calculated using the fair value of the Company's shares at the balance sheet date, pro-rated over the vesting period of the options.

At each balance sheet date, for awards with non market vesting conditions, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The fair value of the options under the Gooch & Housego 2013 Long Term Incentive Plan are determined by using the Monte Carlo option pricing model.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Foreign currency translation

a. Functional and presentation currency

The financial statements are presented in Pounds Sterling, which is the Company's presentation currency.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Property, plant and equipment

Property, plant and equipment is stated at historical purchase cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. No depreciation is charged on freehold land or capital work in progress. Depreciation on other assets is calculated to allocate their cost over their estimated useful lives, as follows:

Freehold buildings	2-3%	Straight line
Plant and machinery	10-20%	Straight line
Fixtures, fittings and computers	10-33%	Straight line
Capitalised software and licences	25-33%	Straight line

Investments

Investments are stated at cost less provision for any impairment in value. Where overseas borrowing is required to finance the investment in overseas subsidiaries, the investment is retranslated at the exchange rate ruling at the balance sheet date.

For the year ended 30 September 2016

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income and equity, in which case it is recognised in other comprehensive income and equity.

In the UK and US, the Company is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share options" below, a compensation expense is recorded in the Company's income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases, a deferred income tax asset is recorded. The deferred income tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity.

Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Financial instruments

The Company has not used derivative financial instruments to hedge its exposure to currency risk. The Company's interest rate swap expired in the year ended 30 September 2015 and has not been renewed.

Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. COMPANY PROFIT AND LOSS ACCOUNT

Gooch & Housego PLC has taken advantage of section 408(3) of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's profit after tax was £3,750,000 (2015: £5,970,000 profit).

Fees payable to the Company auditors for the statutory audit for the year amounted to £16,000 (2015: £15,800).

3. EMPLOYEE BENEFIT EXPENSE

	2016 £000	2015 £000
Wages and salaries	1,635	1,520
Social security	170	285
Medical and other insurances	33	20
Share based payments	638	485
Pension costs	100	111
	2,576	2,421

The average number of employees during the year was 8 (2015: 8), all of whom were administrative.

For the year ended 30 September 2016

Directors' remuneration

	2016 £000	2015 £000
Directors' remuneration	1,192	1,214
Relocation allowance	23	64
Medical and other insurances	33	20
Directors' pension scheme contributions	80	97
	1,328	1,395

The aggregate emoluments of the highest paid Director including gain on exercise of share options were £617,000 (2015: £1,421,000). Further information is included in the Remuneration Committee report on page 35.

The aggregate gain on Directors' share option exercises in the year was £807,000 (2015: £1,291,000).

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 2 (2015: 2).

These disclosures have been audited.

4. DIVIDENDS

	2016 £000	2015 £000
Final 2015 dividend paid in 2016: 5.2p per share. (Final 2014 dividend paid in 2015: 4.6p per share)	1,254	1,101
2016 Interim dividend paid: 3.3p per share (2015: 3.0p)	801	722
	2,055	1,823

The Directors propose a final dividend of 5.7p per share making the total dividend paid and proposed in respect of the 2016 financial year 9.0p (2015: 8.2p). Should the final dividend be approved at the Company Annual General Meeting, cut-off dates for payment are:

- Record date 16 December 2016
- Payment date 3 March 2017

5. INVESTMENTS

	2016 £000	2015 £000
Cost and net book value at 1 October	19,170	19,170
Additions	7,999	-
Cost and net book value at 30 September	27,169	19,170

The subsidiary companies at 30 September 2016, all of which are wholly owned either directly or indirectly, are listed below:

Company Name	% ownership of ordinary shares	Location and country of incorporation	Activity
Gooch & Housego (UK) Limited	100%	Ilminster, UK	Manufacturer of acousto-optic products and precision optics
Gooch & Housego (Torquay) Limited	100%	Torquay, UK	Manufacturer of fibre-optic products
Spanoptic Limited	100%	Glenrothes, UK	Manufacturer of precision optics
Kent Periscopes Limited	100%	St Asaph, UK	Manufacturer of periscopes and vehicle sights
Gooch & Housego (Deutschland) GmbH	100%	Norderstedt, Germany	Provider of sales and customer service functions
Constelex Technology Enablers Limited	100%	Athens, Greece	Designer and manufacturer of advanced photonic systems
Gooch & Housego (Ohio) LLC	100%	Cleveland, USA	Manufacturer of electro-optic products and crystals
Gooch & Housego (California) LLC	100%	Moorpark, USA	Manufacturer of precision optics
Gooch & Housego (Florida) LLC	100%	Melbourne, USA	Manufacturer of acousto-optic products
Optronic Laboratories LLC	100%	Orlando, USA	Manufacturer of instruments for measuring optical radiation
EM4 Inc.	100%	Boston, USA	Manufacturer of fibre optics products
Gooch & Housego (Palo Alto) LLC	100%	Palo Alto, USA	Manufacturer of acousto-optic, electro-optic and fibre optic components and systems
Gooch & Housego Japan KK	100%	Nagoya, Japan	Provider of sales and customer service functions
G&H (Property) Holdings Limited	100%	Ilminster, UK	Property holding company
G&H (US Holdings) Limited	100%	Ilminster, UK	Holding company
G&H Holdings (Delaware) Inc.	100%	Delaware, USA	Holding company
G&H Capital Holdings (Florida) Inc.	100%	Florida, USA	Holding company

The directors believe that the carrying value of the investments is supported by their underlying net assets.

The entire share capital of Kent Periscopes Limited was acquired on 8 July 2016.

For the year ended 30 September 2016

6. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and computers £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 October 2014	6,178	3,966	1,392	478	12,014
Additions	5	21	-	5	31
At 30 September 2015	6,183	3,987	1,392	483	12,045
Additions	-	-	-	15	15
At 30 September 2016	**6,183**	**3,987**	**1,392**	**498**	**12,060**
Accumulated depreciation					
At 1 October 2014	1,031	1,525	611	468	3,635
Charge for the year	108	265	93	8	474
At 30 September 2015	1,139	1,790	704	476	4,109
Charge for the year	108	265	93	3	469
At 30 September 2016	**1,247**	**2,055**	**797**	**479**	**4,578**
Net book value					
At 1 October 2014	5,147	2,441	781	10	8,379
At 30 September 2015	5,044	2,197	688	7	7,936
At 30 September 2016	**4,936**	**1,932**	**595**	**19**	**7,482**

7. INTANGIBLE ASSETS

	Computer software £000	Other £000	Total £000
Cost or valuation			
At 1 October 2014	1,216	311	1,527
Additions	-	141	141
At 30 September 2015	1,216	452	1,668
Additions	-	13	13
At 30 September 2016	**1,216**	**465**	**1,681**
Accumulated depreciation			
At 1 October 2014	1,005	223	1,228
Charge for the year	81	62	143
At 30 September 2015	1,086	285	1,371
Charge for the year	73	81	154
At 30 September 2016	**1,159**	**366**	**1,525**
Net book value			
At 1 October 2014	211	88	299
At 30 September 2015	130	167	297
At 30 September 2016	**57**	**99**	**156**

8. OTHER RECEIVABLES

	2016 £000	2015 £000
Amounts owed by group undertakings	251	3,533
Prepayments and accrued income	86	84
Group tax relief receivable	2,432	1,414
	2,769	5,031

Amounts owed by group undertakings are unsecured and due within one year. Non-trading amounts owed by US group undertakings are charged interest at the US LIBOR rate applicable for the year. Non-trading amounts owed by UK group undertakings are charged interest at the UK LIBOR rate applicable for the year.

For the year ended 30 September 2016

9. DEFERRED TAX

The movement in the Company deferred tax asset / (liability) during the year was as follows:

	2016 £000	2015 £000
At 1 October	394	(44)
Credited to the income statement	61	66
Credited directly to reserves	125	372
At 30 September	580	394

The deferred tax provided for in the financial statements can be analysed as follows:

	2016 £000	2015 £000
Property, plant and equipment	(101)	(82)
Share options	497	372
Other timing differences	184	104
	580	394

Factors affecting the future tax charge

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and 18% from 1 April 2020. The Finance Bill 2016 replaced the 18% rate with 17% and was substantively enacted on 15 September 2016. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in the financial statements.

10. TRADE AND OTHER PAYABLES

	2016 £000	2015 £000
Trade payables	410	168
Amounts owed to group undertakings	1,264	145
Taxation and Social Security	226	387
Accruals and deferred income	1,874	1,295
	3,774	1,995

Amounts owed to group undertakings are unsecured and due within one year. Non-trading amounts owed to US group undertakings are charged interest at the US LIBOR rate applicable for the year. Non-trading amounts owed to UK group undertakings are charged interest at the UK LIBOR rate applicable for the year.

Following a routine audit our internal export compliance team identified two isolated potential violations of export control laws which apply to the business. After identifying these, voluntary disclosures were made to the relevant authorities. Management have taken legal advice which indicated that a penalty may be imposed. A provision for £500,000 has therefore been made in respect of this contingent liability.

11. CALLED UP SHARE CAPITAL

	2016 Number	2015 Number	2016 £000	2015 £000
Allotted, issued and fully paid				
At 1 October	24,091,118	23,871,210	4,818	4,774
Shares issued and fully paid	168,906	219,908	34	44
At 30 September	24,260,024	24,091,118	4,852	4,818

During the year 168,906 shares (2015: 204,482 shares) were allotted under share option schemes.

For the year ended 30 September 2016

12. SHARE OPTIONS

The Company operates the Gooch & Housego 2013 Long Term Incentive Plan (the "2013 LTIP").

The Gooch & Housego 2013 Long Term Incentive Plan

On 9 April 2013 a new Long Term Incentive Plan was adopted. Under the plan, awards will be made annually to key employees based on a percentage of salary or management grade. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Company three years after the grant date.

There have been four grants of options under the 2013 Long Term Incentive Plan, the details of which are given below. The remuneration report provides further details on the share options awarded and exercised during the financial year.

The 2013 Long Term Incentive Plan Awards were valued using the Monte Carlo option pricing model. The expected volatility used in the model was based on the historical volatility of the Company's share price over the three years prior to the grant date.

	Grant date			
	23 Dec 15	17 Dec 2014	9 Apr 2013	9 Apr 2013
No. of options granted	147,458	260,193	144,875	179,150
Expected volatility	25%	29%	33%	43%
Risk free rate	0.9%	0.8%	0.9%	2.7%
Fair value (£)	629,506	878,475	441,252	429,795

A reconciliation of total share option movements is shown below:

	2016		2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	546,300	-	490,589	3.1p
Awarded	147,458	-	260,193	-
Exercised	(168,906)	-	(204,482)	9.0p
Lapsed	(12,000)	-	-	-
Outstanding at 30 September	512,852	-	546,300	-
Exercisable at 30 September	-	-	26,741	-

The weighted average fair value of options granted in the year was 427.0p (2015: 338.0p). For the options exercised, the average market price was 887.0p per share.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Expiry date exercise price	Exercise price per share option	Number of share options	
			2016	2015
2010 VCP	6-Jan-2020	0.0p	-	26,741
2013 LTIP	8-Apr-2023	0.0p	512,852	519,559
			512,852	546,300

The total charge for the year relating to share options was £638,000 (2015: £485,000), all of which related to equity-settled share based payment transactions.

13. RELATED PARTY DISCLOSURES

In addition to duties performed in his role as a non-executive director Dr Peter Bordui has provided additional consultancy services at the request of the company. Fees during the year to 30 September 2016 amounted to £19,140 (2015: £18,720), at the balance sheet date the balance outstanding totalled £4,785 (2015: £4,680). The transactions are performed in the normal course of business on an arm's length basis and that the outstanding balance is unsecured. Dr Peter Bordui has ceased his consultancy services with effect from 1 October 2016.

The company recharges certain costs and provides financing to its subsidiaries in the ordinary course of business. The closing balances due from and to the subsidiary companies are shown in notes 8 and 10 respectively.

No other material contracts or arrangements have been entered into during the year, nor existed at the end of the year, in which a director or key manager had a material interest.

14. FIRST TIME ADOPTION OF IFRS

This is the first time the company has presented its results under International Financial Reporting Standards as adopted by the European Union (IFRSs). The policies applied under the entity's previous accounting framework are not materially different to IFRS and have not had a material effect on equity or profit or loss. Consequently no transition notes are required. As required by IFRS, certain assets previously included within tangible assets, including computer software and licences, have been reclassified to intangible assets.

Company Information

NOMINATED ADVISER AND BROKER
Investec Bank plc
2 Gresham Street
London
EC2V 7QP

LEGAL ADVISERS
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One Glass Wharf
Bristol
BS2 0ZX

INDEPENDENT AUDITORS
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

REGISTRARS
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

COMPANY SECRETARY AND REGISTERED OFFICE

COMPANY SECRETARY	Gareth J Crowe
REGISTERED OFFICE	Dowlish Ford Ilminster Somerset TA19 0PF United Kingdom
COMPANY NUMBER	00526832

EXPECTED FINANCIAL CALENDAR

Annual General Meeting	22 February 2017
Payment date for final dividend for the year ended 30 September 2016 to shareholders on the register at close of business 16 December 2016. Subject to approval by shareholders at the Annual General Meeting	3 March 2017
Interim Results announcement	June 2017
Financial Year End	30 September 2017
Preliminary announcement of results for the year ended 30 September 2017	December 2017

FOR FURTHER INFORMATION PLEASE CONTACT:

Gooch & Housego PLC	Mark Webster / Andrew Boteler	01460 256 440
Investec Bank PLC (Nomad & Broker)	Patrick Robb / David Anderson	020 7597 5970
Buchanan Communications	Mark Court / Sophie Cowles	020 7466 5000

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Dowlish Ford, Ilminster, Somerset, TA19 0PF on 22 February 2017 at 11.00 a.m. for the following purposes:

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions:

1 To receive the Annual Report and Financial Statements for the financial year ended 30 September 2016 together with the Directors' Report and Auditor's Report thereon.

2 To receive and approve the Remuneration Committee Report set out on pages 33 to 36 (excluding page 34) of the Annual Report and Financial Statements for the financial year ended 30 September 2016.

3 To declare a final dividend, as recommended by the Directors, of 5.7 pence per ordinary share for the financial year ended 30 September 2016.

4 To re-elect Gareth Jones as a Director.

5 To re-elect Mark Webster as a Director.

6 To re-elect Alex Warnock as a Director.

7 To re-elect Andrew Boteler as a Director.

8 To re-elect Peter Bordui as a Director.

9 To re-elect Brian Phillipson as a Director.

10 To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors.

11 To authorise the Directors to fix the remuneration of the Auditors.

12 THAT the Directors of the Company be, and they are hereby, generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company on, and subject to, such terms as the Directors may determine. The authority hereby conferred shall, subject to section 551 of the Act, be for a period commencing on the date of the passing of this Resolution and expiring at the conclusion of the next Annual General Meeting of the Company or 22 May 2018 (whichever is the earlier) unless reviewed, varied or revoked by the Company in General Meeting and the maximum nominal amount of shares which may be allotted pursuant to such authority shall be £1,617,335 (representing approximately one third of the total ordinary share capital of the Company in issue at 29 November 2016). The Directors shall be entitled under such authority to make at any time prior to the expiry of such authority any offer or agreement which would or might require shares in the Company to be allotted after the expiry of such authority and the Directors may allot shares in pursuance of such offer or agreement as if such authority had not expired.

To consider and, if thought fit, to pass the following resolutions as Special Resolutions:

13 THAT the Directors of the Company be, and they are hereby, generally and unconditionally empowered pursuant to section 570 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by Resolution 12 above as if section 561 of the Act did not apply to such allotment, provided that the power hereby conferred shall be limited to:
(i) the allotment of equity securities in connection with an offer of securities, open for acceptance for a period fixed by the Directors, by way of rights to the holders of ordinary shares in proportion (as nearly as may be) to the respective numbers of ordinary shares held by them on a record date fixed by the Directors and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional elements or otherwise howsoever; and
(ii) otherwise than pursuant to sub-paragraph (i) above, the allotment of equity securities up to an aggregate nominal amount of £485,200 (representing approximately 10 per cent. of the total ordinary share capital of the Company in issue at 29 November 2016),
and the power hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 22 May 2018 (whichever is the earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities in the Company to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

14 THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the "Act") to make one or more market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of £0.20 each in the capital of the Company on such terms and in such manner as the Directors may determine, provided that:
(a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 2,426,002 (representing approximately 10 per cent. of the total ordinary share capital of the Company in issue at 29 November 2016);
(b) the minimum price (exclusive of expenses) which may be paid for each ordinary share is 20 pence per share;
(c) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than 5 per cent. above the average of the middle market quotations for an ordinary share as derived from the AIM section of the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
(d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 22 May 2018 (whichever is the earlier);
(e) the Company may, pursuant to the authority hereby conferred, enter into a contract to purchase ordinary shares which would, will or might be executed wholly or partly after the expiry of such authority and the Company may make a purchase of ordinary shares in pursuance of such contract as if the authority conferred hereby had not expired.

By order of the Board

Gareth J Crowe
Company Secretary 29 November 2016

Registered Office: Dowlish Ford, Ilminster, Somerset TA19 0PF
Registered Number: 526832

Notes

1 Explanatory note on Resolution 2: Resolution 2 is an advisory vote only. The Remuneration Committee Report is set out on pages 33 to 36 of the Annual Report and Financial Statements for the financial year ended 30 September 2016. Pages 33, 35 and 36 of the Remuneration Committee Report set out the pay and benefits received by each of the directors for the year ended 30 September 2016. The Company's policy on remuneration and potential pay outs to directors in the future, which is set out on page 34 of the Annual Report and Financial Statements for the financial year ended 30 September 2016, is specifically excluded from this Resolution.

2 Resolutions 1 to 12 (inclusive) are proposed as Ordinary Resolutions. This means that for those resolutions to be passed, more than half of the votes cast on such resolutions must be in favour of such resolutions. Resolutions 13 and 14 are proposed as Special Resolutions. This means that for those resolutions to be passed, at least three-quarters of the votes cast on such resolutions must be in favour of such resolutions.

3 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the meeting (or any adjournment of the meeting). A proxy need not be a member of the Company. If a member appoints more than one proxy in relation to the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member. If a member submits more than one valid proxy appointment in relation to the same share, the appointment received last before the latest time for receipt of proxies will take precedence. A member may only appoint a proxy in accordance with the procedures described in notes 4,5 and 6.

4 To appoint a proxy outside of the CREST system, a form of proxy is enclosed for use. To be valid, this form of proxy (and any power of attorney or other authority (if any) under which it is signed) must by duly completed and signed and sent to or deposited at the office of the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received not less than 48 hours before the time for holding the meeting (or any adjournment of the meeting). Completion of a form of proxy does not preclude a member from attending and voting in person at the meeting if that member so wishes.

5 To appoint as a proxy a person other than the Chairman of the meeting, a member must insert the proxy's full name in the box on the proxy form. If a member signs and returns a proxy form with no name in the box, the Chairman of the meeting will be deemed to be the member's proxy. Where a member appoints as a proxy someone other than the Chairman, the member is responsible for ensuring that the proxy attends the meeting and is aware of the member's voting intentions. If a member wishes a proxy to make any comments on the member's behalf, the member will need to appoint someone other than the Chairman and give them the relevant instructions directly.

6 To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system (Capita ID: RA10), the CREST message must be received by the issuer's agent by 11.00 a.m. on 20 February 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. The Company or its Registrars may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your Form of Proxy must be received by the Company's Registrars by no later than 11.00 a.m. on 20 February 2017.

7 A member which is a corporation is entitled to appoint one or more corporate representatives to exercise the same powers on behalf of the corporation as the corporation could exercise if it were an individual member. If a member which is a corporation appoints more than one corporate representative in relation to the meeting (or any adjournment of the meeting), each such corporate representative shall be entitled to exercise the same powers on behalf of that corporation as that corporation could exercise if it were an individual member, provided that if such persons purport to exercise those powers the same way, those powers shall be treated as exercised in that way, but if those persons purport to exercise those powers in different ways, those powers shall be treated as not exercised. In the case of a member which is a corporation, the proxy form must be executed under the corporation's common seal or signed on its behalf by a duly authorised officer of the corporation or an attorney for the corporation.

8 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered in the Company's register of members at close of business on 20 February 2017 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. Changes in the Company's register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned, the time which is 48 hours (disregarding any part of a day which is not a working day) before the time fixed for the adjourned meeting shall apply for the purpose of determining the entitlement of members to attend and vote at the adjourned meeting.

9 Copies of Directors' service agreements and letters of appointment and the rules of the Company's share option schemes will be available for inspection at the registered office of the Company from the date of this Notice of AGM until the date of the meeting during normal business hours, and at the place of the meeting from 10.45 a.m. until its conclusion.

Gooch & Housego
ENABLING PHOTONIC TECHNOLOGIES

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