Gooch & Housego

ENABLING PHOTONIC TECHNOLOGIES

ANNUAL REPORT SEPTEMBER 2017

Gooch & Housego generates, controls, amplifies, connects, and measures lasers and light sources. Our expertise enables customers to push the boundaries of commercial applications of photonics technology.

CONTENTS

HIGHLIGHTS

Operating and Strategic Highlights

- Strong financial performance set against a backdrop of favourable market conditions in our three main sectors of industrial, aerospace & defence and life sciences
- Demand was particularly high for critical components used in microelectronic manufacturing and hi-reliability fibre couplers used in undersea cable networks
- Significant progress was made towards our strategic goals of further diversification and moving up the value chain
- StingRay Optics, acquired in February 2017, has integrated well into the wider Group and is performing above our expectations
- Investment in R&D up 16.2%, 22 new products introduced and 7 new patents granted
- Substantial investments were made, enabling us to meet increased demand and laying the foundation for future growth

Financial Highlights

- Revenue for the year £112.0m, 30.2% higher than FY 2016, 18.7% on a constant currency basis The acquisition contributed £5.3m in the year
- Adjusted profit before tax up 13.7%
- Adjusted basic earnings per share up 16.2%
- Strong cash performance delivering net cash of £14.9m at year end, an increase of 27.9%
- Record year end order book of £72.1m, up 36.5% from 30 September 2016

HIGHLIGHTS

Revenue
(£m)

112.0
+30.2%
2016 86.1

2017	112.0
2016	86.1
2015	78.7
2014	70.1
2013	63.3

Adjusted basic earnings per share*
(pence)

49.4
+16.2%
2016 42.5

2017	49.4
2016	42.5
2015	39.5
2014	35.6
2013	32.0

Adjusted profit before tax*
(£m)

16.1
+13.7%
2016 14.2

2017	16.1
2016	14.2
2015	12.9
2014	11.5
2013	9.7

Total dividend per share
(pence)

10.2
+13.3%
2016 9.0

2017	10.2
2016	9.0
2015	8.2
2014	7.2
2013	6.3

Statutory profit before tax
(£m)

12.6
+24.8%
2016 14.2

2017	12.6
2016	10.1
2015	10.1
2014	7.9
2013	8.3

Net cash
(£m)

14.9
+27.9%
2016 11.7

2017	14.9
2016	11.7
2015	17.3
2014	8.7
2013	5.7

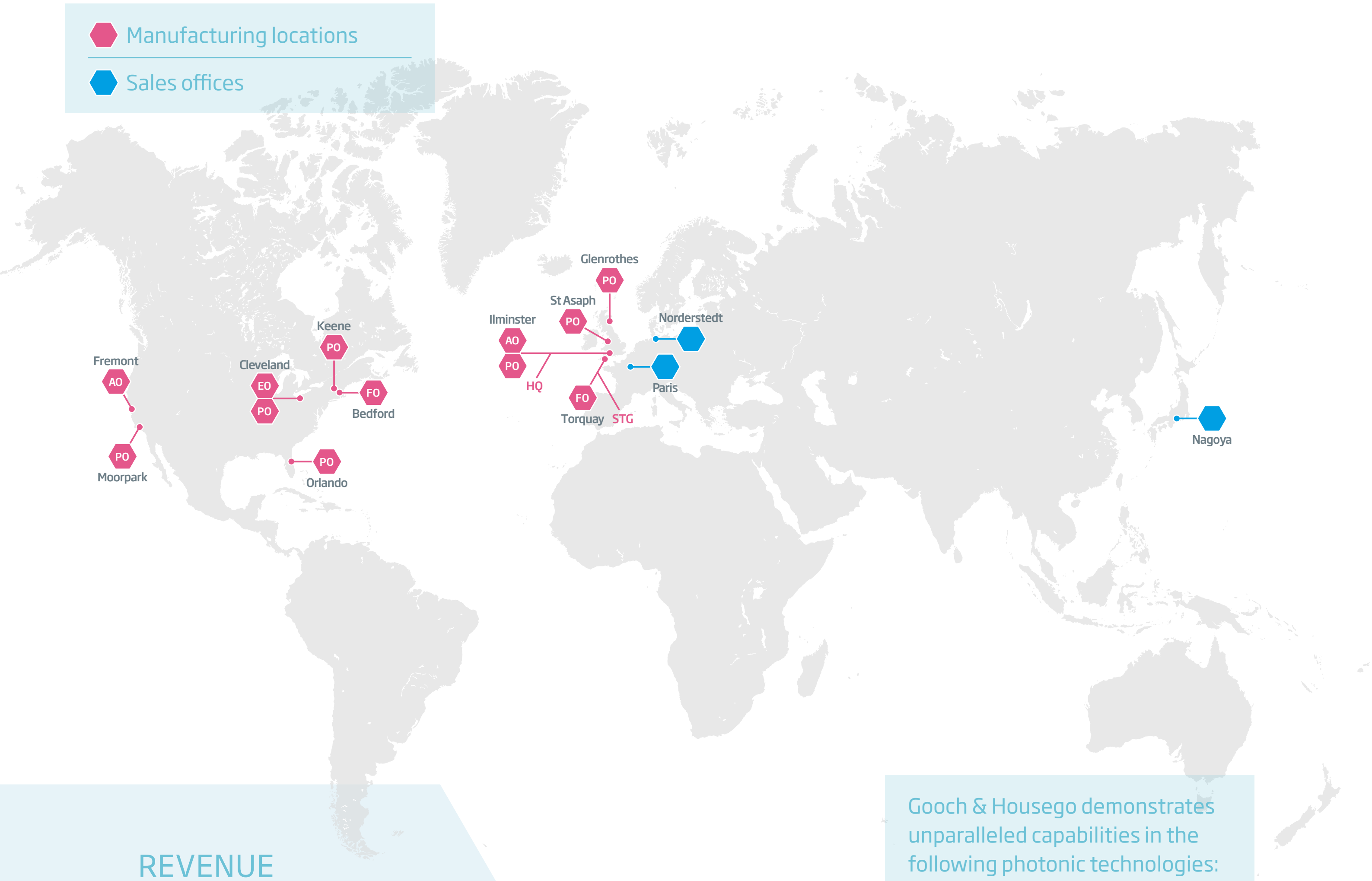
Basic earnings per share
(pence)

36.4
+25.1%
2016 29.1

2017	36.4
2016	29.1
2015	30.9
2014	22.5
2013	27.7

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

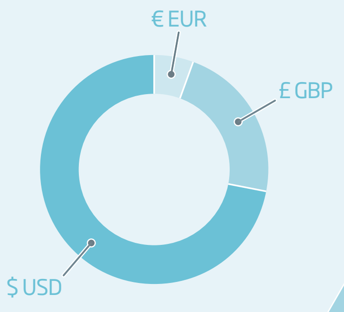
HIGHLIGHTS



Gooch & Housego demonstrates unparalleled capabilities in the following photonic technologies:

- Acousto-optics (AO)
- Electro-optics (EO)
- Fiber optics (FO)
- Precision optics (PO)

REVENUE BY CURRENCY



$ USD
72.1%
£80.8m
2016
£60.1m 69.8%

£ GBP
22.5%
£25.2m
2016
£20.7m 24.0%

€ EUR
5.4%
£6.0m
2016
£5.3m 6.2%

HIGHLIGHTS

"G&H met its FY 2017 financial goals and was able to make strategically important investments in key skills, processes, systems and the latest capital equipment. Significant progress has been made towards meeting our strategic aims of diversifying the business and moving up the value chain.

"These strategic initiatives combined with a record year end order book mean the Board remains confident that G&H is well positioned to deliver further progress in FY 2018 and beyond."

Mark Webster
Chief Executive Officer

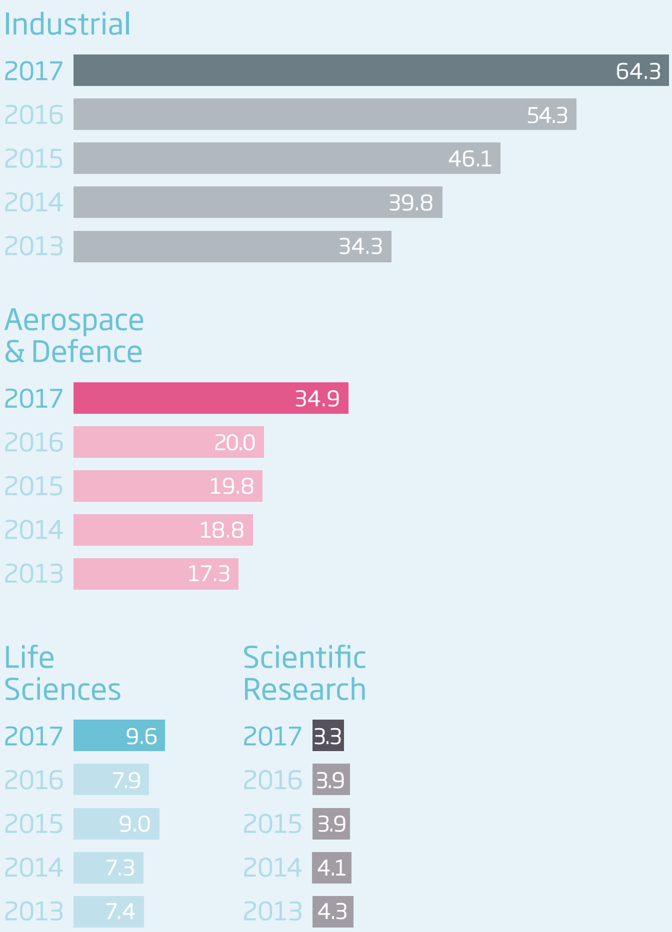
Industrial
(£millions)
64.3
57.4%

Aerospace & Defence
(£millions)
34.9
31.1%

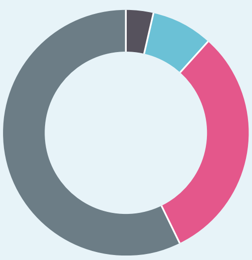
Life Sciences
(£millions)
9.6
8.5%

Scientific Research
(£millions)
3.3
3.0%

HISTORICAL REVENUE BY SECTOR
(£ millions)



REVENUE BY SECTOR



OUR 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.

OUR SECTORS AND APPLICATIONS

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 & 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.

Image by Jonathan Hamlet
© Crown copyright 2010

Image by Pete Mobbs © Crown copyright 2011

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

Image by Russ Nolan
© Crown copyright 2013

Image by Hamish Burke
© Crown copyright 2013

© Crown copyright 2011

OUR SECTORS AND APPLICATIONS

Image courtesy of ESA

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.

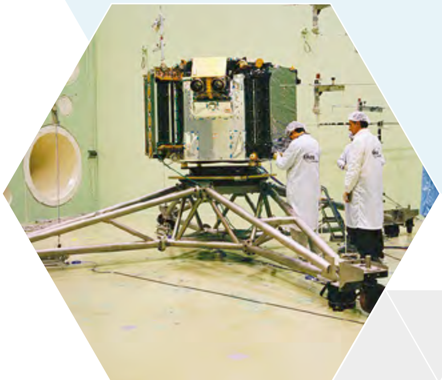


Image courtesy of ESA

OUR SECTORS AND APPLICATIONS

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 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.

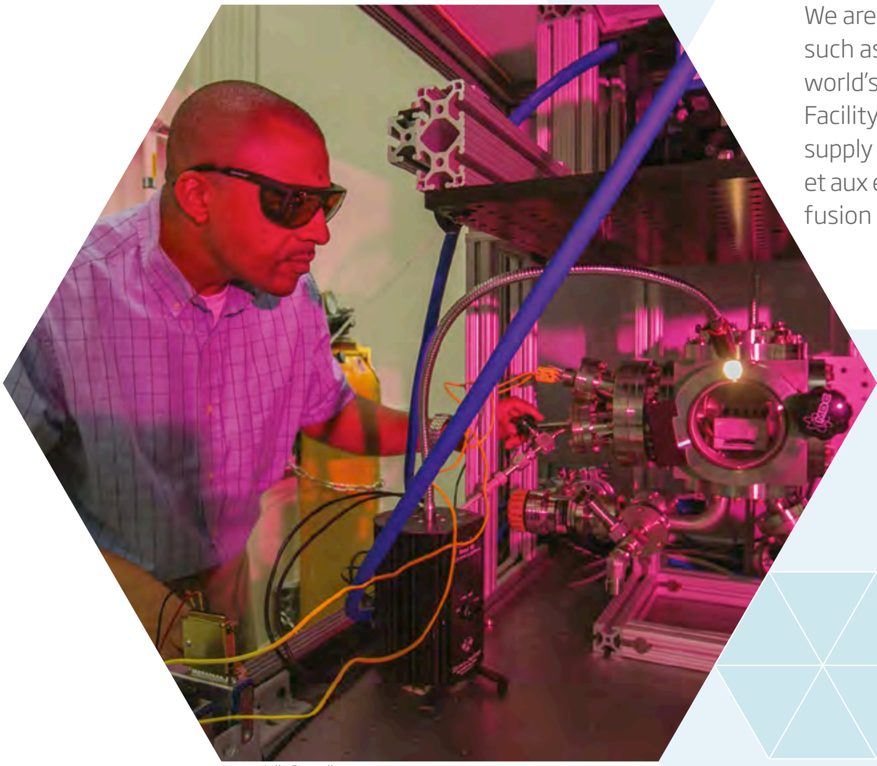


Image: Julie Russell

Image: James Pryatel

CHAIRMAN'S STATEMENT

Set against a backdrop of favourable market conditions, your company has delivered a strong financial performance in 2017. This has been delivered through a mix of organic and acquisitive growth.

Demand for certain of Gooch & Housego's products, particularly from the microelectronics and undersea fibre optic communications sectors, reached unprecedented levels during the year. The resulting record order book presented a significant challenge for some of the Company's manufacturing operations. Investments made in recent years in "lean manufacturing" and "continuous improvement" meant that G&H was in part able to respond to this demand through an enhanced ability to match capacity with demand across the Company's various manufacturing locations. Combined with significant investments during the year in people, and in the latest manufacturing equipment, these initiatives made it possible to satisfy the needs of our customers and begin to reduce lead times towards the year-end.

In February 2017 G&H acquired StingRay Optics LLC (StingRay), a USA based designer and manufacturer of specialist optical and opto-mechanical systems. StingRay was a particularly significant acquisition as it provides G&H with advanced optical systems design capabilities for harsh and demanding applications. These new capabilities support the Company's twin strategic objectives of moving up the value chain and achieving greater diversification by enabling G&H to provide systems-level solutions to Aerospace & Defence ("A&D") customers. In 2017 the StingRay acquisition helped sales into the A&D sector approach one third of total revenues. StingRay has delivered a consistently strong performance since acquisition. The acquisitions completed in the previous year (Alfalight and Kent Periscopes) also made valuable contributions in 2017.

The investment in people during 2017 represents an important enhancement of the skills-base of G&H, and bodes well for the future. In order to meet the challenges of greater scale and complexity G&H has chosen to focus on specific high growth products and markets. Recent recruitment has reflected the need for a higher level of specialisation across a wide range of business functions including manufacturing processes and systems, business development, human resources, supply-chain and research and development. These and planned future changes reflect a recent board review of the organisational structure of the G&H that had the objective of ensuring that it be optimised for delivering sustainable growth over the long term, as G&H grows both organically and by acquisition.

"Gooch & Housego is stronger today than at any time in its past."

In successfully responding to the challenges of 2017 an exceptional effort was required by many people. I would like to express my thanks to my fellow directors and to all employees of Gooch & Housego. I am pleased to welcome David Bauernfeind, who joined the board as a non-executive director and Chair of the Audit Committee on 1 May 2017.

Gooch & Housego is stronger today than at any time in its past. With a sound financial foundation, new talents and capabilities, a pipeline of exciting new products and a record order book to start the year the Company is well-positioned to continue to deliver in 2018 and beyond.

Gareth Jones
Chairman

28 November 2017

CEO Mark Webster accepting the 2017 AIM Award for Global Achievement

CHIEF EXECUTIVE OFFICER'S STATEMENT

Overview

FY2017 Performance

Gooch & Housego ("G&H") benefited from positive market conditions and strong demand across its main sectors of industrials, aerospace & defence ("A&D") and life sciences. Demand was particularly high for critical components used in microelectronic manufacturing and high reliability fibre couplers used in undersea cable networks.

FY 2017 has been a 'watershed' year for the company, as we passed through the £100 million sales barrier for the first time. Revenue of £112.0 million represents year on year growth of 30.2%, or on a constant currency basis 18.7%. Adjusted PBT, which is less affected by foreign exchange fluctuations due to the natural hedging within the business, was £16.1 million, equating to a year on year profit growth of 13.7%.

Strategically important investments in people, processes, systems and the latest capital equipment were made during the year, enabling us to address high levels of demand in FY2017 and provide an important platform for G&H's future growth.

Strategic Goals

Considerable progress has been made towards our strategic goals of further diversification and moving up the value chain.

A&D and life sciences both provide a counter balance to the exposure that the industrial laser sector has to the global economic cycle. These business areas have customer bases which include tier one A&D and medical diagnostic companies, who often prefer G&H to provide sub systems or systems rather than solely critical components, providing a strong impetus to move up the value chain. When coupled with the regulatory hurdles inherent in both A&D and life sciences, these markets provide a defensible business model with a high barrier to entry.

Our aim is to establish a 'critical mass' of business in both the A&D and life science sectors.

This has in large part been achieved in A&D, which now represents 31.1% of G&H's FY2017 revenue (2016: 23.2%); this was made possible due to a combination of organic growth and by the three acquisitions made in FY 2016 and FY 2017. Life sciences has undergone good organic revenue growth, in particular with products utilising our optical coherence tomography technology and laser surgery, but the sector still needs further acquisitions to achieve the desired 'critical mass'.

Sub systems and systems now represent 22.1% of our business (2016: 15.1%), with the growth again helped by the recent acquisitions, most notably Kent Periscopes and StingRay. Kent Periscopes, acquired in FY 2016, moved to a larger custom fitted facility in St. Asaph, North Wales, during FY 2017. This was funded in large part by the Welsh Government. As well as being required for the growth of the existing Kent Periscopes business the facility is earmarked to become a hub for assembly of sub systems and systems across the Group.

Acquisitions

Strategic acquisitions remain an important part of G&H's business model and in February 2017 we acquired StingRay Optics LLC ("StingRay").

StingRay is a USA based specialist designer and manufacturer of high performance optical and opto-mechanical sub systems for demanding defence and commercial applications. Their product range is focused on laboratory, ground based, airborne, unmanned aerial vehicles ('UAVs") and space applications for key US defence customers. Synergies include leveraging G&H's greater reach through our global sales teams and our expertise in manufacturing infrared precision optics and specialist coatings. The partnership has proven to be very successful so far, with StingRay's performance exceeding our expectations and their talented workforce integrating well into the wider company.

Research and Development ("R&D")

There has been continued benefit from concentrating our R&D efforts on fewer higher return projects. During FY 2017 we introduced a record 22 new products and we expect the full value of these products to peak over the next three years. Revenue generated from new products this year was £11.1 million.

> "Gooch & Housego met its FY 2017 financial goals and was able to make strategically important investments in key skills, processes, systems and the latest capital equipment. Significant progress has been made towards meeting our strategic aims of diversifying the business and moving up the value chain, with A&D now representing 31.1% of our business. We acquired USA based StingRay in February 2017, which has integrated well into the wider organisation and performed strongly"

CHIEF EXECUTIVE OFFICER'S STATEMENT

Good progress has been achieved in our key R&D areas of interest, notable among which are the following:

Microelectronics is entering a new phase of nano technology and the UV lithography and via drilling techniques required to achieve this need a new generation of precision lasers and laser systems which are being developed with our laser manufacturer and laser system partners.

OCT technology dominates the retinal scanning and imaging arena, but the longer term development partnerships we have with medical diagnostic companies in the areas of cardiovascular disease and cancer detection are now moving to the prototype and early commercial model stage, with the prospect of new product launches in the near future.

Our space communication group has gone from strength to strength with European Space Agency and UK Space agency funded work in satellite communications and is now attracting commercial interest from the USA and elsewhere. In addition to the grant funded work we have enhanced our $4 million commercial contract to provide communication systems for near term satellite launches. We are also developing similar technology for the adjacent market of UAVs.

Various aspects of our R&D defence programmes in the US and Europe are classified, but we are able to say that we are making good headway in developing key parts of Kent Periscopes' product portfolio, so they are compatible with USA military standards.

We have recently moved some of our R&D effort into sensing technology, focusing on use in harsh environments with ruggedised photonics technology. We have been able to bring some of our space communications experience to problem solving in this arena.

In order to accommodate the need for more system based projects, the Systems Technology Group ("STG"), primarily based at our Torquay site, has been expanded. The group consists of scientists and engineers who bring a wide range of skills such as electronic, software and mechanical engineering, which are required in order to present a complete sub system or system to our customers.

Performance Improvement Programme

In addition to the enhanced R&D performance outlined above, we have continued to expand our business development group, adding a microelectronic business development executive to the existing life science and A&D executives. The established business development executives have brought enhanced access to tier 1 A&D companies and multi-national medical diagnostic organisations and have been instrumental in the development of some of our most notable R&D projects. Our expectation is that with the addition of the new microelectronics business development executive we will be able to enhance our contribution to the new industrial laser systems that are currently in development.

G&H's ongoing operational performance improvement programme was instrumental in enabling us to meet the challenge of this year's high growth rate. The major infrastructure projects in Fremont, CA and Cleveland, OH are now substantially complete. Investment in key skills, lean processes and systems and the latest capital equipment was accelerated in sites that provide critical components for precision lasers used in microelectronic manufacturing, namely Ilminster, Fremont, CA and Torquay.

We have built on the good work done in previous years to further improve efficiency, customer service and to establish a more scalable organisational model for future growth. Our ten manufacturing sites have been organised into three manufacturing centres. They are based on our sites' areas of technical expertise, namely Acousto Optic / Electro Optic, Precision Optics and Fibre Optics. Each manufacturing area has a leader and their role is to ensure best practice is shared; there is process harmonisation and optimal allocation of resource.

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

Market and Applications

Industrial

The industrial sector represents 57.4% 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 optical communications.

Our industrials division grew by £10.0 million or 18.4% compared to the previous year, reflecting a positive performance across the range of industrial products.

Critical components for precision lasers used in microelectronic manufacturing were in particular demand. This was driven by the next generation of smart phones and tablets and the consequent change in manufacturing technology required to produce them. The aforementioned 'cutting edge' technology is primarily dependent on the latest solid state lasers and we worked closely with the laser manufacturers and laser system suppliers to meet these demands.

Precision inspection equipment for real time calibration in smart phone and tablet production continued to deliver significant revenue for us during FY 2017.

The ongoing need for ever more data capacity from government, industry and the consumer continues to drive a strong optical telecommunications performance. G&H provides some of the more technically challenging elements to both land and undersea optical communications. Our ultra hi-reliability fibre couplers are

CHIEF EXECUTIVE OFFICER'S STATEMENT

used in amplifiers that are a key part of undersea cable networks. Over the last couple of years there has been a positive step change in the requirement for these products, driven by technology firms laying their own cable networks in order to control the process of data delivery. This new level of demand has continued unabated throughout FY 2017.

Aerospace & Defence

A&D represented 31.1% of our revenue and grew year on year by £14.9 million or 74.5%. This was due to a combination of organic growth and acquisition, as highlighted earlier. G&H is now able to bring a wide range of photonic capabilities that very much represent the "direction of travel" in this sector. These include target designation, range finding, ring laser and fibre optic gyroscope navigational systems, infra-red and RF counter measures, periscopes and sighting systems for armoured vehicles and opto-mechanical sub systems for unmanned aerial vehicles.

Delivering product quality, reliability and performance in challenging environments is essential in the A&D arena and this very much plays to G&H's strengths. Our customers encompass the major European and USA A&D companies.

Space satellite communication is undergoing a technology revolution. The use of fibre optic lasers to transmit information means the satellite communication systems are more efficient and robust, as well being significantly lighter. This has changed the economics of the sector and has led to smaller satellites and encouraged the move towards the use of satellite constellations as part of a communications network. The investment we have made in this area means we are at the forefront of some of these developments.

Life Sciences

Life Sciences represents 8.5% of G&H's revenue and grew year on year by £1.7 million or 21.1%. Despite the increase in revenue the profit did decline year on year, which is primarily due to the investments made into future capabilities. Though life sciences is a relatively small sector for G&H we see this as a strategically important one going forward.

The principal applications are in optical coherence tomography ("OCT"), laser surgery and microscopy. OCT is widely used in ophthalmology for 3D retinal scanning and G&H has a dominant position in supplying critical components and sub systems to the main equipment suppliers. We also have a number of R&D collaborations with medical diagnostic companies in cardiovascular and cancer detection.

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

There is potential for photonic technology to be used in minimally invasive surgery, endoscopy and robotic surgery and this sector remains an area where G&H will continue to invest in R&D and look for strategic acquisitions.

Scientific Research

G&H's 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 3.0% of our revenue. The year on year decline was due to the phasing of one of the projects. This is a profitable sector for G&H, where we have some unique capabilities, that has the capacity to deliver growth and we will continue to selectively invest in this area.

Outlook

G&H met its FY 2017 financial goals and was able to make strategically important investments in key skills, processes, systems and the latest capital equipment. Significant progress has been made towards meeting our strategic aims of diversifying the business and moving up the value chain, with A&D now representing 31.1% of our business by revenue. We acquired USA based StingRay Optics LLC in February 2017, which has integrated well into the wider organisation and performed strongly.

G&H 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 investment in R&D and acquisitions.

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

G&H intends to take the performance improvement programme to the next level, by further investment in business development activity, focusing our global resources on a few high return R&D projects and continuing to improve operational efficiency. We believe the introduction of three well defined and focused manufacturing centres will provide a scalable platform for enhanced lean manufacturing practice

These strategic initiatives combined with a record year end order book mean the Board remains confident that G&H is well positioned to deliver further progress in FY 2018 and beyond

Mark Webster
Chief Executive Officer

28 November 2017

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 high tech manufacturing. The microelectronics materials processing represents the largest end market. A move towards new laser enabled production techniques has driven strong growth in the microelectronic materials processing end market.

Optical communications 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. The demand for more data from government, industry and particularly the consumer, has driven strong growth in this sector.

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 was flat on the previous year.

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 exploration and production. This area was lower in 2017 due to customer ordering patterns and a very strong FY2016 comparator.

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 process engineering in order to develop our existing portfolio, bring to the market new products and to ensure that we remain at the cutting edge of technology in this important area. During 2017 Gooch & Housego introduced twelve 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 and reliability, typically require complex design and engineering input and for a number of our products require 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.

G&H (Torquay) Integrity Award presentation from Sharing in Growth (SiG) CEO Andy Page

Revenue
(£millions)
64.3
+18.4%
2016 54.3

Adjusted Operating Profit
(£millions)
11.8
+9.3%
2016 10.8

Percentage of Revenue
57.4%
2016 63.1%

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 2017 this business was in line with the previous financial year.

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 2017 this business was in line with the previous financial year.

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. In 2017 this business grew compared to the previous year.

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.

Periscopes and Sighting Systems for land based Armoured Fighting Vehicles. G&H provides system level products for harsh environments, to an impressive list of blue chip defence companies. 2017 was a challenging year for this segment due to customer push outs, although prospects remain positive, supported by a strong order book.

Opto-mechanical sub systems for Unmanned Aerial Vehicles. This capability was added during the year following the acquisition of StingRay Optics LLC. The business provides system level optical products for use in harsh environments to key US defence customers. This is a growing area in both the core defence and commercial markets.

Growth Strategy

- To continue to focus energy and investment on moving from being a components supplier to a sub-systems provider. Our Aerospace & Defence customers are changing their business models and are looking for companies such as Gooch & Housego that are capable of providing a full service.
- 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. G&H acquired StingRay Optics LLC, a USA based specialist designer and manufacturer of high performance optical and opto-mechanical subsystems for demanding defence applications.
- To introduce a greater number of new products, including products which look to fill a "market need" as well as projects initiated by our customers. During 2017 Gooch & Housego introduced five new products that address its Aerospace & Defence market.

Image by Chris Hill

Image by Andy Holmes © Crown copyright 2011

Revenue
(£millions)
34.9
+74.5%
2016 20.0

Adjusted
Operating Profit
(£millions)
4.3
+186.7%
2016 1.5

Percentage
of Revenue
31.1%
2016 23.2%

Image courtesy of ESA

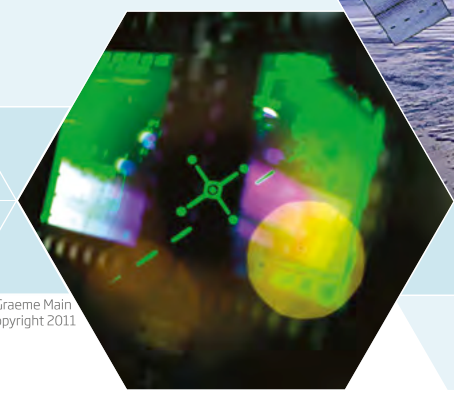


Image by Graeme Main
© Crown copyright 2011

MARKET OVERVIEW

Life Sciences

Applications, Products and Markets

Optical Coherence Tomography (OCT) 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 grew in 2017 and we continue to work on the next generation of products with key customers.

Laser surgery 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.

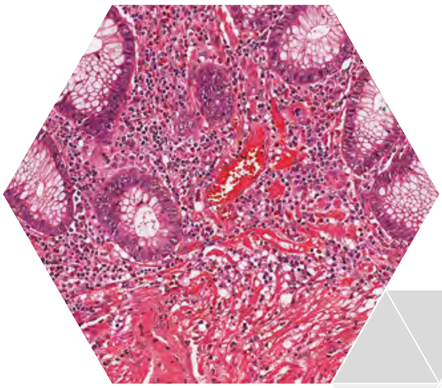
The growth strategy for Life Sciences mirrors that for Aerospace & Defence in many respects. This is particularly true in terms of the size of the available market and the desire of the customer base to "pull" Gooch & Housego up the value chain.

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 2017 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)
9.6
+21.1%
2016 7.9

Percentage of Revenue
8.5%
2016 9.2%

Adjusted Operating Profit
(£millions)
1.0
-37.5%
2016 1.6

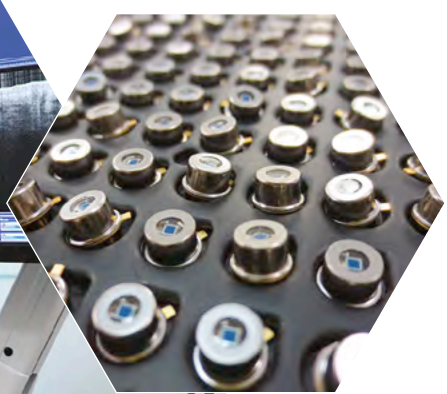


Image courtesy of Michelson Diagnostics

MARKET OVERVIEW

Scientific Research

Applications, Products and Markets

Nuclear fusion research and 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. We are also the 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 will focus on, on a selective basis.

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.

Image courtesy of Lawrence Livermore National Laboratory

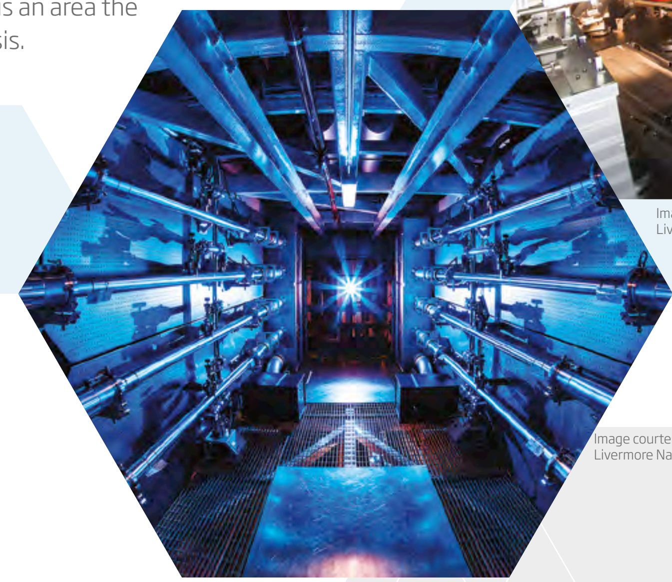


Image courtesy of Lawrence Livermore National Laboratory

Image courtesy of Lawrence Livermore National Laboratory

Revenue
(£millions)
3.3
-14.2%
2016 3.9

Adjusted
Operating Profit
(£millions)
0.4
-42.9%
2016 0.7

Percentage of Revenue
3.0%
2016 4.5%

FINANCIAL AND OPERATING REVIEW

Performance Overview

The business has once again delivered strong profitable growth.

Group revenue for the year was a record £112.0million. This represents an increase of £25.9 million, or 30.2% over the previous year of £86.1 million. During the year Gooch & Housego acquired StingRay Optics LLC, which contributed £5.3 million to Group revenue in the year, so organic revenue was up by 23.9%. On a constant currency basis revenue was 18.7% higher than the previous year.

During 2017, Gooch & Housego invested £5.8 million in property, plant and equipment and £5.7 million in acquisitions. Despite this the business has increased its net cash position to £14.9 million at 30 September 2017 (2016: £11.7 million), through sustained strong operating cash flows.

In the financial year under review, adjusted operating margins increased by £2.1 million in absolute terms to £16.4 million (2016: £14.3 million). At a percentage margin level, adjusted operating margins were 14.6%, compared to 16.6% in 2016, as a result of foreign exchange and planned investment in people and systems to support the growth.

Revenue

	2017		2016	
Year ended 30 September	£'000	%	£'000	%
Industrial	64,261	57.4%	54,296	63.1%
Aerospace & Defence	34,860	31.1%	19,977	23.2%
Life Sciences	9,570	8.5%	7,904	9.2%
Scientific Research	3,325	3.0%	3,874	4.5%
Group Revenue	112,016	100%	86,051	100%

In our Industrial segment, revenue grew by 18.4% from £54.3 million last year to £64.3 million this year. Revenue in our Aerospace & Defence business increased by 74.5% from £20.0m to £34.9m. Excluding the acquisition in the year, A&D revenue increased by 48.0%. Life Sciences revenue increased by 21.1% whilst sales in our smallest segment, Scientific Research, reduced by 14.2%.

Group Earnings Performance

All amounts in £'000	Adjusted		Reported	
Year ended 30 September	2017	2016	2017	2016
Operating profit	16,406	14,258	13,278	10,184
Net finance costs	(295)	(88)	(676)	(88)
Profit before taxation	16,111	14,170	12,602	10,096
Taxation	(4,059)	(3,865)	(3,710)	(3,048)
Profit for the year	12,052	10,305	8,892	7,048
Basic earnings per share (p)	49.4p	42.5p	36.4p	29.1p

The Group adjusted profit before tax amounted to 16.1 million (2016: £14.2 million) and represented a net margin of 14.4%. Statutory profit before tax was £12.6 million compared with £10.1 million last year.

The adjusted effective rate of tax was 25.2% (2016: 27.3%), the reduction caused by a number of factors including a lower applicable corporate tax rate in the UK, tax deductions being available on intangibles on recent US acquisitions and certain one off effects in the prior year. The effective rate of tax of 29.4% (2016: 30.2%) was higher than the adjusted effective rate because of the effect of the interest charge on deferred consideration which is not subject to tax, and the restructuring and acquisition costs being incurred in the UK which has a lower tax rate than the overall rate for the Group. 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 42.5p to 49.4p. Reported basic EPS was 36.4p compared with 29.1p last year.

Reconciliation of Adjusted Performance Measures

	Operating Profit		Net finance costs		Taxation		Earnings per share	
Year ended 30 September	£'000 2017	£'000 2016	£'000 2017	£'000 2016	£'000 2017	£'000 2016	£'000 2017	£'000 2016
Reported	13,278	10,184	(676)	(88)	(3,710)	(3,048)	36.4p	29.1p
Amortisation of acquired intangible assets	2,202	1,263	–	–	(168)	(333)	8.3p	3.8p
Gain on bargain purchase	–	(578)	–	–	–	–	–	(2.4p)
Impairment of goodwill	615	771	–	–	–	–	2.5p	3.2p
Release of accrued contingent consideration	(615)	–	–	–	–	–	(2.5p)	–
Provision for regulatory compliance risk	–	500	–	–	–	–	–	2.1p
Restructuring costs	536	1,652	–	–	(105)	(391)	1.8p	5.2p
Transaction fees	390	466	–	–	(76)	(93)	1.3p	1.5p
Interest on deferred consideration	–	–	381	–	–	–	1.6p	–
Adjusted	16,406	14,258	(295)	(88)	(4,059)	(3,865)	49.4p	42.5p

FINANCIAL AND OPERATING REVIEW

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, costs associated with restructuring activities, interest on deferred consideration, impairment of goodwill and release of accrued contingent consideration. In 2016 they also included the provision for regulatory risk compliance and the gain on bargain purchase of Alfalight.

Segmental Analysis

Industrial

Our Industrial business grew strongly during the year, with revenues of £64.3 million, compared with £54.3 million last year. This growth was largely driven by a combination of our industrial laser and telecommunications businesses. Revenue from the Group's industrial laser business segment grew strongly, driven by high demand for precision lasers used in microelectronic manufacturing. Demand for the traditional Q Switch grew in 2017 and represented 14.0% of total Group revenue (2016: 10.2%).

Adjusted operating profit for the Industrial sector as a whole was 10.1% higher at £11.8 million, compared with £10.8 million last year.

Aerospace & Defence (A&D)

A&D revenue was £34.9 million, up 74.5% on last year, benefitting from the full year effect of the two acquisitions in FY16 and the acquisition of StingRay in FY17. These results reinforce our belief that this sector represents a growth opportunity for Gooch & Housego, as optical technologies continue to be increasingly deployed in this market. Operating margins in this sector increased reflecting the higher volume and strong margins achieved by StingRay in particular.

Life Sciences

In 2017 Life Sciences revenue was up by 21.1% compared to the prior year. The majority of this growth was driven by a strong performance in our Optical Coherence Tomography ("OCT") market driven largely by our customers' development cycles. Despite this, adjusted operating margins in this sector were down on the previous year due to the competitive nature of the OCT market and the investment in this relatively small sector.

Scientific Research

Our activities in the Scientific Research market are dominated by a small number of large, long-term programmes. This market was down in 2017 due to demand phasing.

Research and 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 22 product releases in 2017, together with 7 new patents granted.

Expenditure on R&D in the year to 30 September 2017 increased by 16.2% from £7.4 million to £8.6 million. A proportion of this increase was funded through UK and European grant funding. R&D expenditure represented 7.7% of revenue (2016: 8.6%). The Group capitalised £0.7m (2016: £0.7 million) of development expenditure.

Operations

As reported in our Interim Statement, the Company has committed to upgrading its Cleveland, Ohio facility. This facility, which houses G&H's world leading crystal growth capabilities, is a key contributor to current and future profitability and will benefit from the modernisation that has been taking place. The upgrade is substantially complete and we will have invested in the region of $5 million. The refurbishment will help drive much needed operational efficiency, provide greater capacity, as well as a more compelling showcase of our capabilities for customers.

The Company has concluded a legal dispute with the landlord of its Fremont facility. As a result of this, a Californian court has awarded G&H in the region of $2 million in damages arising from the landlord's non-performance in respect of the lease. This will be accounted for in FY18.

Investment in key skills, lean processes, systems and the latest capital equipment was accelerated in sites that provide critical components for precision lasers used in microelectronic manufacturing, namely Ilminster, Fremont, CA and Torquay.

We have built on the good work done in previous years to further improve efficiency, customer service and to establish a more scalable organisational model for future growth. Our ten manufacturing sites have been organised into three manufacturing areas. They are based on our sites' areas of technical expertise, namely Acousto Optic / Electro Optic, Precision Optics and Fibre Optics. Each manufacturing area has a leader and their role is to ensure best practice is shared, there is process harmonisation and optimal allocation of resources.

Acquisitions

G&H will continue to evaluate acquisition opportunities that have the potential to accelerate delivery of the Company's strategic objectives. Having established a presence in its target markets, G&H is now focussing on moving up the value chain in each of those markets. Whilst the business will continue to evaluate bolt on businesses in our core component technologies, continued strong focus is being placed on acquisition opportunities that enhance the Company's ability to wrap electronics and software around core photonic products to yield system-level solutions.

In February 2017 G&H acquired StingRay Optics LLC, a US based specialist designer and manufacturer of high performance

FINANCIAL AND OPERATING REVIEW

optical and opto-mechanical subsystems for demanding defence and commercial applications.

StingRay was founded in 2004 and has established itself as a market leading designer, manufacturer and supplier of world class custom optical assemblies. The business has a proven capability in providing system level optical products for use in harsh environments to key US defence customers. StingRay's product range covers laboratory, ground based, airborne, unmanned aerial vehicles and space applications.

The acquisition of StingRay is aligned with G&H's strategic objectives of moving up the value chain and further diversification into the Aerospace & Defence sector. Potential synergies include leveraging G&H's greater reach through our global sales teams and our expertise in manufacturing infrared precision optics and specialist coatings.

StingRay has performed very well since acquisition, contributing £5.3 million to Group revenue and £1.6 million in profit before tax in the year.

As a result of two key customers delaying the delivery of product from existing orders, Kent Periscopes did not reach its threshold for the first tranche of its earn-out to be triggered. Consequently, the provision for a proportion of this payment (approximately £0.6m), made under IFRS accounting rules, has been released to the income statement for the current year. Whilst the delay in delivery of these contracts has affected the anticipated results of Kent Periscopes for the earn-out period, the outlook for the business remains positive. The order book for the next two years remains very strong at approximately £12.5 million. Whilst the core value of this business remains strong, as part of its bi-annual review of the carrying value of goodwill, the Board has taken the decision to impair the goodwill of the Kent Periscopes acquisition to the sum of £0.6 million.

Non Trading Items

Restructuring costs of £0.5 million (2016: £1.7 million) related to the re-location of our Palo Alto facility to Fremont and to restructuring costs arising from the efficiency savings the business has put in place.

Balance Sheet

The Group's total equity at the end of the year was £98.1 million, an increase of £8.0 million over the prior year. This increase comprised £6.6m from retained earnings, £2.0m from issues of share capital and a net reduction of £0.6m from foreign exchange and other movements.

Additions to property, plant and equipment totalled £5.8m (excluding acquisitions). The main additions related to investment in plant and machinery, the expansion of our Torquay facility, and the refurbishment of our Cleveland facility.

Working capital was 19.2% of revenue in the current year compared to 24.5% in 2016. This metric has benefitted from the year end GBP:USD exchange rate being higher than the average for the year, but also reflects management efforts to reduce working capital as a percentage of sales.

Inventory at the year end was £21.1 million, an increase of £2.1 million over the prior year. Excluding the impact of currency and the inventory attributable to the acquisition, the underlying inventory increased by £1.6m, or 8.5%, in the year. This increase is reflective of the increased activity in the year.

Trade receivables were unchanged at £20.5m. The effect of a strong shipment profile towards the end of the year and the acquisition of StingRay were largely offset by movements in the dollar exchange rate.

Cash balances at 30 September 2017 were £26.4 million, compared with £23.2 million at 30 September 2016. Net cash flows from operating activities totalled £17.6 million, compared with £12.6 million last year, reflecting a cash generated from operations to adjusted operating profit rate of 119% (2016: 96%). During the year the business increased its net cash position from £11.7m to £14.9 million, despite investing £5.7m in the acquisition of StingRay and £5.8m in property, plant and equipment.

Movement in Net Cash

All amounts in £m	Gross Cash	Gross Debt	Net Cash
At 1 October2016	23.2	(11.5)	11.7
Operating cash flows	19.8	–	19.8
Debt repayment (net of drawdown)	0.4	(0.4)	–
Acquisitions	(5.7)	–	(5.7)
Net capital expenditure	(6.4)	–	(6.4)
Working capital	(0.3)	–	(0.3)
Interest, tax and dividends	(4.5)	–	(4.5)
Exhange movements	(0.1)	0.4	0.3
At 30 September 2017	26.4	(11.5)	14.9

Order Book

As at 30 September 2017, the Group order book stood at £72.1 million, compared to £52.8 million at the end of the 2016 financial year, a 36.5% increase. The acquisition of StingRay added £3.5 million to the order book. On a constant currency basis the order book was 39.1% higher. The book to bill ratio for the business as a whole was 1.08 (six month rolling average) as at 30 September 2017 (2016: 1.01).

Staff

The Group workforce increased from 755 at 30 September 2016 to 823 at the end of September 2017, an increase of 68. This is a net position and therefore reflects both the work the business has done in driving efficiency improvements and the

FINANCIAL AND OPERATING REVIEW

additional headcount that has come from the recent acquisitions and investment in capacity.

Dividends

The Directors propose a final dividend of 6.5p per share making a total dividend per share for the year of 10.2p (2016: 9.0p), an increase of 13.3%. The final dividend, if approved, will be payable on 2 March 2018 to shareholders on the Company's share register as at the close of business on 26 January 2018.

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:

All amounts in £m	2017	2016	2015
At actual exchange rates	30%	9%	12%
At constant exchange rates	19%	3%	8%

The Board is focused on driving revenue growth by investing both organically and through acquisitions. The Group business has delivered strong underlying growth.

Target market revenue	2017	2016	2015
Aerospace & Defence (£m)	34.9	20.0	19.8
Life Sciences (£m)	9.6	7.9	9.0

The Group targeted 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 increase in A&D revenue includes the full year effect of last year's acquisitions, combined with the acquisition of StingRay in FY17.

Net cash analysis	2017	2016	2015
Net cash (£m)	14.9	11.7	17.3

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 StingRay and the investment in capital assets the net cash position increased from £11.7 million to £14.9m.

Earnings per share (EPS)	2017	2016	2015
Adjusted diluted EPS (pence)	48.5p	41.7p	38.9p

As a result of a strong trading performance, the business has been able to deliver growth in adjusted diluted EPS of 16.3%, from 41.7p to 48.5p in 2017.

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 2017, Gooch & Housego grew its business in the areas of:
- Telecommunications
- Semi-conductors

b) Aerospace & Defence.
- Acquisition of StingRay Optics LLC

c) Life Sciences
- 26.5% growth in Optical Coherence Tomography business

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 StingRay Optics LLC.

Organic Research and Development

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

Progress

- In 2017 the company's organic research and development programmes have delivered a record 22 new products. In addition, 7 new patents have been awarded.
- The Group continues to invest in longer term R&D projects in all of its key markets. Investment in R&D increased by 16.2% in 2017.

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 represent the significant risks identified in the Group's risk register.

RISK	MITIGATION
COMPETITION	
The Group recognises the importance of retaining and developing its highly skilled management team and workforce in order to achieve its strategic objectives.	This is a key area of focus for the G&H management team. Fundamental to mitigating the effects of our competitors is to maintain our product quality and on-time delivery performance to ensure our customers' expectations are fulfilled. Our significant investment in R&D enabled us to launch 22 new products during FY2017. The Group also has a cost reduction roadmap in place including the roll out of lean manufacturing practices across our sites, and the use of lower cost manufacturing partners where it is efficient to do so. Our business development teams maintain a presence in the market place and attend key trade shows which enables them to monitor competitor activity and respond accordingly.
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.	Our people are at the heart of our business. We maintain development and reward schemes to encourage individuals to play a long term role in the future development of the Group.
CAPACITY PLANNING	
Recent market trends have led to unprecedented demand for certain products which has exceeded the capacity of certain of our facilities during FY17.	There has been significant management focus on increasing efficiency during FY17 in order to increase capacity. This included investment in machinery and people, and removing bottlenecks from production lines. Significant progress has been made in increasing capacity at strategically important plants.
GLOBAL ECONOMIC TRENDS	
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 substantial 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 its dependence on any one market sector. Whilst the continued growth in the business remains challenging to predict, the year-end order book was 37% higher than the previous year, including the impact of an acquisition.

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

Mark Webster
Chief Executive Officer

28 November 2017

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.

BOARD OF DIRECTORS

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.

Dr Peter Bordui (Appointed February 2012)

Peter Bordui has thirty 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. He is Chairman of the Nomination Committee and a member of the Remuneration and Audit Committees.

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 & 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. Brian is a member of the Audit and Nomination Committees.

David Bauernfeind (Appointed 1 May 2017)

David is Chief Financial Officer of Connect Group PLC, a specialist distribution company listed on the London Stock Exchange. Prior to his current role, David was Chief Financial Officer and Executive Director at Xchanging PLC, a position he held from 2011 until its takeover and delisting in 2016. David was also a director of Xchanging Solutions Limited (formerly Cambridge Solutions Limited), a subsidiary of Xchanging PLC with a dual listing on the National Stock Exchange of India and the Bombay Stock Exchange. Before joining Xchanging in 2001, David held management roles in BAE Systems PLC and Johnson Matthey PLC.

David is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees of the Gooch & Housego Board.

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2017.

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 2 and in the Financial and Operating Review on pages 22 to 25. 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 10 to 27. An analysis of the segmental information by market sector is given on pages 14 to 21.

Key Performance Indicators ("KPIs")

The Group uses a selection of KPIs to monitor and review the performance of the business. These are detailed from page 25 of the Financial and Operating Review.

Dividends

During the year ended 30 September 2017 a final dividend of 5.7p per share was paid for the previous financial year. The final 2015 dividend of 5.2p per share was paid in the year ended 30 September 2016. A further interim dividend of 3.7p per share was paid for the half year ended 31 March 2017 (2016: 3.3p).

For the year ended 30 September 2017, the Directors propose that a final dividend of 6.5p per share be paid.

Substantial shareholdings

As at 15 November 2017, 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	3,835,243	15.64%
Investec Wealth & Investment	2,192,019	8.94%
Aberdeen Standard Investments	1,884,407	7.69%
Hargreave Hale	1,590,027	6.49%
Black Rock Investment Management	1,525,047	6.22%
Franklin Templeton Investment Management	1,297,550	5.29%
JM Finn & Co	776,825	3.17%

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.

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.

Corporate Governance

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

DIRECTORS' REPORT

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 28 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 for 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 N Boteler	8/8	
Alex Warnock	7/8	
Non-executive Directors		
Gareth Jones	8/8	
Peter Bordui	8/8	
Brian Phillipson	8/8	
David Bauernfeind	3/3	(Appointed 1 May 2017)
Paul Heal	3/3	(Retired 22 February 2017)

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 regularly visit the sites to perform reviews of controls and processes in place.

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 all senior staff within the organisation undertook Anti Bribery training.

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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 parent 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;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

DIRECTORS' REPORT

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent company's performance, business model and strategy.

Each of the directors, whose names and functions are listed on pages 28 and 29 confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position of the parent company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Annual Report and Financial Statements includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and parent company'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 will continue to 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

28 November 2017


laservision
TPE3912

AUDIT COMMITTEE REPORT

Membership

The Audit Committee comprises all of the non-executive directors and is chaired by David Bauernfeind, a Chartered Accountant, who is currently Chief Financial Officer of Connect Group PLC, a company listed on the London Stock Exchange. The Audit Committee is considered to have had an appropriate balance between those individuals with finance or accounting training and those from a general business background.

How the Committee operates

The Committee met three times during the year as part of its standard schedule to consider matters planned around the Group's financial calendar. Attendance at those meetings is summarised below:

Non-executive Directors		
David Bauernfeind	2/2	(Appointed 1 May 2017)
Gareth Jones	2/3	
Dr Peter Bordui	3/3	
Brian Phillipson	3/3	
Paul Heal	1/1	(Retired 22 February 2017)

At the invitation of the Committee, representatives of the external auditor, PwC LLP, attended meetings together with the Chief Executive, Chief Financial Officer, Chief Operating Officer and the Company Secretary. The Committee also seeks to meet regularly with the external auditor without the Executive Directors in attendance. In the year, the Committee met twice with representatives from PwC LLP without others being present.

Responsibilities

The role and responsibilities of the Committee are set out in its terms of reference, which are available on the Company's web site and from the Company Secretary on request. The terms of reference are reviewed annually by the Committee.

The principal responsibilities of the Committee are:

- reviewing the effectiveness of the Company's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- Advising the Board on whether the Committee believes the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- Considering and making recommendations to the Board as to the appointment, reappointment or removal of the external auditor and the approval of their remuneration and terms of engagement;
- Assessing the external auditor's independence and objectivity and the effectiveness of the audit process;
- Reviewing the policy on the engagement of the external auditor to supply non-audit services.

AUDIT COMMITTEE REPORT

Financial Reporting

During the year, the Audit Committee reviewed the appropriateness of the Group's interim and full year financial statements, including the consideration of significant financial reporting judgements made by management taking into account reports from management and the external auditors. The main area of focus considered by the Committee during the year were as follows:

AREA OF FOCUS	CONCLUSION
ACQUISITION ACCOUNTING	
The Audit Committee reviewed the accounting for the acquisition of StingRay Optics LLC during the year.	The Committee reviewed the nature of the intangible assets identified and the assumptions underpinning management's valuation thereof. The Committee satisfied itself that the acquisition accounting was reasonable.
GOODWILL IMPAIRMENT REVIEWS	
Management perform annual impairment reviews of the carrying value of goodwill. These impairment reviews are based on future projected cash flows and are therefore inherently judgmental. The Audit Committee reviewed the key judgements underpinning the impairment reviews performed.	The Committee is satisfied that the impairment recognised in the year is appropriate and that the remaining carrying value of goodwill is supportable.
INVENTORIES	
The Committee reviewed management's estimates in relation to inventory ageing and obsolescence.	The Committee was satisfied that the provisions made adequately reflected the risk of impairment.
EXCEPTIONAL ITEMS	
The Committee considered the appropriateness of the measure of adjusted profits, quality of earnings, and the classification and transparency of items separately disclosed as Exceptional items.	The Committee was satisfied that the presentation of normalised profit before tax provides a reasonable view of the underlying performance of the Group and that there was transparent and consistent disclosure of items shown separately as Exceptional items.

External auditors

Under its terms of reference the Committee is responsible for assessing the scope, fee, objectivity and effectiveness of external audits and for making a recommendation to the Board regarding the appointment, reappointment or removal of the auditor on an annual basis.

In line with professional standards, the Company's external auditor (PwC LLP) has a policy of rotating engagement partners every five years. As FY16 was the fifth audit overseen by Colin Bates, a new partner, Mark Ellis, was appointed to undertake the FY17 audit.

The Committee also regularly reviews the nature, extent, objectivity and cost of non-audit services provided by the auditors. In doing this the Committee does not approve additional services which would compromise the auditors' independence. The auditors are required to make a formal report to the Audit Committee on an annual basis on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity. To ensure compliance with this policy, the Audit Committee reviewed and approved the remuneration received by PwC for the audit service, audit-related services and non-audit work.

Approval

David Bauernfeind
Chairman of the Audit Committee

28 November 2017

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 during FY17

- Appointment of a new Non-Executive Director to act as Chairman of the Audit Committee following the retirement of Paul Heal in February 2017.
- Succession planning for other members of the Board.

Advisors

During FY17, the Committee appointed Edward Drummond, an external search agency, to assist with the identification of suitable Non-Executive Director candidates to take over as Chairman of the Audit Committee.

Appointment Process

As part of the appointments process, the Committee determined the selection criteria for the Chairman and Non-Executive Director roles. The Committee worked with Edward Drummond who drew up a list of external candidates from a range of industries and backgrounds for initial appraisal by the Committee. From this, a shortlist of suitable candidates that met the search and selection criteria was prepared and these candidates were interviewed by the Board.

Following these interviews, the Nomination Committee recommended to the Board, which duly approved, the appointment of David Bauernfeind as Non-Executive Director on 1 May 2017.

Membership and attendance at meetings held in 2017

Non-executive Directors		
Dr Peter Bordui	5/5	
Gareth Jones	5/5	
Brian Phillipson	5/5	
David Bauernfeind	3/3	(Appointed 1 May 2017)
Paul Heal	1/1	(Retired 22 February 2017)
Executive Directors		
Mark Webster	5/5	

Approval

Peter Bordui
Chairman of the Nomination Committee

28 November 2017

REMUNERATION COMMITTEE REPORT

Introduction

It is an objective of the Group to attract and retain high calibre Directors and employees and reward them in a way which encourages the creation of value for shareholders.

The incentive and remuneration schemes employed by G&H were largely developed and introduced in 2013, and few changes have been made to the schemes since then. The Group's market capitalisation has increased threefold in less than five years, during which time there have also been significant changes to governance expectations. Accordingly, the Remuneration Committee felt it appropriate to update our remuneration schemes during 2017, to which end the Committee engaged FIT Remuneration Consultants to assist the Committee with a review of the G&H remuneration policy for Executive Directors and other senior management. This review confirmed that our schemes continue to be appropriate and that they are in line with practise not just on AIM, but also among many FTSE SmallCaps on the Main Market. However, following the review it was felt appropriate to make some adjustments to the Annual Bonus and Long Term Incentive Plan criteria. None of these proposed changes require shareholder approval, although we have consulted with our major shareholders who have been supportive of the proposals. Further detail of the changes are given in the Remuneration Policy table on the following page.

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

Operation of the Remuneration Committee

The Remuneration Committee is chaired by Brian Phillipson and comprises all the non-executive directors.

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.

The Committee has three scheduled meetings each year to deal with ordinary business. In addition to these, the Committee meets on an ad hoc basis when there are additional matters to deal with. Brian Phillipson gives an update on the Remuneration Committee's activities at each Board meeting.

Non-executive Directors		
Brian Phillipson (Chairman)	4/4	
Gareth Jones	4/4	
Brian Phillipson	4/4	
David Bauernfeind	2/2	(Appointed 1 May 2017)
Paul Heal	1/1	(Retired 22 February 2017)

REMUNERATION COMMITTEE REPORT

Remuneration Policy Table

The table below summarises our policy for 2017 and the planned changes for 2018:

Element of remuneration	Purpose and link to strategy	FY17 Policy and approach	Opportunity	FY18 Policy and approach
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	• The FIT review identified that Mark Webster's salary was lower than the median for AIM 100 Company CEOs and the Committee therefore increased his base pay accordingly with effect from 1 October 2017.
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	• Introduction of broader performance measures • Up to 60% payable for exceeding target EPS by 10%. • 20% of bonus payable for achieving target operating cash flow. Nil if not met. • 0-20% of bonus payable for achievement of personal objectives linked to operational performance and major initiatives.
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 changes proposed
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 changes proposed
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 Total Shareholder Return targets.	Maximum award of 120% of base salary	• No changes to maximum awards. • Absolute TSR retained for 60% of awards, with full vesting at 15% TSR per annum. • Introduction of an EPS target for remaining 40% of awards. Full vesting at 15% EPS growth per annum. • 15% growth per annum target is in line with the Board's objective of doubling the size of the company over a period of 5 years.

REMUNERATION COMMITTEE REPORT

Directors' Remuneration

2017	Basic pay £'000	Performance related bonus £'000	Benefits in kind £'000	Pension contribution £'000	Subtotal 2017 £'000	Share options £'000	Total 2017 £'000
Executive							
M Webster	306	190	8	–	504	–	504
A Boteler	199	130	4	10	343	152	495
A Warnock	239	154	9	10	412	–	412
Non-executive							
G Jones	77	–	5	–	82	241	323
Dr P Bordui	40	–	–	–	40	–	40
B Phillipson	40	–	–	–	40	–	40
D Bauernfeind *	17	–	–	–	17	–	17
P Heal **	17	–	–	–	17	–	17
	935	474	26	20	1,455	393	1,848

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

The above disclosure has been audited.

* David Bauernfeind was appointed 1 May 2017.

** Paul Heal retired on 22 February 2017.

*** During the year ended 30 September 2016, Peter Bordui was paid £19,140 for consultancy services in addition to the amounts shown. This arrangement ceased on 30 September 2016 since when his entire remuneration has been paid through the payroll.

REMUNERATION COMMITTEE REPORT

Basic Pay

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.

2017 performance Related Bonuses

Gooch & Housego has continued to perform well in 2017, 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 13.7% to £16.1m. Once again a strong cash performance resulted in the Group reporting a net cash position of £14.9m, after significant investment in property, plant and equipment, and a successful acquisition. The increasing strength of the balance sheet meant that the Company was able to recommend a 13.3% increase in the total dividend for the year.

Delivering growth through diversification within our sectors and by moving up the supply chain to provision of higher value offerings, as well as improvements in operational performance, 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 22 new products being launched in 2017. The business has made progress on its drive for operational efficiency, through its continued adoption of lean principles, as well as investments in plant, equipment, staff and processes.

The Executive Directors' 2017 bonus outcomes were 69% of maximum, reflecting the strong results for the year.

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 (2016: 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 during the year.

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.

Exercises of Share Options by Directors

Exercises of share options under the Long Term Incentive Scheme by the Directors are summarised below. Gareth Jones' exercises relate to LTIPs awarded to him during his tenure as an Executive Director. He no longer holds any unvested or unexercised share options.

Share Options Exercised

2017	Scheme	Number of Share Options No.	Market Price p	Exercise Price p	Exercise Date	Total Gain £'000
Director						
A Boteler	LTIP	12,873	1,182.9	0.0	27/02/17	152
G Jones	LTIP	19,784	1,216.3	0.0	01/03/17	241

2016	Scheme	Number of Share Options No.	Market Price p	Exercise Price p	Exercise Date	Total Gain £'000
Director						
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	151.0	11/01/16	257

REMUNERATION COMMITTEE REPORT

Director Shareholdings

The Directors' beneficial interests in the issued ordinary share capital of the Company were as follows:

	Number of shares at 30 September 2017	Number of shares at 30 September 2016
Executive Directors		
Mark Webster	-	-
Andrew Boteler	26,181	26,181
Alex Warnock	-	-
Non-executive Directors		
Gareth Jones	65,401	55,401
Dr Peter Bordui	-	-
Brian Phillipson	-	-
David Bauernfeind	-	-

Shareholding Guidelines

Following the review during the year, formal Executive Director shareholding guidelines have been introduced. Executive Directors are required to acquire and maintain a qualifying interest in the ordinary shares of the company equivalent to 100% of base salary. For LTIPs granted in March 2017 and subsequent awards, the Directors will not be permitted to sell shares unless the specified shareholding has been achieved, other than sale of shares to satisfy tax obligations. For LTIPs granted in 2014 and 2015, until the minimum holding is achieved the Directors are permitted to sell up to 50% of shares vesting, after sufficient have been sold to settle tax liabilities.

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. The exercise price of all awards is nil.

	– Number of ordinary shares under option –						
	Date of grant	At 01.10.2016	Awarded in year	Exercised in year	Lapsed in year	At 30.09.2017	Expiry Date
Executive							
M Webster	17.12.2014	90,866	-	-	-	90,866	17.12.2018
M Webster	23.12.2015	36,080				36,080	23.12.2019
M Webster	10.03.2017	-	34,606	-	-	34,606	23.12.2021
A Warnock	17.12.2014	68,878	-	-	-	68,878	17.12.2018
A Warnock	23.12.2015	26,949				26,949	23.12.2019
A Warnock	10.03.2017	-	25,674	-	-	25,674	26.03.2021
A Boteler	01.12.2013	25,911	-	(12,873)	(13,038)	-	16.12.2017
A Boteler	17.12.2014	28,032	-	-	-	28,032	17.12.2018
A Boteler	23.12.2015	22,661	-	-	-	22,661	23.12.2019
A Boteler	10.03.2017	-	21,680	-	-	21,680	26.03.2021
Non-executive							
G Jones	01.12.2013	39,822	-	(19,784)	(20,038)	-	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 2017, £587,000 (2016: £638,000) 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 £446,000 (2016: £36,000) in respect of employer's national insurance contributions, based on a year end share price of £14.20 (2016: £10.10).

Brian Phillipson
Chairman of the Remuneration Committee

28 November 2017

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Report on the audit of the financial statements

Our Opinion

In our opinion, Gooch & Housego PLC's Group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2017 and of the Group's profit and the Group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the parent company's financial statements, 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Group and company balance sheets as at 30 September 2017; the Group income statement and Group statement of comprehensive income, the Group and company cash flow statements, the notes to the Group and company cash flow statements, and the Group and company statements of changes in equity for the year then ended; and the notes to the Group and company financial statements, which include a description of the significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our Audit Approach

Context

Gooch & Housego PLC is listed on the Alternative Investment Market (AIM) of the London Stock Exchange and its principal activities comprise the research, design, engineering and manufacture of advanced photonic systems, components and instruments in the Aerospace & Defence, Industrial, Life Sciences and Scientific Research sectors. It has operations across the USA and Europe.

In February 2017, the Group completed the acquisition of StingRay Optics LLC in Keene, USA. The acquisition allows the business to further its strategic objective of broadening its product offering and diversifying its markets and follows two previous acquisitions in FY16.

The Group's strategic objectives remain the diversification of its product offering and moving up the value chain.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Overview

- Overall Group materiality: £620,000 (2016: £635,000), based on 5% of profit before tax.
- Overall parent company materiality: £122,000 (2016: £92,000), based on 5% of profit before tax.

- The UK audit team performed an audit of the complete financial information of one operating unit in the USA (Gooch & Housego (Palo Alto) LLC and two operating units in the UK (Gooch & Housego (UK) Limited and Gooch & Housego (Torquay) Limited) as well as the Parent company based in the UK (Gooch & Housego PLC).
- Additional procedures were also performed at a Group level over centralised processes and functions, including the audit of consolidation journals.
- Taken together, these four reporting units (post consolidation entries) account for 87% of Group profit before tax.
- Specific audit procedures were also performed by the UK audit team on certain other balances and transactions and the remaining sixteen reporting units. In particular, additional detailed testing was performed on revenue at three reporting units in the USA (Gooch & Housego (Ohio) LLC, StingRay Optics LLC and EM4 Inc.).

- Valuation of goodwill and intangibles (Group) and investments (parent company) (Group and parent).
- Acquisition accounting (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of goodwill and intangibles (Group) and investments (parent company) The assessment of the carrying value of goodwill and intangibles involves judgment and any impairment of the carrying value of such assets could have a material impact on the Group's financial statements. Similarly, the assessment of the carrying value of investments held involves judgment and any impairment of the carrying value of such assets could have a material impact on the parent company's financial statements. These are areas of continued focus for the audit to ensure that assets are valued correctly and not overstated in the context of the trading performance of the relevant cash generating units. Group and parent	We examined management's impairment assessment, auditing in detail the key underlying assumptions in the discounted cash flow models. We noted that a £0.6m impairment had been taken in relation to the Kent Periscopes business, the result of a poorer than expected first full year post acquisition. We met with management and key operational personnel to update our understanding of the various sites and considered the discounted cash flow models with reference to current performance. We assessed each of the key assumptions in turn and sensitised management's model, which itself built in an element of sensitivity against budget, to reflect uncertainty in the future cash flows. We also compared key assumptions such as discount rate and long-term growth with market data in the UK and the US for reasonableness. Based on our work, we determined that the judgment of management that a £0.6m impairment was required at Kent Periscope was reasonable. We also concluded that the judgment that no further impairment was required at either this site or any other was also reasonable. We note however that goodwill and intangibles held remain sensitive to changes in key assumptions. In particular, a failure to achieve growth objectives for certain sites could give rise to an impairment in the future. Given this management has disclosed relevant sensitivities (see note 17). We assessed the appropriateness of the accounting and related disclosures included in the financial statements. These are deemed reasonable.
Acquisition accounting Acquisition accounting involves a number of judgements from management and is therefore a subjective area. The risk is that the purchase price allocation (PPA) model may not reflect the true value of the acquisitions made, leading to misstatement in the financial statements. Group	StingRay We reviewed the underlying transactions, tested the fair value of the assets and liabilities acquired together with the intangible assets identified as part of the purchase price allocation and reviewed the disclosures in the financial statements. There were no significant issues noted from our work. Included within the StingRay total consideration was $10m of deferred consideration payable based on performance over two earn out periods subsequent to the acquisition. Management have reassessed this deferred consideration at the balance sheet date. Based on the current activity within the business, historical growth rates and the latest forecasts for the business, management consider that both payments ($6.0m and $4.0m) will be made. We have reviewed the available information and based on our work consider that management's judgment is reasonable. Kent Periscopes We note that a reassessment was also made of the deferred consideration associated with the acquisition of Kent Periscopes (acquired in 2016). Based on the current activity levels, historical performance and forecasts for the coming period, management concluded that the first earn out target would be missed, but the second would be achieved. A £0.6m adjustment was made to the deferred consideration, reflecting the amount no longer payable. We have reviewed the available information and based on our work consider that the adjustment made is reasonable. Further, the decision to hold the remaining deferred consideration as due against the second earn out is deemed reasonable.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent company, the accounting processes and controls, and the industry in which they operate.

The Group comprises four divisions, being Industrial, Aerospace & Defence, Life Sciences and Scientific Research and we focused our audit work on the Group's largest operating units, within these divisions, in the USA and UK. The UK audit team conducted an audit of the complete financial information of four operating units (the largest in the USA, the two largest in the UK and the Parent company based in the UK) due to their size and risk characteristics. In addition, procedures were performed at a Group level over centralised processes and functions, including the audit of consolidation journals.

Specific audit procedures were also performed by the UK team on certain balances and transactions material to the Group financial statements at the remaining reporting units. Taken altogether, these procedures gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£620,000 (2016: £635,000).	£122,000 (2016: £92,000).
How we determined it	5% of profit before tax.	5% of profit before tax.
Rationale for benchmark applied	Based on the benchmarks used in the annual report and our understanding of the business, profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally acceptable auditing benchmark.	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £122,000 and £589,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £31,000 (Group audit) (2016: £31,750) and £6,100 (Parent company audit) (2016: £4,600) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and parent company's ability to continue as a going concern.

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the Financial Statements and the Audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on pages 31 and 32, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent 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.

Other Required Reporting

Companies Act 2006 exception reporting

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other Voluntary Reporting

Directors' remuneration

The parent company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the CA06.

Mark Ellis (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

28 November 2017

GROUP INCOME STATEMENT

For the year ended 30 September 2017

	Note	2017 £'000	2016 £'000
Revenue	7	112,016	86,051
Cost of revenue		(65,937)	(53,752)
Gross profit		46,079	32,299
Research and Development		(8,119)	(6,697)
Sales and Marketing		(9,459)	(6,469)
Administration		(16,937)	(11,425)
Other income and expenses	9	1,714	2,476
Operating profit	11	13,278	10,184
Finance income	12	27	39
Finance costs	12	(703)	(127)
Profit before income tax expense		12,602	10,096
Income tax expense	13	(3,710)	(3,048)
Profit for the year		8,892	7,048
Basic earnings per share	15	36.4p	29.1p
Diluted earnings per share	15	35.8p	28.6p

Reconciliation of operating profit to adjusted operating profit:

	Note	2017 £'000	2016 £'000
Profit before tax		12,602	10,096
Amortisation of acquired intangible assets	17	2,202	1,263
Gain on bargain purchase		-	(578)
Release of accrued contingent consideration		(615)	-
Impairment of goodwill	17	615	771
Provision for regulatory compliance risk	23	-	500
Restructuring costs	11	536	1,652
Transaction fees	11	390	466
Interest on discounted deferred consideration		381	-
Adjusted profit before tax		16,111	14,170

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2017

	Note	2017 £'000	2016 £'000
Profit for the year		8,892	7,048
Other comprehensive (expense) / income – items that may be reclassified subsequently to profit or loss			
Currency translation differences	26	(1,410)	5,954
Other comprehensive (expense) / income for the year net of tax		(1,410)	5,954
Total comprehensive income for the year attributable to the shareholders of Gooch & Housego PLC		7,482	13,002

GROUP BALANCE SHEET

As at 30 September 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	16	33,890	32,384
Intangible assets	17	40,250	29,916
Deferred income tax assets	24	2,703	2,674
		76,843	64,974
Current assets			
Inventories	18	21,078	18,973
Income tax assets		267	394
Trade and other receivables	19	24,723	22,679
Cash and cash equivalents	20	26,425	23,167
		72,493	65,213
Current liabilities			
Trade and other payables	21	(23,758)	(19,624)
Borrowings	22	(6)	(4)
Income tax liabilities		(579)	(891)
Provision for other liabilities and charges	23	(888)	(940)
Deferred consideration		(4,286)	–
		(29,517)	(21,459)
Net current assets		42,976	43,754
Non-current liabilities			
Borrowings	22	(11,492)	(11,494)
Deferred income tax liabilities	24	(5,938)	(4,806)
Deferred consideration		(4,253)	(2,256)
		(21,683)	(18,556)
Net assets		98,136	90,172
Shareholders' equity			
Called up share capital	25	4,903	4,852
Share premium account	26	15,530	15,530
Merger reserve	26	4,640	2,671
Cumulative translation reserve	26	5,574	6,984
Retained earnings	26	67,489	60,135
Total equity		98,136	90,172

The financial statements for Gooch & Housego PLC, registered number 00526832, on pages 47 to 76 were approved by the Board of Directors on 28 November 2017 and signed on its behalf by:

Mark Webster
Director

Andrew Boteler
Director

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2017

	Note	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained Earnings £'000	Cumulative translation reserve £'000	Total equity £'000
At 1 October 2015		4,818	15,530	2,671	54,318	1,030	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		–	–	–	7,048	5,954	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	60,135	6,984	90,172
At 1 October 2016		4,852	15,530	2,671	60,135	6,984	90,172
Profit for the financial year		–	–	–	8,892	–	8,892
Other comprehensive income for the year		–	–	–	–	(1,410)	(1,410)
Total comprehensive income / (expense) for the year		–	–	–	8,892	(1,410)	7,482
Dividends	14	–	–	–	(2,289)	–	(2,289)
Shares issued		51	–	1,969	(15)	–	2,005
Fair value of employee services		–	–	–	587	–	587
Tax credit relating to share option schemes		–	–	–	179	–	179
Total contributions by and distributions to owners of the parent recognised directly in equity		51	–	1,969	(1,538)	–	482
At 30 September 2017		4,903	15,530	4,640	67,489	5,574	98,136

GROUP CASH FLOW STATEMENT

For the year ended 30 September 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Cash generated from operations	19,526	13,897
Income tax paid	(1,957)	(1,324)
Net cash generated from operating activities	17,569	12,573
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(5,658)	(5,687)
Purchase of property, plant and equipment	(5,799)	(9,710)
Sale of property, plant and equipment	29	-
Purchase of intangible assets	(604)	(629)
Interest received	27	39
Interest paid	(326)	(111)
Net cash used in investing activities	(12,331)	(16,098)
Cash flows from financing activities		
Drawdown of borrowings	5,918	5,426
Repayment of borrowings	(5,523)	(39)
Dividends paid to ordinary shareholders	(2,289)	(2,055)
Net cash (used in) / generated from financing activities	(1,894)	3,332
Net increase / (decrease) in cash	3,344	(193)
Cash at beginning of the year	23,167	22,556
Exchange (losses) / gains on cash	(86)	804
Cash at the end of the year	26,425	23,167

NOTES TO THE GROUP CASH FLOW STATEMENT

For the year ended 30 September 2017

Reconciliation of cash generated from operations

	2017 £'000	2016 £'000
Profit before income tax	12,602	10,096
Adjustments for:		
– Amortisation of acquired intangible assets	2,202	1,263
– Amortisation of other intangible assets	199	355
– Gain on bargain purchase of Alfalight	–	(578)
– Impairment of goodwill	615	771
– Release of accrued contingent consideration	(615)	–
– Depreciation	3,664	3,042
– Share based payment charge	587	638
– Amounts claimed under the RDEC	(370)	(270)
– Finance income	(27)	(39)
– Finance costs	703	127
Total	6,958	5,309
Changes in working capital		
– Inventories	(1,442)	223
– Trade and other receivables	(1,465)	(4,436)
– Trade and other payables	2,873	2,705
Total	(34)	(1,508)
Cash generated from operating activities	19,526	13,897

Reconciliation of net cash inflow to movements in net cash

	2017 £'000	2016 £'000
Increase / (Decrease) in cash in the year	3,344	(193)
Drawdown of borrowings	(5,918)	(5,426)
Repayment of borrowings	5,523	39
Changes in net cash resulting from cash flows	2,949	(5,580)
Finance leases acquired	–	(25)
Translation differences	310	(55)
Movement in net cash in the year	3,259	(5,660)
Net cash at 1 October	11,668	17,328
Net cash at 30 September	14,927	11,668

Analysis of net cash

	At 1 Oct 2016 £'000	Cash flow £'000	Exchange movement £'000	At 30 Sep 2017 £'000
Cash at bank and in hand	23,167	3,344	(86)	26,425
Debt due after 1 year	(11,474)	(402)	396	(11,480)
Finance leases	(25)	7	–	(18)
Net cash	11,668	2,949	310	14,927

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

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 89.

The consolidated financial statements of the Group for the year ended 30 September 2017 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 84.

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 2017, 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:

- Annual Improvements 2012-2014
- Amendment to IAS16 "Property, plant and equipment" and IAS 38 "Intangible Assets" on depreciation and amortisation
- Amendments to IAS27 "Separate financial statements" on equity accounting
- Amendments to IFRS10 "Consolidated financial statements" and IAS28 "Investments in associates and joint ventures" on applying the consolidation exemption
- Amendments to IAS1 "Presentation of financial statements" disclosure initiative

ISA (UK) 700

ISA (UK) 700 "Forming an opinion and reporting on financial statements" applies to AIM listed entities for periods commencing on or after 17 June 2016. The form and content of the audit report contained within the financial statements has been extended.

The following standards will apply to the Group in future accounting periods:

IFRS 9 Financial Instruments

This standard will apply for the first time in the year ending 30 September 2019. Management do not currently envisage this standard having a material effect on the financial statements, because the Group does not currently utilise derivatives, although there may be some changes to the disclosure related to financial instruments.

IFRS 15 Revenue from Contracts with Customers

IFRS15 will apply to the Group for the first time in the year ending 30 September 2019. Management have been monitoring the potential effect of the Standard on the Group's financial statements. The majority of the Group's revenue is derived from sale of products, none of which have warranty terms extended beyond the standard for the industry. Because of this, management do not currently expect IFRS15 to have a material impact on the financial statements, but will continue to monitor this as the adoption date gets closer.

IFRS 16 Leases

This new standard will apply to the Group for the first time in the year ending 30 September 2020. Following adoption of the standard, management expect all of the Group's operating leases to be reclassified onto the balance sheet. This will entail the recognition of right of use assets and lease liabilities relating to existing operating leases, although we do not currently envisage a material effect on the Group's net assets or profit before tax.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

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.

Where deferred consideration is payable in cash, the amount is discounted to present value at the date of acquisition, using the Group's weighted average cost of capital. The financing charge which arises on the discounted consideration between the acquisition date and the date of payment is included within finance costs.

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.

Subsidiary audit Exemptions

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 479A 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

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.

5. Financial Risk Management

Capital Risk Management

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

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, although no such arrangements were in place during the year ended 30 September 2017 or 2016.

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 2016, with all other variables constant, post tax profits for the year would have been £123,000 lower (2016: £447,000 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 £1,953,000 lower (2016: £1,821,000 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 £2,388,000 higher (2016: £2,226,000 higher).

b. Cash flow interest rate risk

The Group has cash balances of £26.4m 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 £146,000 (2016: £68,000) 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 2016 and 2017, 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 2017 accounted for 25% of the Group's revenue (2016: 26%). 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

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 of which $8m is drawn and an uncommitted flexible acquisition facility of $20m of which $7.5m is drawn. Both are available until 30 April 2019. These are analysed in Notes 22 and 29.

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. The value in use calculations are based on forecast cash flows of the CGU discounted at the Group's weighted average cost of capital. These calculations have a number of significant variables including forecast revenue and margins, working capital movements and maintenance capital expenditure levels. The calculations are also sensitive to the discount rate used. Further details are given in note 17.

Accounting for Acquisitions

An assessment of the fair value of the purchase consideration and net assets acquired has been undertaken in respect of the acquisition of StingRay Optics LLC. Determining the fair value of the consideration involves an estimate of the deferred consideration payable, which is dependent on post-acquisition performance, and therefore inherently uncertain. Intangible assets relating to customer relationships, the order book and the brand have been recognised based on an estimate of the future cash flows to be derived from those assets.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

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 the year ended 30 Spetember 2017	Aerospace & Defence £'000	Life Sciences £'000	Industrial £'000	Scientific Research £'000	Corporate £'000	Total £'000
Revenue						
Total revenue	34,860	9,570	71,336	3,325	-	119,091
inter and intra-division	-	-	(7,075)	-	-	(7,075)
External revenue	34,860	9,570	64,261	3,325	-	112,016
Divisional expenses	(29,880)	(8,165)	(50,417)	(2,821)	(1,389)	(92,672)
EBITDA[1]	4,980	1,405	13,844	504	(1,389)	19,344
EBITDA%	14.3%	14.7%	21.5%	15.2%	-	17.3%
Depreciation and amortisation	(715)	(388)	(2,000)	(136)	(625)	(3,864)
Operating profit before amortisation of acquired intangible assets, goodwill impairment and release of contingent consideration	4,265	1,017	11,844	368	(2,014)	15,480
Amortisation of acquired intangible assets, goodwill impairment and release of contingent consideration	-	-	-	-	(2,202)	(2,202)
Operating profit	4,265	1,017	11,844	368	(4,216)	13,278
Operating profit margin %	12.2%	10.6%	18.4%	11.1%	-	11.9%
Add back non-recurring items and amortisation of acquired intangibles, goodwill impairment and release of contingent consideration	-	-	-	-	3,128	3,128
Adjusted operating profit	4,265	1,017	11,844	368	(1,088)	16,406
Adjusted profit margin %	12.2%	10.6%	18.4%	11.1%	-	14.6%
Finance costs	-	-	-	-	(676)	(676)
Profit before income tax expense	4,265	1,017	11,844	368	(4,892)	12,602

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

For the year ended 30 Spetember 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 these non-recurring expenses.

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

Analysis of net assets / (liabilities) by location:

	2017 Assets £'000	2017 Liabilities £'000	2017 Net Assets £'000	2016 Assets £'000	2016 Liabilities £'000	2016 Net Assets £'000
United Kingdom	75,104	(32,612)	42,492	70,336	(30,580)	39,756
USA	73,641	(18,477)	55,164	59,077	(9,112)	49,965
Continental Europe	545	(98)	447	726	(318)	408
Asia Pacific	46	(13)	33	48	(5)	43
	149,336	(51,200)	98,136	130,187	(40,015)	90,172

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

For the year to 30 September 2017 non-current asset additions were £1.9m (2016: £2.0m) for the UK and for the USA £4.5m (2016: £7.3m). There were no additions to non-current assets in respect of Europe (2016: £nil) or the Asia Pacific region (2016: £nil). The value of non-current assets in the USA was £47.9m (2016: £34.7m), the United Kingdom £29.0m (2016: £30.1m) and Europe £nil (2016: £nil). There were no non-current assets in the Asia-Pacific region.

Analysis of revenue by destination:

	2017 £'000	2016 £'000
United Kingdom	18,624	17,247
USA	45,485	34,918
Continental Europe	24,233	19,189
Asia Pacific and Other	23,674	14,697
	112,016	86,051

8. Expenses by Nature

	Note	2017 £'000	2016 £'000
Raw materials and consumables		35,598	27,424
Changes in inventory		(710)	1,357
Employee costs	10	47,290	38,280
Other operating charges		12,209	6,429
Depreciation		3,664	3,042
Amortisation of acquired intangible assets		2,202	1,263
Amortisation of other intangible assets		199	355
Gain on bargain purchase – Alfalight		–	(578)
Impairment of goodwill		615	771
Release of accrued contingent consideration		(615)	–
Other income and expenses	9	(1,714)	(2,476)
		98,738	75,867

9. Other Income and Expenses

	2017 £'000	2016 £'000
Grants receivable	1,285	2,220
Amounts claimed under the RDEC	370	270
Other income / (expense)	59	(14)
	1,714	2,476

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

10. Employee Benefit Expense

	2017 £'000	2016 £'000
Wages and salaries	37,841	30,971
Social security costs	3,434	2,551
Share based payment charge	587	638
Medical and other insurance	4,015	2,851
Other pension costs	1,413	1,269
	47,290	38,280

The average monthly number of employees during the year was:

	2017 Number	2016 Number
Manufacturing	512	471
Sales, finance and administration	263	204
	775	675

Key management compensation

	2017 £'000	2016 £'000
Salaries and other short-term benefits	5,732	4,908
Share based payments	587	638
Other pension costs	187	230
	6,506	5,776

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

Directors' remuneration, including the highest paid Director, has been included on page 39 of the Remuneration Committee Report. These disclosures have been audited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

11. Operating Profit

Operating profit is stated after charging / (crediting):

	2017 £'000	2016 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	45	45
Fees payable to the Company's auditors and its associates for other services:		
– audit of the Company's subsidiaries pursuant to legislation	105	110
– taxation compliance services	82	78
– taxation advisory services	66	117
– taxation advisory services related to abortive acquisitions	–	10
– due diligence services related to grant funding	45	97
Net losses / (gains) on foreign exchange	225	(860)
Operating lease rentals	1,732	1,520
Transaction fees	390	466
Impairment of goodwill	615	771
Release of accrued contingent consideration	(615)	–

Restructuring costs of £536,000 were incurred in the year (2016: £1,652,000). These related to the Palo Alto site move (£180,000) and redundancy costs of £356,000. 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

	2017 £'000	2016 £'000
Finance income comprises:		
– Bank interest	27	39
Finance costs comprise:		
– Bank interest	(321)	(126)
– Finance lease interest	(1)	(1)
– Interest on discounted deferred consideration	(381)	–
	(703)	(127)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

13. Income Tax Expense

Analysis of tax charge in the year

	2017 £'000	2016 £'000
Current taxation		
UK Corporation tax	1,318	1,760
Overseas tax	2,165	887
Adjustments in respect of prior year tax charge	(1,315)	(77)
Total current tax	2,168	2,570
Deferred tax		
Origination and reversal of temporary differences	227	218
Adjustments in respect of prior year deferred tax	1,315	290
Impact of change in the UK tax rate	-	(30)
Total deferred tax	1,542	478
Income tax expense per income statement	3,710	3,048

The taxation expense for the year is higher (2016: higher) than the standard rate of corporation tax in the UK. An explanation of the differences is detailed below:

	2017 £'000	2016 £'000
Profit before income tax	12,602	10,096
Profit at the effective standard rate of tax of 19.5% for the year (2016: 20.0%)	2,457	2,019
Income not subject to tax	(72)	(116)
Permanent differences	(132)	134
Adjustments in respect of foreign tax rates	1,457	828
Re-measurement of deferred tax - change in UK tax rate	-	(30)
Adjustments in respect of prior year	-	213
Total tax expense	3,710	3,048

Factors Affecting the Future Tax Charge

Overseas tax losses of £3.7m (2016: £3.8m) and UK tax losses of £0.8m (2016: £0.8m) are available 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 Act 2016 in September 2016. These included the replacement of the 18% rate from 1 April 2020 with a lower rate of 17%. To date, no further changes have been announced.

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 liability, though no such change is currently considered necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

14. Dividends

	2017 £'000	2016 £'000
Final 2016 dividend paid in 2017: 5.7p per share (Final 2015 dividend paid in 2016: 5.2p per share)	1,383	1,254
2017 Interim dividend paid: 3.7p per share (2016: 3.3p)	906	801
	2,289	2,055

The Directors propose a final dividend of 6.5p per share making the total dividend paid and proposed in respect of the 2017 financial year 10.2p (2016: 9.0p).

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:

	2017 Number	2016 Number
Number of dilutive shares	24,457,701	22,248,471
Dilutive shares	412,901	436,112
	24,870,602	24,684,583

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

	2017		2016	
	£'000	pence per share	£'000	pence per share
Basic earnings per share	8,892	36.4p	7,048	29.1p
Amortisation of acquired intangible assets (net of tax)	2,034	8.3p	930	3.8p
Goodwill impairment	615	2.5p	771	3.2p
Release of accrued contingent consideration	(615)	(2.5p)	-	-
Gain on bargain purchase of Alfalight	-	-	(578)	(2.4p)
Provision for regulatory compliance	-	-	500	2.1p
Restructuring costs (net of tax)	431	1.8p	1,261	5.2p
Transaction fees (net of tax)	314	1.3p	373	1.5p
Interest on deferred consideration	381	1.6p	-	-
Total adjustments net of income tax expense	3,160	13.0p	3,257	13.4p
Adjusted basic earnings per share	12,052	49.4p	10,305	42.5p
Basic diluted earnings per share	8,892	35.8p	7,048	28.6p
Adjusted diluted earnings per share	12,052	48.5p	10,305	41.7p

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

16. Property, Plant and Equipment

	Capital work in progress £'000	Freehold 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 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
Additions	3,374	-	139	1,866	385	-	5,764
Acquired	-	-	5	67	26	-	98
Disposals	-	-	(43)	(326)	(71)	(8)	(448)
Reclassification	(656)	-	93	510	53	-	-
Exchange rate differences	(214)	(3)	(371)	(448)	(42)	(1)	(1,079)
At 30 September 2017	5,353	9,010	11,828	30,854	3,706	43	60,794
Accumulated depreciation							
At 1 October2015	-	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
Charge for the year	-	168	773	2,361	359	3	3,664
Disposals	-	-	(42)	(326)	(71)	(8)	(447)
Exchange rate differences	-	(3)	(95)	(267)	(23)	-	(388)
At 30 September 2017	-	1,817	2,606	20,027	2,417	37	26,904
Net book value							
At 1 October 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 2017	5,353	7,193	9,222	10,827	1,289	6	33,890

At 30 September 2017, plant and machinery purchased under a hire purchase or finance lease agreement had a cost of £38,000 (2016: £38,000) and net book value of £19,000 (2016: £25,000).

No interest was capitalised in the year (2016: £Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

17. Intangible Assets

	Goodwill £'000	Acquired intangible assets £'000	Capitalised R&D, Patents and licences £'000	Software and other intangibles £'000	Total £'000
Cost or valuation					
At 1 October 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
Additions	–	–	584	102	686
Acquired	6,099	7,986	–	–	14,085
Disposals	–	–	(23)	(44)	(67)
Exchange rate differences	(838)	(757)	(27)	(9)	(1,631)
At 30 September 2017	33,886	24,273	3,657	1,898	63,714
Accumulated amortisation and impairment					
At 1 October2015	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
Charge for the year	615	2,202	83	116	3,016
Disposals	–	–	(3)	(43)	(46)
Exchange rate differences	–	(218)	(5)	(8)	(231)
At 30 September 2017	7,040	13,665	1,051	1,708	23,464
Net book value					
At 1 October 2015	16,381	1,831	1,675	268	20,155
At 30 September 2016	22,200	5,363	2,147	206	29,916
At 30 September 2017	26,846	10,608	2,606	190	40,250

Goodwill is allocated to operating sites as follows: Cleveland (£2.1m), Ilminster (£1.5m), Torquay (£1.6m), Moorpark (£6.2m), Boston (£4.9m), Palo Alto (£0.9m), St Asaph (£4.0m) and Keene (£5.7m).

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 post-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 2022 of up to 10%, and 2% thereafter
- 8.3% 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

The Boston cash generating unit's performance improved significantly over FY16, reflecting the effect of the Alfalight acquisition in the prior year, and improved sales of the Boston site's existing products and services. Management expect the new combined business to continue to grow profitably and it remains a key part of the Group's Space Photonics activities. The impairment calculation for the Boston cash generating unit utilises a specific set of growth assumptions based on revenue increasing by an average of 6% per annum in the period to 30 September 2022, which results in an average annual forecast EBITDA of £1.5m over the same period. Management do not consider any impairment of goodwill to have arisen in the year because of the significantly improved result and the growth opportunities of the new enlarged business. If the discount rate were increased to 9.7%, or if the average annual EBITDA were reduced by £0.3m, the headroom on the impairment calculation would be reduced to zero.

The impairment calculation for the Moorpark cash generating unit is based on an average annual forecast EBITDA to 2022 of £1.2m. The headroom on the calculation (of £2.1m) would be reduced to zero if the average annual EBITDA to 2022 were reduced by £0.3m or the discount rate increased to 9.4%. The Directors are satisfied that no impairment is necessary.

Kent Periscopes' performance in the year was lower than the targets set for the deferred consideration which was potentially payable in the year. Accordingly, a release of the accrued contingent consideration of £0.6m has been credited to the income statement. Management performed an impairment review of the goodwill based on an average annual EBITDA to 2022 of £0.7m. Following this review, the Directors consider it appropriate to impair the goodwill by £0.6m. If the discount rate were increased to 9.3%, then a further impairment of £1.0m would arise. However, the Directors expect a significant improvement in the results going forward, and are therefore satisfied no further impairment is necessary.

18. Inventories

	2017 £'000	2016 £'000
Raw materials	7,374	6,955
Work in progress	9,819	8,689
Finished goods	3,885	3,329
	21,078	18,973

The cost of inventories recognised as an expense and included in cost of revenue amounted to £67.0m (2016: £56.8m).

The movement in the inventories provision is as follows:

	2017 £'000	2016 £'000
At 1 October	4,208	3,582
Acquired	328	264
Increase in provision	783	71
Exchange rate movement	(59)	291
At 30 September	5,260	4,208

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

19. Trade and Other Receivables

	2017 £'000	2016 £'000
Trade receivables	20,504	20,451
Other receivables	2,025	1,326
Grant funding held in trust account	1,535	230
Prepayments	659	672
	24,723	22,679

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

	2017 £'000	2016 £'000
Pound Sterling	9,041	9,929
US Dollar	14,334	11,861
Euro	1,342	884
Yen	6	5
At 30 September	24,723	22,679

The ageing of trade receivables by due date is as follows:

	2017 £'000	2016 £'000
Current	15,417	14,567
1 to 3 months	4,139	4,701
Over 3 months	1,327	1,402
	20,883	20,670
Less provision for impairment	(379)	(219)
Net trade receivables	20,504	20,451

None of the trade receivables are with customers where we have had any history of default.

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

	2017 £'000	2016 £'000
At 1 October	219	183
Utilisation of provision	(35)	-
Increase in provision	198	28
Exchange rate movement	(3)	8
At 30 September	379	219

20. Cash and Cash Equivalents

	2017 £'000	2016 £'000
Cash at bank and on hand	26,425	23,167

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

21. Trade and Other Payables

	2017 £'000	2016 £'000
Trade payables	6,610	6,386
Other taxation and social security	1,095	553
Grant funding held in trust account	1,535	230
Accruals	14,518	12,455
	23,758	19,624

22. Borrowings

	2017 £'000	2016 £'000
Current:		
Finance leases	6	4
	6	4
Non-current:		
Bank borrowings	11,480	11,473
Finance leases	12	21
	11,492	11,494
Total borrowings	11,498	11,498

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 2017, the balance drawn on the revolving credit facility was $8m (2016: $15m) and on the flexible acquisition facility $7.5m (2016: nil).

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, payable on rollover dates, typically quarterly.

Maturity Profile of Bank and Other Borrowings

	2017 £'000	2016 £'000
Within one year	6	4
Between one and five years	11,492	11,494
	11,498	11,498

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

23. Provision for Other Liabilities and Charges

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

	2017 £'000	2016 £'000
At 1 October	940	342
Acquired	80	38
Utilised during year	(135)	-
Charged to the income statement	13	556
Exchange movements	(10)	4
At 30 September	888	940

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.

In 2016, a provision for £500,000 was recorded in respect of a potential penalty related to two isolated potential violations of export control laws, which were voluntarily disclosed to the relevant authorities after having been identified by an internal review. This matter is ongoing, and therefore the provision has been retained.

24. Deferred Tax Assets and Liabilities

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

	2017 £'000	2016 £'000
At 1 October	(2,132)	(480)
Charged to the income statement	(1,542)	(478)
Acquired	146	(28)
Arising on acquired intangible assets	-	(1,121)
Credited directly to equity	148	45
Exchange movements	145	(70)
Net liability at 30 September	(3,235)	(2,132)

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

	2017 £'000	2016 £'000
Deferred income tax assets		
Intangible assets	906	1,071
Share options	721	573
Provisions	814	788
Other timing differences	262	242
	2,703	2,674
Deferred income tax liabilities		
Property, plant and equipment	(3,827)	(2,446)
Intangible assets	(2,111)	(2,360)
	(5,938)	(4,806)
Deferred tax balance at 30 September	(3,235)	(2,132)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

Overseas tax losses of £3.7m (2016: £3.8m) and UK tax losses of £0.8m (2016: £0.8m) are available to offset against future profits of the Group. The Group has not recognised a deferred income tax asset of £1.4m (2016: £1.4m) 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

	2017 Number	2016 Number	2017 £'000	2016 £'000
Issued and fully paid				
At 1 October	24,260,024	24,091,118	4,852	4,818
Shares issued and fully paid	254,537	168,906	51	34
At 30 September	24,514,561	24,260,024	4,903	4,852

During the year 72,734 shares (2016: 168,906 shares) were allotted under share option schemes.

26. Reserves

	Share premium account £'000	Merger reserve £'000	Cumulative translation reserve £'000	Retained earnings £'000
At 1 October 2016	15,530	2,671	6,984	60,135
Profit for the financial year	-	-	-	8,892
Dividends paid	-	-	-	(2,289)
Shares issued	-	1,969	-	(15)
Fair value of share options	-	-	-	587
Tax credit relating to share options	-	-	-	179
Currency translation differences	-	-	(1,410)	-
At 30 September 2017	15,530	4,640	5,574	67,489

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

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

The Gooch & Housego 2013 Long Term Incentive Plan was adopted on 9 April 2013. Under the plan, awards are 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 five grants of options under the 2013 Long Term Incentive Plan. 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.

The details of awards extant as at 30 September 2017 are summarised below:

	Grant date		
	10 Mar 2017	23 Dec 2015	17 Dec 2014
No. of options granted	133,146	147,458	260,193
Expected volatility	26%	25%	29%
Risk free rate	0.9%	0.9%	0.8%
Fair value (£)	784,041	629,506	878,475

A reconciliation of total share option movements is shown below:

	2017		2016	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	512,852	–	546,300	–
Awarded	133,146	–	147,458	–
Exercised	(72,734)	–	(168,906)	–
Lapsed	(87,256)	–	(12,000)	–
Outstanding at 30 September	486,008	–	512,852	–
Exercisable at 30 September	–	–	–	–

The weighted average fair value of options granted in the year was 589.0p per option (2016: 427.0p per option). For the options exercised, the average market price was 1,238.0p per share.

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

	Expiry date	Weighted average exercise price	Number of share options	
			2017	2016
2013 LTIP	8-Apr-2023	0.0p	486,008	512,852

The total charge for the year relating to share options was £587,000 (2016: £638,000), all of which related to equity-settled share based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

28. Operating Leases

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

	2017 £'000	2016 £'000
Within one year	1,166	1,199
Between one to five years	3,900	3,652
	5,066	4,851

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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Pound Sterling	16,438	11,269	18	24
US Dollar	8,101	9,999	11,480	11,474
Euro	1,849	1,857	–	–
Yen	37	42	–	–
	26,425	23,167	11,498	11,498

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

	2017 £'000	2016 £'000
Authorised and contracted but not provided for	1,440	264

All capital commitments relate to property, plant and equipment.

31. Related Party Transactions

No 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

32. Acquisition of StingRay Optics LLC

On 21 February 2017, the Group completed the acquisition of the entire unit capital of StingRay Optics LLC, a Keene, New Hampshire, based specialist designer and manufacturer of high performance optical and opto-mechanical subsystems for demanding defence and commercial applications. The acquisition strengthened the Group's position in the aerospace & defence sector.

The consideration for the acquisition will be up to $20m comprising initial consideration of $7.5m paid in cash and $2.5m paid in new G&H ordinary shares. There is also deferred contingent consideration of up to $10m, payable in cash, based on the performance of the business for a period of up to three years post acquisition.

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

	Provisional fair value £'000
Property, plant and equipment	98
Intangible assets	7,986
Cash	231
Trade and other receivables	655
Inventory	1,058
Trade and other payables	(1,274)
Current and deferred tax assets	156
Net assets acquired	8,910
Consideration paid:	
Cash and shares paid on completion	7,996
Deferred consideration	7,013
Goodwill	6,099

The fair value of the intangible assets represents the estimated fair value of StingRay'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 StingRay's employees and their contacts in target markets.

Post-acquisition, the acquired business contributed £5.3 million of revenue and £1.0 million of profit after tax to the consolidated income statement.

33. Post Balance Sheet Events

In October 2017 the Company concluded a legal dispute with the landlord of its Fremont facility. As a result of this, a Californian court has awarded G&H in the region of $2 million in damages arising from the landlord's non-performance in respect of the lease.

COMPANY BALANCE SHEET

As at 30 September 2017

		2017		2016	
	Note	£'000	£'000	£'000	£'000
Non-current assets					
Investments	5		28,811		27,169
Property, plant and equipment	6		7,104		7,482
Intangible assets	7		47		156
Deferred income tax assets	9		793		681
			36,755		35,488
Current assets					
Other receivables	8	3,974	–	2,769	–
Cash and cash equivalents		10,298	–	7,211	–
		14,272	–	9,980	–
Current liabilities					
Trade and other payables	10	(5,301)	–	(3,774)	–
Net current assets			8,971		6,206
Non-current liabilities					
Deferred income tax liabilities	9		(61)		(101)
Deferred consideration			(1,641)		–
Net assets			44,024		41,593
Shareholders' equity					
Called up share capital	11		4,903		4,852
Share premium account			15,530		15,530
Merger reserve			1,969		–
Retained earnings			21,622		21,211
Total equity			44,024		41,593

The financial statements on pages 77 to 88, were approved by the Board of Directors on 28 November 2017 and signed on its behalf by:

Mark Webster
Director

Andrew Boteler
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2017

	Note	Called up Share capital £'000	Share premium account £'000	Merger Reserve £'000	Retained earnings £'000	Total equity £'000
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
At 1 October 2016		4,852	15,530	–	21,211	41,593
Profit for the financial year		–	–	–	1,962	1,962
Total comprehensive income for the year		–	–	–	1,962	1,962
Dividends	4	–	–	–	(2,289)	(2,289)
Proceeds from shares issued		51	–	1,969	(15)	2,005
Fair value of employee services		–	–	–	587	587
Tax credit relating to share option schemes		–	–	–	166	166
Total contributions by and distributions to owners of the parent recognised directly in equity		51	–	1,969	(1,551)	469
At 30 September 2017		4,903	15,530	1,969	21,622	44,024

COMPANY CASH FLOW STATEMENT

For the year ended 30 September 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Cash generated from operations	1,461	4,280
Income tax paid	–	(41)
Net cash generated from operating activities	1,461	4,239
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	–	(7,999)
Purchase of property, plant and equipment	(106)	(15)
Purchase of intangible assets	–	(13)
Interest received	21	36
Net cash used in investing activities	(85)	(7,991)
Cash flows from financing activities		
Dividends received from subsidiary companies	4,000	4,905
Dividends paid to ordinary shareholders	(2,289)	(2,055)
Interest paid	–	(13)
Net cash generated from financing activities	1,711	2,387
Net increase / (decrease) in cash	3,087	(915)
Cash at beginning of the year	7,211	8,126
Cash at the end of the year	10,298	7,211

NOTES TO THE COMPANY CASH FLOW STATEMENT

For the year ended 30 September 2017

Reconciliation of cash generated from operations

	2017 £'000	2016 £'000
Profit before income tax	1,549	2,561
Adjustments for:		
- Dividends received from subsidiaries	(4,000)	(4,905)
- Amortisation of other intangible assets	109	154
- Depreciation	483	469
- Share based payment charge	587	638
- Finance income	(21)	(36)
- Finance costs	–	13
Total	(2,842)	(3,667)
Changes in working capital		
- Trade and other receivables	209	4,038
- Trade and other payables	2,545	1,348
Total	2,754	5,386
Cash generated from operating activities	1,461	4,280

Analysis of net cash

	At 1 Oct 2016 £'000	Cash flow £'000	At 30 Sep 2017 £'000
Cash at bank and in hand	7,211	3,087	10,298
Net cash	7,211	3,087	10,298

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2017

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 2017, 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 Group:

- Annual Improvements 2012-2014
- Amendment to IAS16 "Property, plant and equipment" and IAS 38 "Intangible Assets" on depreciation and amortization
- Amendments to IAS27 "Separate financial statements" on equity accounting
- Amendments to IFRS10 "Consolidated financial statements" and IAS28 "Investments in associates and joint ventures" on applying the consolidation exemption
- Amendments to IAS1 "Presentation of financial statements" disclosure initiative

The following standard will apply to the Company in future accounting periods:

IFRS 9 Financial Instruments

This standard will apply for the first time in the year ending 30 September 2019. Management do not currently envisage this standard having a material effect on the financial statements.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2017

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.

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 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.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2017

Financial Instruments

The Company has not used derivative financial instruments to hedge its exposure to currency risk.

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 £1,962,000 (2016: £3,750,000 profit).

Fees payable to the Company auditors for the statutory audit for the year amounted to £16,000 (2016: £16,000).

3. Employee Benefit Expense

	2017 £'000	2016 £'000
Wages and salaries	2,035	1,635
Social security costs	443	170
Medical and other insurances	26	33
Share based payments	587	638
Pension costs	38	100
	3,129	2,576

The average number of employees during the year was 13 (2016: 12), all of whom were administrative.

Directors' Remuneration

	2017 £'000	2016 £'000
Directors' remuneration	1,409	1,192
Relocation allowance	-	23
Medical and other insurances	26	33
Directors' pension scheme contributions	20	80
	1,455	1,328

The aggregate emoluments of the highest paid Director including gain on exercise of share options were £504,000 (2016: £617,000). Further information is included in the Remuneration Committee report on page 37.

The aggregate gain on Directors' share option exercises in the year was £393,000 (2016: £807,000).

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 2 (2016: 2).

These disclosures have been audited.

4. Dividends

	2017 £'000	2016 £'000
Final 2016 dividend paid in 2017: 5.7p per share. (Final 2015 dividend paid in 2016: 5.2p per share)	1,383	1,254
2017 Interim dividend paid: 3.7p per share (2016: 3.3p)	906	801
Cost and net book value at 30 September	2,289	2,055

The Directors propose a final dividend of 6.5p per share making the total dividend paid and proposed in respect of the 2017 financial year 10.2p (2016: 9.0p). Should the final dividend be approved at the Company Annual General Meeting, cut-off dates for payment are:

- Record date 26 January 2018 - Payment date 2 March 2018

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2017

5. Investments

	2017 £'000	2016 £'000
Cost and net book value at 1 October	27,169	19,170
Additions	1,642	7,999
Cost and net book value at 30 September	28,811	27,169

The subsidiary companies at 30 September 2017, all of which are wholly owned either directly or indirectly, are listed below:

Company Name	% ownership of ordinary shares	Registered Office	Activity
Gooch & Housego (UK) Limited	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Manufacturer of acousto-optic products and precision optics
Gooch & Housego (Torquay) Limited	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Manufacturer of fibre-optic products
Spanoptic Limited	100%	Telford Road, Glenrothes, KY7 4NX	Manufacturer of precision optics
Kent Periscopes Limited	100%	6 Ffordd Richard Davies St Asaph, LL17 0LJ	Manufacturer of periscopes and vehicle sights
Gooch & Housego (Deutschland) GmbH	100%	Berliner Allee 55, 22850 Norderstedt, Germany	Provider of sales and customer service functions
Constelex Technology Enablers Limited	100%	Sarou 12, Athens 15125, Greece	Designer and manufacturer of advanced photonic systems
Gooch & Housego (Ohio) LLC	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Manufacturer of electro-optic products and crystals
Gooch & Housego (California) LLC	100%	5390 Kazuko Court, Moorpark, CA93021, USA	Manufacturer of precision optics
Gooch & Housego (Florida) LLC	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Non-trading company
Optronic Laboratories LLC	100%	4632 36th St, Orlando, FL32811,USA	Manufacturer of instruments for measuring optical radiation
EM4 Inc.	100%	7 Oak Park Drive, Bedford, MA 01730, USA	Manufacturer of fibre optics products
Gooch & Housego (Palo Alto) LLC	100%	44247 Nobel Dr, Fremont, CA94538, USA	Manufacturer of acousto-optic, electro-optic and fibre optic components and systems
StingRay Optics LLC	100%	17A Bradco Street, Keene, NH 03431 USA	Designer and manufacturer of optical and opto-mechanical subsystems
Gooch & Housego Japan KK	100%	Level 4, Nikko Shiken Building, 3-2-3 Sakae, Nagoya, Japan	Provider of sales and customer service functions
G&H (Property) Holdings Limited	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Property holding company
G&H (US Holdings) Limited	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Holding company
G&H Holdings (Delaware) Inc.	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Holding company
G&H Capital Holdings (Florida) Inc.	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Non-trading company

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2017

6. Property, Plant and Equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost or valuation					
At 1 October 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
Additions	–	–	–	105	105
At 30 September 2017	6,183	3,987	1,392	603	12,165
Accumulated depreciation					
At 1 October2015	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
Charge for the year	108	265	93	17	483
At 30 September 2017	1,355	2,320	890	496	5,061
Net book value					
At 1 October 2015	5,044	2,197	688	7	7,936
At 30 September 2016	4,936	1,932	595	19	7,482
At 30 September 2017	4,828	1,667	502	107	7,104

7. Intangible Assets

	Computer software £'000	Other £'000	Total £'000
Cost or valuation			
At 1 October 2015	1,216	452	1,668
Additions	–	13	13
At 30 September 2016	1,216	465	1,681
Additions	–	–	–
At 30 September 2017	1,216	465	1,681
Accumulated depreciation			
At 1 October2015	1,086	285	1,371
Charge for the year	73	81	154
At 30 September 2016	1,159	366	1,525
Charge for the year	45	64	109
At 30 September 2017	1,204	430	1,634
Net book value			
At 1 October 2015	130	167	297
At 30 September 2016	57	99	156
At 30 September 2017	12	35	47

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2017

8. Other Receivables

	2017 £'000	2016 £'000
Amounts owed by Group undertakings	791	251
Prepayments and accrued income	102	86
Group tax relief receivable	3,081	2,432
	3,974	2,769

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.

9. Deferred Tax

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

	2017 £'000	2016 £'000
At 1 October	580	394
Credited to the income statement	17	61
Credited directly to reserves	135	125
At 30 September	732	580

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

	2017 £'000	2016 £'000
Property, plant and equipment	(61)	(101)
Share options	632	497
Other timing differences	161	184
	732	580

Factors Affecting the Future Tax Charge

UK tax losses of £0.8m (2016: £0.8m) are available 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 Act 2016 in September 2016. These included the replacement of the 18% rate from 1 April 2020 with a lower rate of 17%. To date, no further changes have been announced.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2017

10. Trade and Other Payables

	2017 £'000	2016 £'000
Trade payables	221	410
Amounts owed to Group undertakings	2,593	1,264
Taxation and Social Security	583	226
Accruals and deferred income	1,904	1,874
	5,301	3,774

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.

In 2016, a provision for £500,000 was recorded in respect of a potential penalty related to two isolated potential violations of export control laws, which were voluntarily disclosed to the relevant authorities after having been identified by an internal review. This matter is ongoing, and therefore the provision has been retained.

11. Called Up Share Capital

	2017 Number	2016 Number	2017 £'000	2016 £'000
Allotted, issued and fully paid				
At 1 October	24,260,024	24,091,118	4,852	4,818
Shares issued and fully paid	254,537	168,906	51	43
At 30 September	24,514,561	24,260,024	4,903	4,852

During the year 72,734 shares (2016: 168,906 shares) were allotted under share option schemes.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2017

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

The Gooch & Housego 2013 Long Term Incentive Plan was adopted on 9 April 2013. Under the plan, awards are 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 five grants of options under the 2013 Long Term Incentive Plan. 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.

Details of awards extant as at 30 September 2017 are summarised below:

	Grant date		
	10 Mar 2017	23 Dec 2015	17 Dec 2014
No. of options granted	133,146	147,458	260,193
Expected volatility	26%	25%	29%
Risk free rate	0.9%	0.9%	0.8%
Fair value (£)	784,041	629,506	878,475

A reconciliation of total share option movements is shown below:

	2017		2016	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	512,852	-	546,300	-
Awarded	133,146	-	147,458	-
Exercised	(72,734)	-	(168,906)	-
Lapsed	(87,256)	-	(12,000)	-
Outstanding at 30 September	486,008	-	512,852	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 589.0p per option (2016: 427.0p per option). For the options exercised, the average market price was 1,238.0p per share.

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

	Expiry date	Weighted average exercise price	Number of share options	
			2017	2016
2013 LTIP	8-Apr-2023	0.0p	486,008	512,852

The total charge for the year relating to share options was £587,000 (2016: £638,000), all of which related to equity-settled share based payment transactions.

13. Related Party Disclosures

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.

COMPANY INFORMATION

Nominated Adviser and Broker

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

Legal Advisers

Burges Salmon LLP
One Glass Wharf
Bristol
BS2 0ZX

Independent Auditors

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

Registrars

Link Asset Services
65 Gresham Street
London
EC2V 7NQ

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	21 February 2018
Payment date for final dividend for the year ended 30 September 2017 to shareholders on the register at close of business 26 January 2018. Subject to approval by shareholders at the Annual General Meeting.	2 March 2018
Interim Results announcement	June 2018
Financial Year End	30 September 2018
Preliminary announcement of results for the year ending 30 September 2018	November 2018

For further information please contact:

Gooch & Housego PLC	Mark Webster / Andrew Boteler	01460 256440
Investec Bank plc (Nomad & Broker)	Patrick Robb / David Anderson	020 7597 5970
Buchanan	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 21 February 2018 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 2017 together with the Directors' Report and Auditors' Report thereon.

2 To receive and approve the Remuneration Committee Report set out on pages 37 to 41 (excluding page 38) of the Annual Report and Financial Statements for the financial year ended 30 September 2017.

3 To declare a final dividend, as recommended by the Directors, of 6.5 pence per ordinary share for the financial year ended 30 September 2017.

4 To re-elect Mark Webster as a Director.

5 To re-elect Alex Warnock as a Director.

6 To re-elect Andrew Boteler as a Director.

7 To re-elect Peter Bordui as a Director.

8 To re-elect Brian Phillipson as a Director.

9 To elect David Bauernfeind 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 21 May 2019 (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 £1,634,304 (representing approximately one third of the total ordinary share capital of the Company in issue at 28 November 2017). 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 £490,291 (representing approximately 10 per cent. of the total ordinary share capital of the Company in issue at 28 November 2017),

and the power hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 22 May 2019 (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.

NOTICE OF ANNUAL GENERAL MEETING

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 2,451,456 (representing approximately 10 per cent of the total ordinary share capital of the Company in issue at 28 November 2017);

(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 21 May 2019 (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

28 November 2017

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 37 to 41 of the Annual Report and Financial Statements for the financial year ended 30 September 2017. Pages 37, 39, 40 and 41 of the Remuneration Committee Report set out the pay and benefits received by each of the directors for the year ended 30 September 2017. The Company's policy on remuneration and potential pay outs to directors in the future, which is set out on page 38 of the Annual Report and Financial Statements for the financial year ended 30 September 2017, 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, Link 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 (Link ID: RA10), the CREST message must be received by the issuer's agent by 11.00 a.m. on 19 February 2018. 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 19 February 2018.

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 19 February 2018 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
AM IN
VCC: +24V
RF LEVEL ADJ.
RF OUTPUT
MADE IN USA

Gooch & Housego PLC
Dowlish Ford, Ilminster
TA19 0PF, United Kingdom
T: +44 (0)1460 256440
E: info@goochandhousego.com
goochandhousego.com