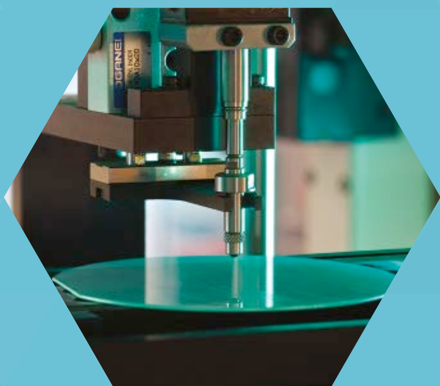
Gooch & Housego
ENABLING PHOTONIC TECHNOLOGIES

ANNUAL REPORT SEPTEMBER 2018

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.



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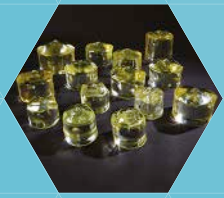
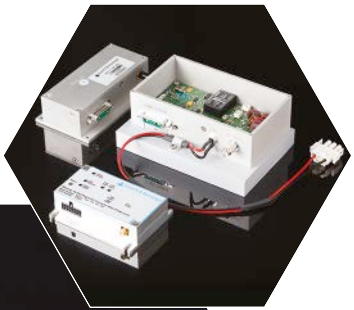
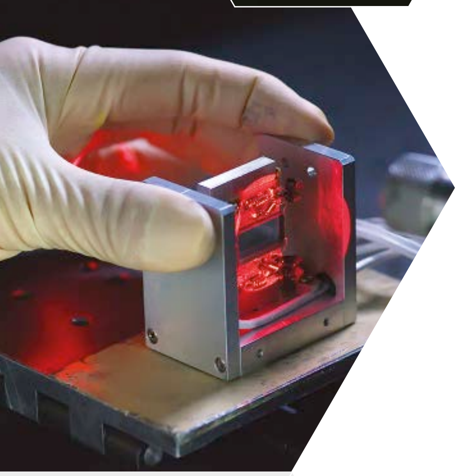


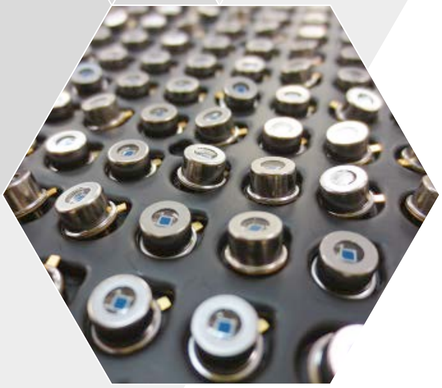
HIGHLIGHTS





Operating and Strategic Highlights

- A backdrop of generally favourable market conditions in our three main sectors of Industrial, Aerospace & Defence and Life Sciences / Biophotonics.
- Demand was high for critical components used in microelectronic manufacturing. Hi- reliability fibre couplers used in undersea cable networks down overall, though came back strongly in the latter part of the year.
- Strategically important investments were made in order to increase capacity in industrial and medical lasers and to exploit areas of R&D identified as having high growth potential for our photonic technologies.
- Considerable progress was made towards our strategic goals of further diversification and moving up the value chain, including the acquisitions of ITL and Gould Fiber Optics in August and September 2018 respectively.



Financial Highlights

- Revenue 11.5% higher than FY 2017, 11.1% excluding foreign exchange and acquisitions / disposals.
- Adjusted profit before tax up 16.4%.
- Adjusted basic earnings per share up 15.8%
- £24m invested in acquisitions and capital expenditure of £7.2m. Net debt of £10.6m (c.0.5 X EBITDA)
- Record year end order book of £96.1m, up 33% from 30 September 2017, 17% excluding foreign exchange and acquisitions/ disposals.

HIGHLIGHTS

Revenue
(£m)

124.9
+11.5%
2017 112.0

2018	124.9
2017	112.0
2016	86.1
2015	78.7
2014	70.1

Adjusted basic earnings per share*
(pence)

57.2
+15.8%
2017 49.4

2018	57.2
2017	49.4
2016	42.5
2015	39.5
2014	35.6

Adjusted profit before tax*
(£m)

18.8
+16.4%
2017 16.1

2018	18.8
2017	16.1
2016	14.2
2015	12.9
2014	11.5

Total dividend per share
(pence)

11.3
+10.8%
2017 10.2

2018	11.3
2017	10.2
2016	9.0
2015	8.2
2014	7.2

Statutory profit before tax
(£m)

10.1
-19.8%
2017 12.6

2018	10.1
2017	12.6
2016	10.1
2015	10.1
2014	7.9

Net (debt) /cash
(£m)

(10.6)
-£25.5m
2017 14.9

2018	(10.6)
2017	14.9
2016	11.7
2015	17.3
2014	8.7

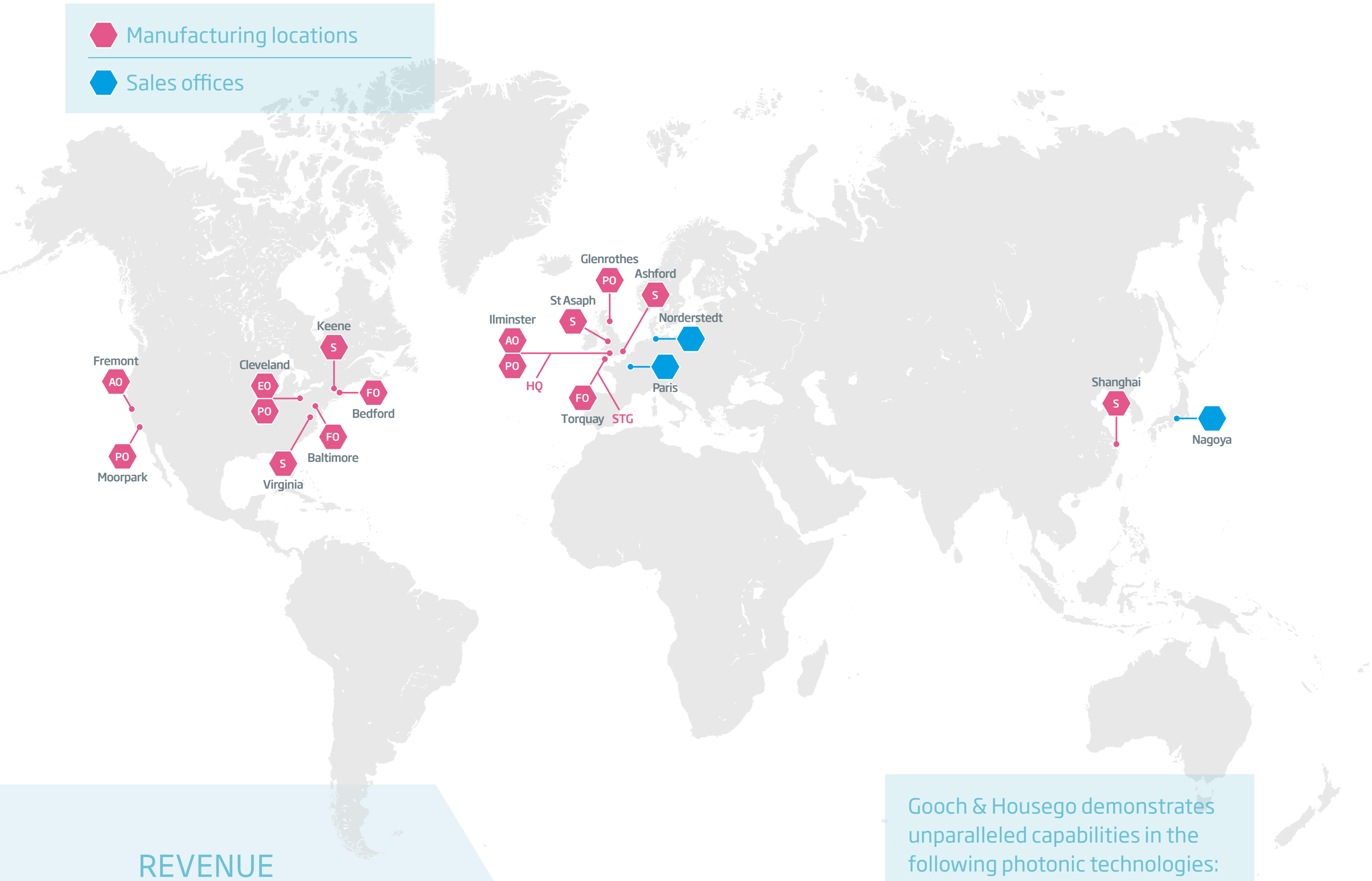
Basic earnings per share
(pence)

29.3
-19.5%
2017 36.4

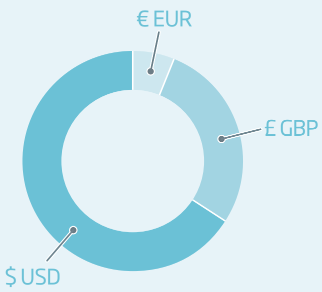
2018	29.3
2017	36.4
2016	29.1
2015	30.9
2014	22.5

*adjusted figures exclude the amortisation of acquired intangible assets, impairment of goodwill, adjustments to accrued contingent consideration, exceptional items being restructuring costs, site closure costs, transaction costs, and interest on deferred consideration.

HIGHLIGHTS



REVENUE BY CURRENCY



$ USD
66.1%
£82.6m
2017
£80.8m 72.1%

£ GBP
27.8%
£34.7m
2017
£25.2m 22.5%

€ EUR
6.1%
£7.6m
2017
£6.0m 5.4%

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

- Acousto-optics (AO)
- Electro-optics (EO)
- Fibre optics (FO)
- Precision optics (PO)
- Systems (S)

HIGHLIGHTS

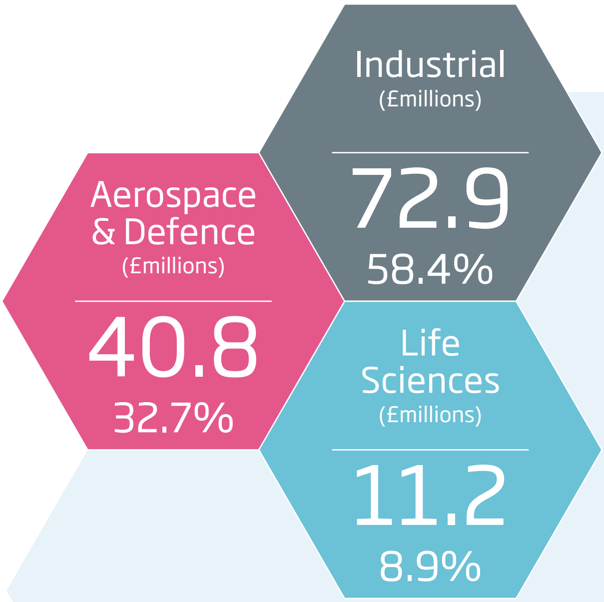
"G&H has had another good financial year. We have been able to take advantage of generally positive market conditions and continue to execute on our long term strategy.

"Our strong performance has enabled us to continue to invest in manufacturing capacity and R&D, as well as bringing complementary new technologies and customers into G&H through acquisitions.

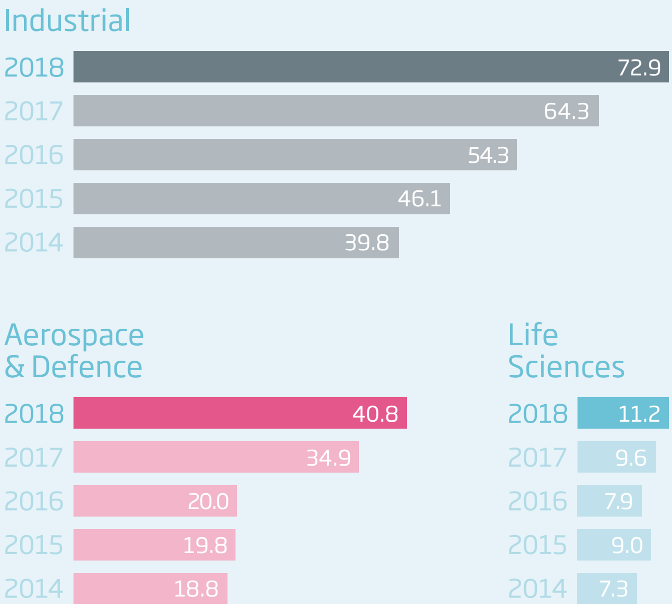
"There has been some recent gradual softening in demand growth for critical components in microelectronic manufacturing, offset by a return to strong demand growth for our fibre optics business generally, and hi-reliability fibre couplers in particular.

"We remain aware of potential macroeconomic and political risks. Overall G&H has a robust order book combined with greater diversification. The Board remains confident that the Group is well positioned to continue to deliver further progress in FY2019 and beyond."

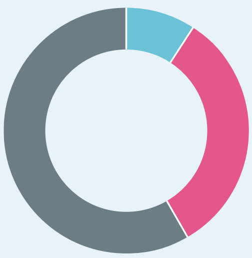
Mark Webster
Chief Executive Officer



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.

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.

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.

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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.

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OUR SECTORS AND APPLICATIONS

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

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.

Product development and design

Our new group company, ITL, provides full product development, design, manufacturing and after-sale service for the commercialisation of medical diagnostic, analytical, precision electro-mechanical and laboratory instruments.

CHAIRMAN'S STATEMENT

2018 was another year of significant progress in the development of your company. Broadly favourable market conditions, combined with development programmes entering production generated another positive set of results, while we responded to unprecedented demand patterns in some of our sites. G&H delivered record revenues, adjusted profits and adjusted earnings per share in the year.

The business continued to execute well on its long standing strategies of diversification and moving up the value chain, enhanced by the acquisitions made during the year of VITL Ltd ("ITL") and Gould Fiber Optics ("GFO"). ITL will substantially increase the group's life sciences / biophotonics presence and provide a much improved systems capability. GFO consolidates G&H's position as a world leader in fused fibre technology and gives enhanced access to the US aerospace and defence sector.

During the year G&H accelerated its transformation programme and we enter next year with an organisation aligned to our target end clients in the industrial, life-sciences / biophotonics, and aerospace and defence sectors. Our manufacturing facilities have been brought together into four groups based on their underlying technology, each under dedicated leadership. This will enable an increased focus on investment in people, plant and processes and position the company well for future growth.

In successfully responding to the challenges of FY2018 an exceptional effort was required of many people. I would like to express my thanks to my fellow directors and to all employees of G&H. During the year I took over from Gareth Jones as Chairman. On behalf of the Company and his colleagues I would like to thank Gareth for his huge contribution to G&H over the many years of his leadership both as CEO and then Chairman. Andrew Boteler, Chief Financial Officer, has informed the Board that he will retire in the summer of 2019 and step down from the Board. I would like to thank Andy for the support he has given me, the Board and the company and wish him the best for the future. The company has appointed a specialist recruitment agency and has begun a search for a new Chief Financial Officer.

"Strong financial performance and executing the strategy."

As the Group grows we are committed to continue to improve the quality of corporate governance and in September confirmed that we would apply the UK Corporate Governance code to how we run the company. As a Board we are also very aware of the value of diversity and our need to improve women's representation at all levels. We are supportive of the approaches suggested in the Hampton-Alexander review and are committed to improve representation of women at the Board and in senior leadership positions in the Group.

While we remain conscious of potential risks arising from macroeconomic challenges and the growth of global protectionism, your business enters the new financial year with a record order book and enhanced opportunities derived from the continued investment in new technologies, capabilities and routes to market. The Group is well positioned to continue to deliver in FY2019 and beyond.

Gary Bullard
Chairman

27 November 2018

CHIEF EXECUTIVE OFFICER'S STATEMENT

FY2018 Performance

FY 2018 revenue of £124.9 million represents an increase of 11.5% over the previous year or excluding foreign exchange and acquisitions / disposals, an increase of 11.1%. Adjusted profit before tax was £18.8 million, an increase of 16.4% over the previous year.

Gooch and Housego enters the new financial year with a record order book, which, at 30 September 2018, stood at £96.1 million, an increase of 33% compared to the same time last year. Excluding the impact of foreign exchange and acquisitions and disposals this represents an increase of 17%.

The Company benefited from generally positive market conditions, particularly for critical components used in microelectronic manufacturing, which experienced unprecedented levels of growth. Despite a lower year overall for high reliability fused fibre products used in undersea cables, they performed well in the latter part of the year and exited with a strong order book.

Strategically important investments were made in people, processes, and "best in class" capital equipment during the year, allowing us to significantly increase capacity, especially at those sites supplying critical components used in microelectronic manufacturing.

G&H was able to make further investment in areas identified as having high growth potential for our photonic technologies such as the latest industrial laser systems, harsh environment sensing, unmanned aerial vehicles ("UAVs"), novel aerospace and defence programmes, space satellite communications, laser surgery and medical diagnostics.

We acquired two companies in the last two months of the financial year and they have strengthened our presence in life sciences and the aerospace and defence sector. The life science company, ITL, will enable us to move further up the value chain, with a much enhanced systems capability. Gould Fiber Optics allows enhanced access for our fibre products to US aerospace and defence markets.

Strategic Goals

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

Aerospace and defence ("A&D") and life sciences both provide a counter balance to the exposure that the industrial laser sector has to the global economic cycle. Our main customers are the tier one A&D and medical diagnostic companies, who often prefer us to provide them with sub system and system solutions, providing a strong impetus to move up the value chain. This coupled with the regulatory and compliance hurdles inherent in A&D and life sciences, provides a very robust business model with high barriers to entry. We are increasingly well placed to serve these companies.

Our aim is to achieve a 'critical mass' in both the A&D and life sciences sectors and in an 'ideal world' an equal split between the three main market sectors across G&H.

In large part this has been achieved in A&D, which represented 32.7% of FY 2018 revenue (FY 2017: 31.1%). Life sciences has a smaller share of FY 2018 revenue, representing 8.9 % (FY 2017: 8.5%), but the acquisition of ITL should see life science revenue take a substantial step forward in FY 2019.

Sub systems and systems now represent 25.6% of our business (FY 2017: 22.1%).

Acquisitions and Disposals

Kent Periscopes, acquired in July 2016, performed well in FY2018 and have now substantially achieved their full earn out potential. StingRay Optics, acquired in February 2017, received the first part of its earn out payment, having exceeded its first performance target. We were pleased with the performance of both companies during FY 2018 and the way they have both integrated into G&H.

In August and September 2018 we acquired ITL and Gould Fiber Optics respectively.

"Gooch & Housego has had another good year. We were able to take advantage of generally positive market conditions and meet our financial goals. At the same time we made substantial investments in people, process and "best in class" equipment in order to increase capacity in industrial and medical lasers, invested in R&D projects identified as delivering a high return for our photonic technologies, and brought on board complementary technologies and customers through acquisitions. Considerable progress was made towards our strategic goals of further diversification and moving up the value chain."

CHIEF EXECUTIVE OFFICER'S STATEMENT

ITL is a UK based specialist in the design, development and manufacture of high quality medical devices. It enables G&H to double its life science business and move up the value chain, as all of ITL's sales come from system based products.

GFO is a US based market leading supplier of key enabling components to tier one US A&D customers. It provides a platform for G&H to obtain enhanced access for our fibre based business with Tier 1 US based aerospace & defence companies.

Both acquisitions are very recent, but, so far, we are pleased with their performance and level of integration.

G&H shut down and sold most of the trade and assets of its Orlando light measurement business in September 2018. It was a non-core business and delivered marginal returns and made a small loss in FY2018. Its disposal will have a limited impact on future earnings.

Research and Development ("R&D")

There has been continued benefit from concentrating our R&D efforts on fewer higher return projects. During FY 2018 we introduced a record 29 new products and we expect the full value of these products to come to fruition over the next three years. Revenue generated from new products this year was £12.0 million (FY 2017: £11.1 million).

Good progress has been made in the areas which have been identified as offering the highest growth potential for our photonic technologies.

Microelectronic manufacturing is entering a new phase of ultra fast lasers, which allow for improved capabilities in existing areas of use and new areas, such as via drilling techniques and extreme UV lithography, which is utilised in the production of nanoelectronics. The next generation of precision lasers and laser systems are being developed with our laser manufacturer and laser system partners.

We have capitalised on our expertise and knowledge gained on space laser communications to provide solutions for applications such as harsh environment sensing which utilises our ruggedised photonic technologies. Two recent examples are projects in the areas of oil pipeline security and LIDAR wind detection for wind farms.

Unmanned aerial vehicles have a variety of commercial and military uses and this is an area where we see significant potential for G&H. We design, engineer and manufacture bespoke complex optical arrays, often in the IR spectrum, that form part of the imaging system contained in the UAV's gimbal. They typically provide targeting, surveillance and LIDAR capability.

Our space communication group has gone from strength to strength with European and UK space agency funded work as well as substantial commercial contracts to provide satellite communication systems for near term satellite launches. We believe there is significant potential to expand this technology into small satellite platforms for constellations and near space UAVs.

We have a number of ongoing R&D defence programmes in the US and Europe, which operate under ITAR regulations or confidentiality agreements, supporting future growth in what is now a substantial A&D business.

Our optical coherence tomography ("OCT") technology dominates the retinal scanning and imaging arena. 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.

Performance Improvement Programme

We have built on the work done in previous years to improve efficiency, customer service and to establish a more scalable organisational model for future growth. During FY 2018 eight of our sites were 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 centre has a leader and their role is to ensure best practice is shared, there is process harmonisation and optimal allocation of resource.

Kent Periscopes and StingRay Optics will form a fourth manufacturing centre, called Systems, in the new financial year. This will represent the next stage of assimilation of these relatively recent acquisitions into G&H.

The two latest acquisitions, ITL and GFO, will, in time, slot into the Systems and Fibre Optic manufacturing centres respectively.

In FY 2019 we will introduce three customer facing business units, which will mirror our traditional market sectors of Industrials, A&D and Life Sciences / Biophotonics. Each of the business units will have a leader who will be responsible for the sector's strategy and longer term planning. They will work closely with the four manufacturing heads to ensure our production resources match the strategy and longer term planning.

This new approach will be underpinned by improved business systems. In the new financial year we will enter the second year of a phased introduction of new financial and business systems.

Markets and Applications

Industrial
58.4% of FY18 revenue

The industrial division is composed of a diverse range of industrial applications aligned to our world class photonic technologies, including microelectronic manufacturing, semiconductor

CHIEF EXECUTIVE OFFICER'S STATEMENT

manufacturing and test, remote sensing, metrology and optical communications.

Our industrials division grew by £5.3 million or 7.8% compared to the previous year. For reporting purposes scientific research is now contained within the industrial sector, which is consistent with the previously discussed business units. Scientific research is a small, but prestigious and profitable area for G&H.

The two traditionally largest areas of the industrial division, industrial lasers and high reliability fused fibre products for undersea cables, performed very differently during FY 2018.

There was an unprecedented level of demand for critical components in precision lasers used for microelectronic manufacturing. This demand was driven, in large part, by the next generation of smart phones and tablets and the change in manufacturing technology required to make them. The technology is dependent on the latest solid state lasers being able to deliver a high level of precision. We worked closely with the laser manufacturers and laser system suppliers to meet demand and have, through a combination of investment and reorganisation of resources, made available substantial extra capacity for these products going forward.

The ongoing need for ever more data from government, industry and the consumer continues to drive a need for more telecommunication capacity. This is especially true for undersea cable networks where well-capitalised 'Silicon Valley' technology companies are sponsoring installation of their own dedicated hardware. Our ultra high- reliability fused fibre products are used in repeaters that are a key part of the undersea cable networks.

Our business in high-reliability fused fibre products underperformed in the year. This was due to delays in deployment of planned undersea networks in the first half of the year. The business though came back strongly in the latter part of the year, as the planned networks moved into their deployment phase and we have experienced good demand led growth for hi-reliability fused fibre products, with a robust order book, as at 30 September 2018.

Aerospace & Defence
32.7% of FY18 Group Revenue

A&D grew year on year by £5.9 million or 17.0%. This was due to a combination of organic growth and the full year impact of the StingRay Optics acquisition.

G&H is now able to bring a wide range of photonic capabilities together that very much represent the "direction of travel" in this sector. These include target designation, range finding, ring laser and fibre optic gyroscopic navigational systems, infra-red and RF counter measures, periscopes and sighting systems for armoured vehicles and opto-mechanical sub systems for unmanned aerial vehicles.

The acquisition of GFO provides enhanced access for our fibre based business to tier one US A&D companies.

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 US and European A&D companies.

Space satellite communication is undergoing a technological revolution. The use of fibre optic lasers to transmit information means the satellite communication systems are more efficient and robust, as well as 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 and near space UAVs, as part of a communications network. The investment we have made in this segment allows us to contribute at the forefront of these developments globally.

Our Moorpark site, which has historically been profitable, remains key to our aerospace and defence business. However, it has recently struggled to grow its business during some difficult times in the commercial aerospace sector which has seen price pressure from a key customer. Whilst recent investment, improvements in the site's operational set up, the adoption of LEAN manufacturing principles, and diversification of its customer base are moving the site in a favourable direction, an impairment of £2.7m has been recognised in respect of the carrying value of the goodwill relating to this site.

Life Sciences/Biophotonics
8.9% of FY18 Group Revenue

The principal applications are in 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 segment particularly in ophthalmology, prostate and cosmetic surgery and has significant potential to be exploited beyond these current areas of use.

The acquisition of ITL, in August 2018, has the potential to be transformative for G&H in this sector. It will double the life science / biophotonics revenue and their greater electronic, software and mechanical engineering capability will substantially enhance our ability to present our photonic technology as part of a sub- system or system to our medical diagnostic customers.

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

Appointment of Non-Executive Chairman and CFO succession

In December 2017 we announced that Gary Bullard was to be appointed to the Board at the Annual General Meeting in February 2018. He was duly appointed and has had a successful period in the post.

Gareth Jones stepped down as Non-Executive Chairman after 37 years of loyal service with the Company. On behalf of myself and G&H, I would like to thank Gareth for his wisdom and guidance as Chairman and for his immense contribution to G&H's growth as a business over many years. All his friends and colleagues at the Company wish him well in the future.

After more than 10 years as CFO and some 12 years in G&H, Andy Boteler has decided to step down as a public company executive. Andy has been an important part of G&H's success over many years and his deep knowledge of the business, energy and considerable ability will be missed. Everyone at G&H wishes him well in his future endeavours. As part of a managed succession process, a specialist recruitment agency has been appointed. Andy has committed to stay on until we have a successor in place.

Outlook

G&H has had another good year. We were able to take advantage of generally positive market conditions and meet our financial goals. At the same time we made substantial investments in people, process and "best in class" equipment in order to increase capacity in industrial and medical lasers, invested in R&D projects identified as delivering a high return for our photonic technologies and brought on board complementary new technologies and customers through acquisitions. Considerable progress was made towards our strategic goals of diversification and moving up the value chain.

We will continue an active policy towards creating a more diverse and balanced business by building "critical mass" in A&D and life sciences / biophotonics, through a mix of investment in R&D and acquisitions.

G&H is committed to making further investment in R&D in target areas that we believe represent the highest growth potential for our photonic technologies. These include the latest industrial laser systems, harsh environment sensing, UAVs, novel A&D programmes, space satellite communications, laser surgery and medical diagnostics.

We will continue to execute on our performance management programme with the aim of improving operational efficiency, customer service and putting in place a scalable organisational model that will provide a platform for future growth. The introduction, in FY 2019, of the fourth manufacturing centre, based around systems and three customer facing business units, will be the next step in this process.

There has been some recent gradual softening in demand growth for critical components used in microelectronic manufacturing, offset by a return to strong demand growth for our fibre optics business generally and hi-reliability fibre couplers in particular.

We remain aware of the current potential macroeconomic and political risks. Overall G&H has a robust order book, combined with greater diversification. The Board remains confident that the Company is well positioned to deliver further progress in FY 2019 and beyond.

Mark Webster
Chief Executive Officer

27 November 2018

Trade show exhibits at Photonics West, San Francisco and VISION, Stuttgart


30
Gooch & Housego

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. Microelectronics materials processing represents the largest end market and has grown strongly driven by 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 recent years.

Metrology for laser-based, high-precision, non-contact measurement systems. The Group principally supplies its *precision optics and acousto-optics* into this market. Customers are typically blue-chip OEMs.

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.

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.

Scientific Research the largest proportion being nuclear fusion research & energy – laser technology is being used to recreate the conditions found in the core of the sun. At these temperatures and pressures isotopes of hydrogen fuse to form helium and in doing so release huge amounts of energy – the energy that powers the sun and stars. One of the most exciting potential applications of this research is using laser fusion to provide very large 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 and 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.

Financial Performance

- Our overall Industrial business grew by 7.8% in absolute terms during the year, with revenues of £72.9 million, compared with £67.6 million last year. Excluding foreign exchange and acquisitions / disposals this represented a 12.6% increase. This growth was driven by a combination of our industrial laser, semi-conductor and scientific research sub divisions. Growth in this sector was offset by a reduction in telecommunications revenues as a result of a pause in our customers' ordering patterns earlier in FY2018, which have now recovered, with a healthy order book at the year end, demonstrating the benefits of diversification. Revenue from the Group's industrial laser and semi-conductor business segments growth was driven by high demand for precision lasers & inspection equipment used in microelectronic manufacturing. Demand for the traditional Q Switch grew in 2018 and represented 15.5% of total group revenue (2017: 14.0%).

- Adjusted operating profit for the Industrial division was marginally higher at £12.3 million, compared with £12.2 million last year. Percentage operating margin fell as a result of the lower overhead absorption in our optical communications segment.

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 FY2018 Gooch & Housego introduced 12 new products that address its industrial market.

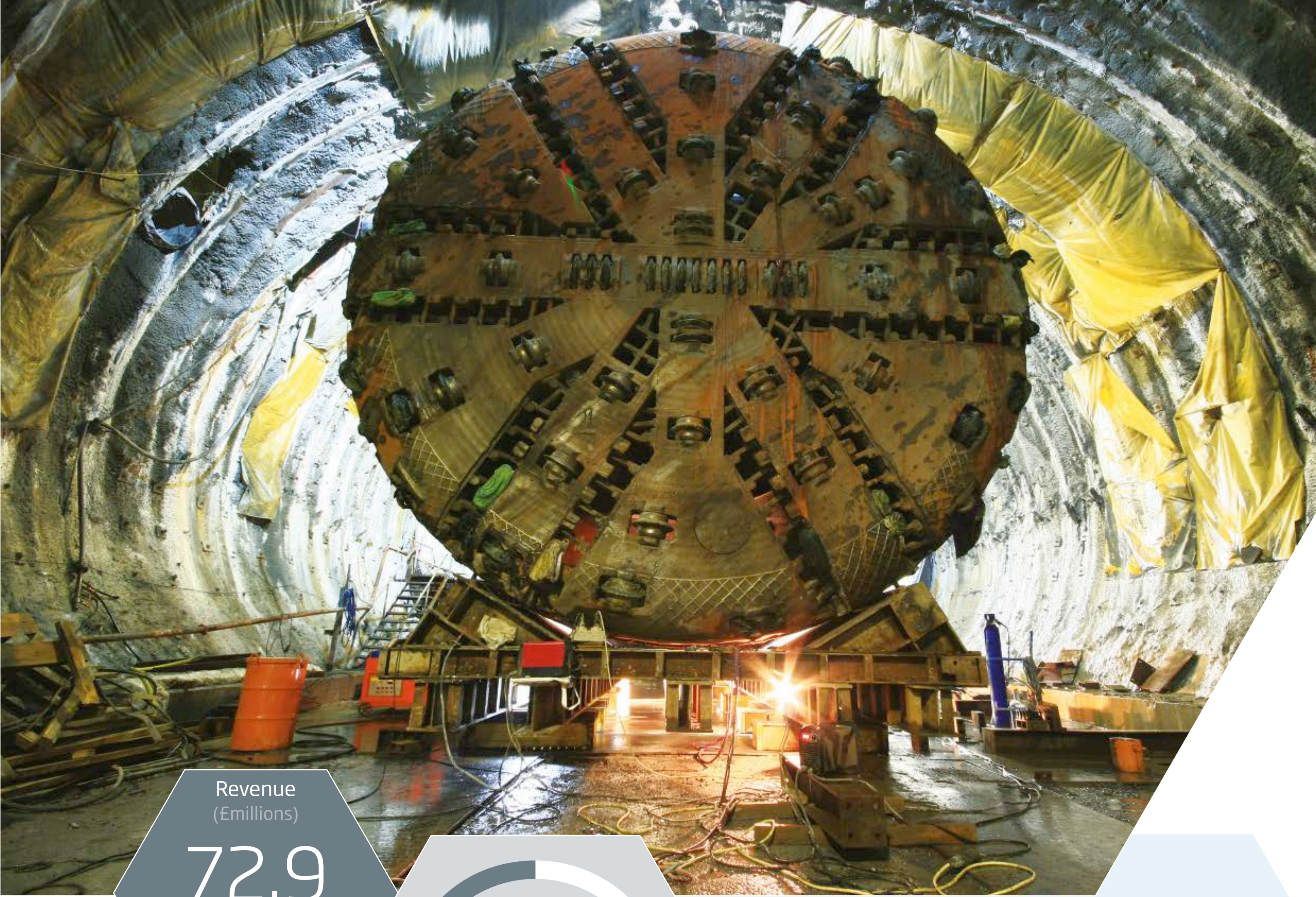
- To focus on niche markets that play to the strengths of Gooch & Housego, principally those that demand high levels of quality and reliability, typically requiring complex design and engineering input and for a number of our products survivability in harsh environments.

- To expand into and develop new geographical markets offering 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. The Company will continue to seek high quality acquisition opportunities as a route to grow its industrial business.



Revenue
(£millions)
72.9
+7.8%
2017 67.6

Adjusted
Operating Profit
(£millions)
12.3
+0.8%
2017 12.2

Percentage
of Revenue
58.4%
2017 60.4%

Image courtesy of ESA

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.

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.

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

Space Photonics G&H is leveraging its heritage of ultra-high reliability components for space applications in order to address the next generation requirement for fibre optics on satellites. We are working with both the European Space Agency, UK 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 a number of blue chip defence companies.

Opto-mechanical sub systems for Unmanned Aerial Vehicles. 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.

Financial Performance

- A&D revenue was £40.8 million, up 17.0% on last year, driven by organic growth and benefitting from the full year effect of the StingRay acquisition in 2017 and a small benefit from the Gould acquisition in 2018. Excluding foreign exchange and acquisitions / disposals our A&D sector grew by 12%. These results were driven by a strong performance from our periscopes & sighting systems, opto-mechanical sub systems and target designation & range finding businesses. These results reinforce our belief that this division 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 our systems & sub system based businesses in particular.

Growth Strategy

- To continue to focus energy and investment on moving from being a components supplier to a sub-systems provider. Our customers are changing their business models and are looking for companies such as Gooch & Housego that are capable of providing broader solutions.

- To continue to invest in manufacturing processes and engineering in order to meet the exacting expectations of this sector, which are 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.

- To introduce a greater number of new products, including products which look to fill a "market need", in a managed and cost effective way, as well as projects initiated by our customers. During 2018 Gooch & Housego introduced 16 new products that address its aerospace & defence market.

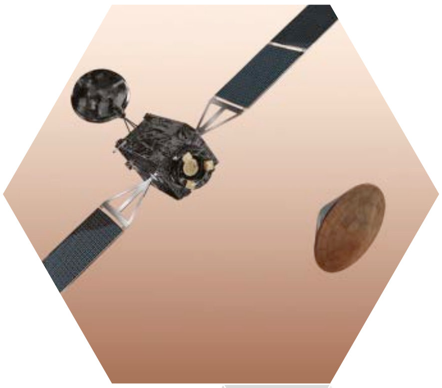


Image courtesy of ESA

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Revenue
(£millions)
40.8
+17.0%
2017 34.9

Adjusted Operating Profit
(£millions)
5.7
+33.5%
2017 4.3

Percentage of Revenue
32.7%
2017 31.1%

MARKET OVERVIEW

Life Sciences / Biophotonics

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.

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.

Microscopy modern, laser-based techniques are revolutionising the field of microscopy. Gooch & Housego's *acousto-optic devices* are used to control the multiple laser sources and analyse complex images. The end customers are typically medical equipment manufacturers.

Systems following the acquisition of ITL, G&H now has a range of capabilities including full product development, design, manufacturing and after sale service for the commercialisation of high-quality medical diagnostic, in vitro diagnostic (IVD) devices, analytical, precision analytical, electro-mechanical and laboratory instruments.

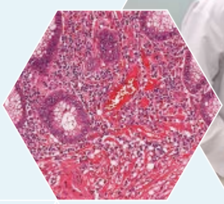
The growth strategy for life sciences / biophotonics mirrors that for aerospace & defence in many respects. This is particularly true in terms of the high growth potential of our photonic technologies and the desire of the customer base to "pull" Gooch & Housego up the value chain.

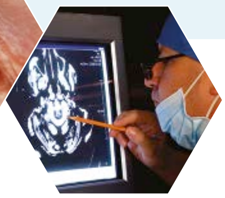
Financial Performance

- In 2018 life sciences / biophotonics revenue was up by 17.2% compared to the prior year. Excluding foreign exchange and acquisitions / disposals this division was broadly flat, with the majority of the growth being driven by the acquisition of ITL.
- On the back of this increase in volume, adjusted operating margins in this sector increased 61.5% to £1.6 million.

Growth Strategy

- To continue to invest in longer term R&D projects, to develop the existing portfolio of products and to ensure that they remain competitive. During 2018 Gooch & Housego introduced one new product that addresses its life sciences / biophotonics market.
- Where appropriate to sell the full range of our life sciences / biophotonics products to a wider range of customers.
- To make strategic acquisitions that are synergistic and complementary to our existing life sciences / biophotonics business, to help us build critical mass in this sector. Gooch & Housego will continue to seek acquisition opportunities.





Revenue
(£millions)

11.2
+17.2%

2017 9.6

Adjusted Operating Profit
(£millions)

1.6
+61.5%

2017 1.0

Percentage of Revenue

8.9%

2017 8.5%

FINANCIAL AND OPERATING REVIEW

Performance Overview

The business has once again delivered strong and profitable growth.

Group revenue for the year was a record £124.9million. This represents an increase of £12.9 million, or 11.5% over the previous year of £112.0 million.

In August and September 2018 Gooch & Housego acquired ITL and the trade and assets of Gould Fiber Optics respectively, which, combined, contributed £2.5 million to group revenue in the year. Additionally, the full year incremental benefit of our 2017 acquisition, StingRay Optics LLC, was £3.0m.

In September 2018, G&H sold the majority of the trade and assets of its Orlando, Florida facility. In FY 2018 the Orlando business contributed £5.0 million to Group revenue with marginal profitability. The cost of closing the site, net of disposals proceeds was £1.6m.

Our organic revenue, net of acquisitions and disposals, was up by 6.6%. Excluding foreign exchange and acquisitions / disposals revenue growth was 11.1%, a higher rate of growth than the previous year.

During 2018, G&H invested £6.0 million in property, plant and equipment and £24.0 million in acquisitions. This has resulted in the business moving into a net debt position of £10.6 million as at 30 September 2018 compared to a net cash position of £14.9 million, as at 30 September 2017. This represents approximately 0.5 X EBITDA.

In the financial year under review, adjusted operating profits increased by £2.7 million to £19.1 million (2017: £16.4 million). At a percentage margin level, adjusted operating margins were 15.3%, compared to 14.6% in 2017.

Revenue

	2018		2017	
Year ended 30 September	£'000	%	£'000	%
Industrial	72,881	58.4%	67,586	60.4%
Aerospace & Defence	40,789	32.7%	34,860	31.1%
Life Sciences / Biophotonics	11,213	8.9%	9,570	8.5%
Group Revenue	124,883	100%	112,016	100%

In our Industrial segment, revenue grew by 7.8%, in absolute terms, from £67.6 million last year to £72.9 million this year. On a constant currency basis this sector increased by 12.6%.

Revenue in our aerospace & defence business increased by 17.0% in absolute terms from £34.9 million to £40.8 million. Excluding the acquisition of Gould Fiber Optics and the full year impact of our 2017 acquisition, A&D revenue increased by 7.7%. Excluding foreign exchange and acquisitions / disposals this sector increased by 12.0% in the year.

Life sciences / biophotonics revenue increased by 17.2% in absolute terms from £9.6 million to £11.2 million. Excluding the acquisition of ITL, life science / biophotonics revenue fell by 6.2%. Excluding foreign exchange and acquisitions / disposals this sector was broadly flat year on year.

Group Earnings Performance

All amounts in £'000	Adjusted		Reported	
Year ended 30 September	2018	2017	2018	2017
Operating profit	19,100	16,406	10,796	13,278
Net finance costs	(343)	(295)	(683)	(676)
Profit before taxation	18,757	16,111	10,113	12,602
Taxation	(4,677)	(4,059)	(2,893)	(3,710)
Profit for the year	14,080	12,052	7,220	8,892
Basic earnings per share (p)	57.2p	49.4p	29.3p	36.4p

Reconciliation of Adjusted Performance Measures

	Operating profit		Net finance costs		Taxation		Earnings per share	
Year ended 30 September	£'000 2018	£'000 2017	£'000 2018	£'000 2017	£'000 2018	£'000 2017	£'000 2018	£'000 2017
Reported	10,796	13,278	(683)	(676)	(2,893)	(3,710)	29.3p	36.4p
Amortisation of acquired intangible assets	2,141	2,202	-	-	(276)	(168)	7.6p	8.3p
Site closure	1,569	-	-	-	(359)	-	4.9p	-
Impairment of goodwill	2,708	615	-	-	-	-	11.0p	2.5p
Charge/(credit) in respect of accrued contingent consideration	417	(615)	-	-	-	-	1.7p	(2.5p)
Restructuring costs	864	536	-	-	(169)	(105)	2.8p	1.8p
Transaction fees	605	390	-	-	(116)	(76)	2.0p	1.3p
Interest on deferred consideration	-	-	340	381	-	-	1.4p	1.6p
Tax credit on US deferred tax due to rate change	-	-	-	-	(864)	-	(3.5p)	-
Adjusted	19,100	16,406	(343)	(295)	(4,677)	(4,059)	57.2p	49.4p

FINANCIAL AND OPERATING REVIEW

The Group adjusted profit before tax amounted to £18.8 million (2017: £16.1 million) and represented a margin of 15.0%. Statutory profit before tax was £10.1 million compared with £12.6 million last year.

The adjusted effective rate of tax was 24.9% (2017: 25.2%). The reduction in the rate was due to US tax reforms, offset to a large extent by a greater proportion of the group's profits being subject to state taxes in the US. The effective rate of tax of 28.6% (2017: 29.4%) was higher than the adjusted effective rate because of the effect of the goodwill impairment, which is not subject to tax, and which was partially offset by the one-off gain on re-measurement of the US deferred tax liabilities following the reduction of the US tax rate.

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.

Adjusted earnings per share (EPS) increased from 49.4p in FY2017 to 57.2p in FY2018. Reported basic EPS was 29.3p compared with 36.4p last year.

Non GAAP Measures

The Company uses a number of non GAAP measures which are shown in the table above and in the segmental analysis. These measures are used to illustrate the impact of non-recurring and non-trading items on the Company's financial results. These are the impact of the amortisation of acquired intangible assets, costs associated with restructuring activities, impairment of goodwill, adjustments to contingent consideration, costs associated with the acquisition and disposal of subsidiary companies, and the interest charge on deferred consideration.

Research and Development (R&D)

Gooch & Housego continues to invest in R&D and regards this as fundamental to the continued growth of the company. There were a record 29 product releases in 2018, together with 4 new patents granted.

Expenditure on R&D in FY2018 increased by 2.4% from £8.6 million to £8.8 million. R&D expenditure represented 7.1% of revenue (2017: 7.7%). The Group capitalised £0.6m of development expenditure (2017: £0.7 million).

Operations

In September 2018 G&H shut down its Orlando, Florida, light measurement business. Most of the trade and assets of the business have been sold. It was a non-core business and in the recent past had delivered marginal returns. This business made a small loss in FY 2018. The cost of closing this facility, net of the sale of the majority of the trade & assets is £1.6 million in 2018. The Orlando property is owned by G&H and is being marketed for sale in FY2019. It is expected that following the sale of the property, the overall site closure will be cash neutral. Both the closure costs and any future profit on sale of the building will be treated as adjusting items.

As reported in 2017, the Company won its legal dispute with the landlord of its Fremont facility, as a result of which, a Californian court awarded G&H in the region of $2 million in damages plus costs, arising from the landlord's non-performance in respect of the lease. The landlord has commenced an appeal against this ruling and whilst legal opinion remains confident that the original ruling will be upheld, no recognition of the damages award has been made in this set of financial statements. Any net benefit will be treated as an exceptional item.

As part of the plan to position G&H for future growth the business is in the process of being reorganised. As outlined in our FY2017 Annual Report, our manufacturing sites have been organised into manufacturing centres. In addition to the three areas of technical expertise, namely Acousto Optic / Electro Optic, Precision Optics and Fibre Optics announced in FY2017, G&H is also adding Systems as the fourth manufacturing centre, announced in FY2018. 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. In FY2018 the business has also announced three business units that mirror our traditional market sectors of Industrial, A&D and Life Sciences / Biophotonics. These business units will provide a market facing focus, tailored to the specific needs of these discrete and often very diverse market sectors. The fourth manufacturing centre and the three new business units will be introduced in the new financial year.

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 August 2018 G&H acquired ITL. This acquisition expands the Company's presence in the life sciences sector and further enables G&H's move into system based products.

Founded in 1977, ITL is a UK based specialist in the design, development and manufacture of high quality medical and in vitro diagnostic (IVD) devices. ITL is a market leading supplier with an established group of long standing multi-national customers. It provides full product development, design, manufacturing and after sale service for the commercialisation of medical diagnostic, analytical, precision electro-mechanical and laboratory instruments.

ITL is headquartered in Ashford, Kent, with manufacturing sites in Ashford and Shanghai, China, plus a US client servicing capability based in Virginia, USA. This acquisition enables G&H to take a significant step towards meeting its strategic objectives, including doubling the revenue of its life science business and accelerating

FINANCIAL AND OPERATING REVIEW

the Company's move up the value chain, with all of ITL's sales coming from system based products. ITL's core group of electronic, software and mechanical engineers, provides an enhanced platform on which G&H can expand its systems capabilities.

Over time there are a number of potential benefits that will accrue from ITL becoming part of G&H. These include leveraging G&H's commercial footprint in the US, China and Far East and combining the Company's photonic expertise with ITL's high level systems capability in order to provide a more attractive product offering to G&H's medical diagnostic customer base.

Acquired in quarter 4, ITL has performed well, contributing £2.2 million to group revenue and £0.5 million in profit before tax in the year.

In September 2018 G&H acquired the trade and assets of Gould Technology LLC, trading as Gould Fiber Optics. This acquisition strengthens G&H's position as the world leader in fused fibre optic technology and provides enhanced access to strategic US aerospace and defence customers.

Founded in 1978 and headquartered in Baltimore, MD, USA, GFO is a specialist in the design, development and manufacture of fibre optic components and sub systems. GFO is a market leading supplier of key enabling components into tier 1 US Aerospace and Defence customers. The GFO product range is highly complementary to that of G&H. Whilst G&H is the leading manufacturer of high reliability undersea fused fibre optic components, together with a strong presence in the life sciences and fibre laser markets, GFO specialises in the supply of polarisation maintaining ("PM") fibre components to the US defence market.

As GFO was acquired very late in the financial year its contribution to the 2018 results has been minimal, adding circa £0.3 million to group revenue and a marginal contribution to profit.

This acquisition enables G&H to take another step towards meeting its strategic objective of further diversification in its core markets. GFO brings the technology and routes to market required for G&H to access the US aerospace and defence fibre optic market. In turn G&H's much larger US salesforce/business development group and the combined broader based product portfolio should provide the platform for greater expansion within this sector.

As a result of an excellent trading performance in 2018, Kent Periscopes has substantially achieved its full earn out potential. Consequently, the provision for a proportion of this payment previously released in 2017, has been charged to the income statement for the current year.

Non Trading Items

Restructuring costs of £0.9 million (FY2017: £0.5 million) related to the legal dispute associated with the re-location of our Palo Alto facility to Fremont and to restructuring costs arising from the re-organisation of the manufacturing centres and the introduction of the customer facing business units.

Transaction costs of £0.6 million relate to the acquisition of ITL and Gould Fiber Optics.

Site closure costs relate to the closure of the Company's Orlando facility. These comprise inventory write off costs and personnel expenses, net of the proceeds received.

Provision of contingent consideration of £0.4 million related to the Kent Periscopes acquisition meeting its full earn-out.

As part of its annual review of the carrying value of goodwill, the Board has taken the decision to impair the goodwill of the General Optics acquisition. General Optics, now referred to as Gooch & Housego Moorpark, was acquired in October 2008 for a consideration of $21m and, prior to the impairment, the carrying value of the associated goodwill was £6.4m. Over the last ten years this acquisition has played a vital role in Gooch & Housego's diversification strategy, by providing the knowledge and routes to market required for the Group to become a credible player in the Aerospace and Defence market. However, on a stand-alone basis, Moorpark has recently struggled to grow its business during some difficult times in the commercial aerospace sector which has seen price pressure from a key customer. Whilst, recent improvements in the site's operational set up, the adoption of LEAN manufacturing principles, and diversification of its customer base, are moving the performance of Moorpark in a favourable direction, an impairment charge of £2.7m has been recognised in relation to the carrying value of the Moorpark goodwill.

Balance Sheet

The Group's total equity at the end of the year was £107.8 million, an increase of £9.7 million over the prior year. This increase comprised £4.6m from retained earnings, £2.7m from issues of share capital and a net increase of £2.4m from foreign exchange and other movements.

Additions to property, plant and equipment totalled £6.0m (excluding acquisitions). The main additions related to investment in plant and machinery to deliver the capacity requirements in 2018.

Working capital was 27.4% of revenue in the current year compared to 19.2% in 2017, due to higher inventory levels required to cope with the volume increase and a heavy weighting of shipments towards the end of the financial year driving up accounts receivable. This metric has also been affected by the two acquisitions and one site closure in the later part of the year. Excluding these the working capital was 24.6%.

Inventory at year end was £24.4 million, an increase of £3.4 million over the prior year. Excluding the impact of the inventory attributable to the acquisitions and site closure, the underlying inventory increased by £2.3 million, or 10.7%, in the year. This increase is reflective of the increased activity in the year.

Trade receivables at year end were £32.2 million, an increase of £11.7 million over the prior year. Excluding the impact attributable to the acquisitions and site closure, the underlying receivables

FINANCIAL AND OPERATING REVIEW

increased by £8.7 million, or 42.6%, in the year. This increase was due a heavier than normal weighting of shipments in Q4. There has been good cash collection post year end.

Cash balances at 30 September 2018 were £19.4 million, compared with £26.4 million in the prior year. Net cash flows from operating activities totalled £9.2 million, compared with £17.6 million last year, reflecting a cash generated from operations to adjusted operating profit rate of 62.6% (2017: 119%) as a result of the increase in the working capital position. During the year the business moved from a net cash position of £14.9 million to a net debt position of £10.6 million, as a result of investing £24.0 million in the acquisitions and £6.0m in property, plant and equipment.

In August 2018 G&H re-financed its banking facilities with its existing bankers, Natwest. The new arrangement, set for a three year term, comprises a committed $40 million revolving credit facility and an uncommitted $20 million accordion facility.

Movement in Net Cash / (Debt)

All amounts in £m	Gross Cash	Gross Debt	Net Cash / (Debt)
At 1 October2017	26.4	(11.5)	14.9
Operating cash flows	20.7	–	20.7
Debt drawdown	17.3	(17.3)	–
Acquisitions / (disposals)	(23.6)	(0.4)	(24.0)
Net capital expenditure	(7.2)	–	(7.2)
Working capital	(8.8)	–	(8.8)
Interest, tax and dividends	(5.7)	–	(5.7)
Exchange movements	0.3	(0.8)	(0.5)
At 30 September 2018	19.4	(30.0)	(10.6)

Order Book

As at 30 September 2018, the Group order book stood at £96.1 million, compared to £72.1 million at the end of the 2017 financial year, a 33% increase. The net effect of the acquisitions and disposal added £10.3 million to the order book. Excluding foreign exchange and acquisitions / disposals the order book was 17% higher. The book to bill ratio for the business as a whole was 0.95 (six month rolling average) as at 30 September 2018 (2017: 1.08). This partly reflects the strong shipments in Q4.

Staff

The Group workforce increased from 823 at 30 September 2017 to 1,007 at the end of September 2018, an increase of 184. This is a net position and therefore reflects both the work the business has done in driving efficiency improvements and the additional headcount that has come from the recent acquisitions and investment in capacity.

Dividends

The Directors propose a final dividend of 7.1p per share making a total dividend per share for the year of 11.3p (2017: 10.2p), an increase of 10.8%. The final dividend, if approved, will be payable on 1 March 2019 to shareholders on the Company's share register as at the close of business on 25 January 2019.

Key Performance Indicators (KPIs)

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

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

Total revenue growth	2018	2017	2016
At actual exchange rates	12%	30%	9%
At constant exchange rates	16%	19%	3%

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	2018	2017	2016
Aerospace & Defence (£m)	40.8	34.9	20.0
Life Sciences (£m)	11.2	9.6	7.9

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 acquisition, StingRay Optics LLC, combined with a small contribution from Gould Fiber Optics in 2018.

Net (debt) / cash analysis	2018	2017	2016
Net (debt) / cash (£m)	(10.6)	14.9	11.7

In order to balance business risk with the investment needs of the Company, management closely monitors and manages net cash/(debt). This year, following the acquisition of ITL and Gould Fiber Optics and the investment in capital assets the net cash reduced from a net cash position of £14.9 million to a net debt position of £10.6 million. This represents a Net Debt : EBITDA ratio of c. 0.5.

Earnings per share (EPS)	2018	2017	2016
Adjusted diluted EPS (pence)	56.5p	48.5p	41.7p

As a result of a strong trading performance, the business has been able to deliver growth in adjusted diluted EPS of 16.5%, from 48.5p to 56.5p in 2018.

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 2018, Gooch & Housego grew its business in the areas of:
- Industrial lasers
- Semi-conductors

b) Aerospace & Defence.
- Acquisition of Gould Fiber Optics

c) Life Sciences
- Acquisition of ITL

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

- Further investment in systems based R&D projects
- Acquisition of ITL

Organic Research and Development

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

Progress

- In 2018 the company's organic research & development programmes have delivered a record 29 new products. In addition, 4 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 2.4% in 2018.

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	
There is an ongoing risk of loss of market share or price erosion due to the activities of competitors in our market places. This could lead to a reduction in revenue and profitability.	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 29 new products during FY2018. 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. Succession planning is reviewed by the senior management team on a regular basis.
CAPACITY MANAGEMENT	
Recent market trends have led to unprecedented demand for certain products which has exceeded the capacity of certain of our facilities during FY18.	There has been continued management focus on increasing efficiency during FY18 in order to increase capacity. The grouping of our sites into manufacturing centres is expected increase efficiency going forward. We have continued to invest in machinery and people. Significant progress has again 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 33% higher than the previous year, including the impact of acquisitions and disposals.
BREXIT	
Various Brexit scenarios could affect the group's financial position, supply chain and people.	Our Brexit steering group continually monitors the evolving impact of Brexit and oversees our response.
US / CHINA TARIFFS	
Tariffs levied by the US and China could affect our sales and margins in certain markets.	Our US/ China tariff steering group continually monitors progress and takes mitigating action where necessary, such as moving some production from our US to UK sites.

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

Mark Webster
Chief Executive Officer

27 November 2018

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

Gary Bullard Non-Executive Chairman (Appointed 21 February 2018)

Gary previously held senior management positions, including sales and marketing roles, at IBM and BT Group plc was a non-executive director of Chloride Group plc. Gary most recently held the position of President of Logica UK until October 2012 and was a member of the Executive Committee of Logica plc.

Gary is a non-executive director of Spirent Communications PLC and Rotork PLC. He is also founder and CEO of Catquin Limited and Chairman of New Model Identity Limited.

Gary is a member of the Nomination and Remuneration Committees of the Gooch & Housego Board.

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.

CORPORATE GOVERNANCE

Introduction

The Board is accountable to shareholders and is committed to the highest standards of corporate governance. To this end, the company adopted the UK Corporate Governance Code (2016) during the year. The Code is available to download at www.frc.org.uk

Gooch & Housego PLC adopted the code in September 2018 since when it has complied with the code, save that it was not in compliance with the following provision:

Code Provision E1.1 states that the senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. The senior independent director has not met with shareholders during the year, although the board believe the level of dialogue with shareholders during the year has been appropriate. The Chief Executive and Chief Financial Officers have regular meetings with the shareholders and following his appointment during the year, the Chairman also met with a number of key shareholders. All of the non executive directors receive a report prepared by our brokers summarising the shareholder feedback from the half and full year investor roadshows. The senior independent director was available at the annual general meeting and we will engage with shareholders in FY19 to determine if individual meetings are desired.

How we govern the company

The Board leads the Group's governance framework. It is responsible for setting the strategic targets for the Group, monitoring progress made, approving proposed actions and for ensuring that the appropriate internal controls are in place and that they are operating effectively.

The Board is assisted by three principal committees (Audit, Nomination and Remuneration) each of which is responsible for dealing with matters within its own terms of reference, which are available on the company's web site.

The Board

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 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. The terms of appointment of the Directors are available for inspection during business hours at the registered office of Gooch & Housego PLC and are also be available at the AGM.

All the non-executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

The Nomination Committee is responsible for approving appointments to the board. The board's policy is to appoint the highest calibre individuals regardless of an individual's background, race or gender. The board has not set any specific objectives in relation to diversity, but understands and recognises the benefits that diversity can bring.

Roles and responsibilities

There is a documented clear division of responsibilities between the Chairman and the Chief Executive Officer to ensure that there is a balance of power and authority between leadership of the Board and executive leadership.

All Directors are entitled to seek independent, professional advice at the Company's expense in order to discharge their responsibilities as Directors. Gooch & Housego PLC maintains appropriate directors' and officers' insurance cover.

Board activities

Day to day responsibility for the running of the Company is delegated to executive management. However, there are a number of matters where, because of their importance to the Group, it is not considered appropriate to do this. The Board therefore has a documented schedule of matters reserved for its decision. This schedule is available on the company's web site.

There are typically 8 board meetings a year. At least once annually, the Board meets at one of Gooch & Housego's locations other than its head office in Ilminster. This allows the Board, particularly the non-executive directors, the opportunity to gain a deeper understanding of other Gooch & Housego businesses and to meet local staff.

Meetings between the non-executive directors, without the executive directors present are scheduled in the Board's annual programme. These meetings are encouraged by the Chairman and provide the non-executive directors with a forum in which to share experiences and to discuss wider business topics, fostering debate in Board and committee meetings and strengthening working relationships.

The Board has established a procedure for directors, if deemed necessary, to take independent professional advice at the Company's expense in the furtherance of their duties. The Chairman ensures that the Board is kept properly informed and is consulted on all matters reserved to it. Board papers and other information are distributed in a timely fashion to allow directors to be properly briefed in advance of meetings.

In accordance with best practice, the Chairman addresses the developmental needs of the Board as a whole, with a view to

CORPORATE GOVERNANCE

further developing its effectiveness as a team, and ensures that each director refreshes and updates his or her individuals skills, knowledge and expertise.

A formal, comprehensive and tailored induction is given to all non-executive directors following their appointment, including access to external training courses, visits to key locations within the Group and meetings with members of the senior management team.

Peter Bordui is the Senior Independent Director. His role includes providing a sounding board for the Chairman and acting as an intermediary for the non-executive directors, where necessary. The Board believes that Peter has the appropriate experience, knowledge and independence to continue this role.

Board meeting attendance is presented in the following table.

Executive Directors		
Mark Webster	8/8	
Andrew Boteler	8/8	
Alex Warnock	8/8	
Non-executive Directors		
Gary Bullard	6/6	Appointed 21 February 2018
Peter Bordui	8/8	
Brian Phillipson	8/8	
David Bauernfeind	8/8	
Gareth Jones	3/3	Retired 21 February 2018

Maintaining a dialogue with shareholders

The Chairman ensures that the Board maintains an appropriate dialogue with shareholders. The Chief Executive Officer and the Chief Financial Officer regularly meet with institutional investors to discuss strategic issues and to make presentations on the Company's results.

In addition to the full and half year results, the company publishes Regulatory News Service announcements through the London Stock Exchange.

The Company's web site contains an archive of information on the Company's history, leadership, governance, financial results, dividend history and up to date share price information.

Although the non-executive directors are not formally required to meet the shareholders of the Company, their attendance at the Annual General Meeting and at presentations of the interim and annual results is encouraged.

Board effectiveness

The Chairman is responsible, with assistance from the Nomination Committee, for ensuring that the Company has an effective Board with a suitable range of skills, expertise and experience. Every year, a performance evaluation of the Board is carried out. This year, the evaluation commenced in September 2018, and was led by the Senior Independent Director, Peter Bordui.

The Senior Independent Director annually arranges a meeting of the non-executive directors to appraise the Chairman's performance. Due to appointment of Gary Bullard on 21 February 2018, this review did not take place during the year ended 30 September 2018. A first review of Gary's performance will take place in the year ending 30 September 2019.

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.

Board Committees

The Board has established a number of committees to assist in the discharge of its duties. The formal terms of reference for the principal committees can be found on the company's web site.

The Board has three formally constituted committees, the Audit committee, the Remuneration committee and the Nomination committee. A report on the activities of each committee follows later in this report.

Accountability

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.

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.

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 Audit Committee is responsible for reviewing the effectiveness of the Company's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk. It is also responsible for Advising the Board on whether the Committee believes the Annual Report taken

CORPORATE GOVERNANCE

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.

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. In FY2019, an internal audit function will be introduced.

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.

Remuneration

The Remuneration Committee is responsible for setting remuneration packages of the Executive Directors which are designed to promote the long term success of the Company and take account of current corporate governance practice. The committee ensures that performance related components of Executive Director remuneration are transparent, stretching and rigorously applied. The committee also monitors the level and structure of remuneration for other senior management.

No director is involved in deciding his or her own remuneration.

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2018.

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 16 to 21.

Key Financial Performance Indicators ("KPIs")

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

Dividends

During the year ended 30 September 2018 a final dividend of 6.5p per share was paid for the previous financial year. The final 2016 dividend of 5.7p per share was paid in the year ended 30 September 2017. A further interim dividend of 4.2p per share was paid for the half year ended 31 March 2018 (2017: 3.7p).

For the year ended 30 September 2018, the Directors propose that a final dividend of 7.1p per share be paid.

Substantial shareholdings

As at 15 November 2018, 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	3,705,912	14.88%
Investec Wealth & Investment	2,133,432	8.57%
Oppenheimer Funds	2,000,000	8.03%
Aberdeen Standard Investments	1,934,249	7.77%
Canaccord Genuity Wealth Management	1,518,126	6.10%
Black Rock Investment Management	945,884	3.80%
Franklin Templeton Investment Management	906,841	3.64%
JM Finn & Co	756,236	3.04%

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.

Statement on Equal Employment Opportunities

The Group is committed to providing equal employment opportunities for all employees and applicants for employment.

DIRECTORS' REPORT

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

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

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.

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 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 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.

Directors' Confirmations

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.

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.

For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Viability Statement

Business planning processes within G&H require the preparation of detailed financial plans over a three year time period. The CEO leads an annual review of the ongoing plan, a process in which all functions are involved. The Group's strategy is developed, and capital investment decisions are made based on cash flow forecasts over a medium term horizon.

The Group's strategy is key to understanding its prospects. Further details of the strategy can be found in the Strategic Report. Key to the strategy is moving up the value chain and diversification, which will reduce the exposure the Group has to global economic trends affecting the industrial laser market.

There are many factors which could affect the growth of G&H going forward. There are discussed regularly by the Executive management team and the board. The principal risk factors which the board concluded could affect business performance over the medium term are set out on page 27.

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 at least a three year period.

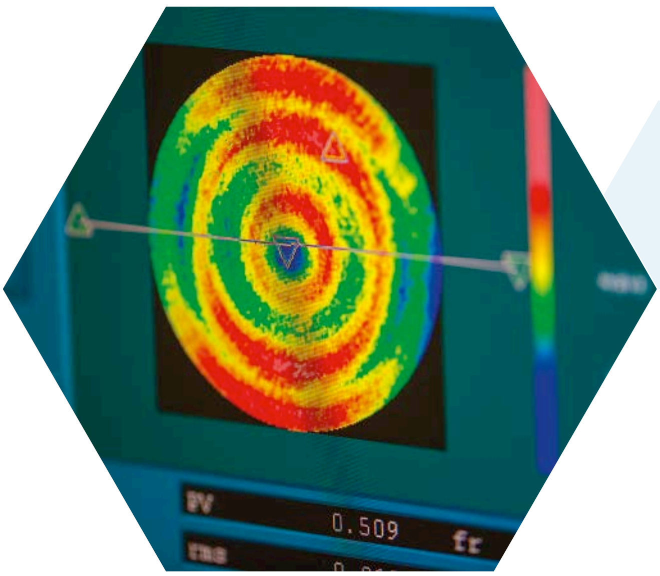
Independent Auditors

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

27 November 2018



AUDIT COMMITTEE REPORT

Membership

The Audit Committee is chaired by David Bauernfeind, a Chartered Accountant, who is currently Chief Financial Officer of Domino's Pizza Group PLC, a company listed on the London Stock Exchange. The Committee comprises David Bauernfeind, Peter Bordui and Brian Phillipson and 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	3/3
Dr Peter Bordui	3/3
Brian Phillipson	3/3

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 Integrated Technologies Limited and Gould Fiber Optics 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. The Committee has reviewed the sensitivity disclosures in note 17 and concluded that they are appropriate.
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.
INTERNAL AUDIT	
The Group has not historically had an internal audit function. Senior finance staff members performed periodic reviews at each site.	Following the adoption of the UK Governance Code in the year, and in recognition of the growing size of the group, the Audit Committee have decided to recruit a new senior finance team member in FY2019. This individual will spend a proportion of their time implementing an internal audit function.

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.

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

27 November 2018

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 FY18

- Appointment of a new Non-Executive Chairman following the retirement of Gareth Jones in February 2018.
- Succession planning for other members of the Board.

Advisors

During FY18, the Committee appointed Edward Drummond, an external search agency, to assist with the identification of suitable Chairman candidates.

Appointment Process

As part of the appointments process, the Committee determined the selection criteria for the Chairman role. 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 Gary Bullard as Non-Executive Chairman on 21 February 2018.

Membership and attendance at meetings held in 2018

Non-executive Directors		
Dr Peter Bordui	4/4	Appointed 21 February 2018
Gary Bullard	2/2	
Brian Phillipson	3/4	
David Bauernfeind	4/4	
Gareth Jones	2/2	Retired 21 February 2018
Executive Directors		
Mark Webster	4/4	

Approval

Peter Bordui
Chairman of the Nomination Committee

27 November 2018

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.

Following the review of the remuneration schemes in FY2017, the Remuneration Committee are satisfied that the schemes are appropriate. In recognition of the new Corporate Governance guidance, LTIPs granted in FY2019 will be subject to the usual three year performance period, but a further two year holding period will apply to any shares which vest, after disposals to fulfil tax obligations. The recipients will be permitted to dispose of shares required to fulfil tax obligations at the time of vesting. 50% of the remaining shares may be sold one year after vesting with the balance available for sale two years after vesting. No other changes are proposed to the remuneration schemes.

Following the adoption of the UK governance code in the year, the Remuneration Committee has reviewed the remuneration of the senior management team directly below board level.

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	
Gary Bullard	2/2	Appointed 21 February 2018
Dr Peter Bordui	4/4	
David Bauernfeind	4/4	
Gareth Jones	2/2	Retired 21 February 2018

REMUNERATION COMMITTEE REPORT

Remuneration Policy Table

The table below summarises our policy for 2018 and the planned changes for 2019:

Element of remuneration	Purpose and link to strategy	FY18 Policy and approach	Opportunity	FY19 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 Remuneration Committee approved a 5% increase to Mark Webster's salary. This was in recognition of the growing scale and complexity of the group. The salaries of Alex Warnock and Andrew Boteler have been increased in line with inflation.
Annual Bonus	Incentivise achievement of short-term financial targets that the Committee considers to be critical drivers of business growth	• Awarded annually • 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.	Maximum of 100% of base salary	• No changes proposed
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	• Awards vest after three years subject to achievement of targets. • 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. • Awards may vest pro rata on retirement.	Award levels are determined by reference to an individual's position and performance prior to grant. Annual awards of 120% of base salary for the CEO and 110% for the CFO and COO. Maximum award of 300% of base salary.	• LTIPs granted in FY19 will be subject to a three year performance period and a further two year holding period. At the end of year three shares can be sold to meet tax obligations only. At the end of year four, 50% of remaining shares vesting can be sold with the balance available for sale at the end of year five. • The above change brings the scheme into line with the guidance in the revised UK Governance code.

REMUNERATION COMMITTEE REPORT

Directors' Remuneration

2018	Basic pay £'000	Performance related bonus £'000	Benefits in kind £'000	Pension contribution £'000	Subtotal 2018 £'000	LTIPs exercised £'000	Total 2018 £'000
Executive							
M Webster	326	190	13	–	529	1,272	1,801
A Boteler	213	128	7	10	358	392	750
A Warnock	241	137	15	10	403	964	1,367
Non-executive							
G Bullard*	45	–	–	–	45	–	45
Dr P Bordui	40	–	–	–	40	–	40
B Phillipson	40	–	–	–	40	–	40
D Bauernfeind	40	–	–	–	40	–	40
G Jones **	32	–	2	–	34	–	34
	977	455	37	20	1,489	2,628	4,117

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

The above disclosure has been audited.

* Gary Bullard was appointed on 21 February 2018.

** Gareth Jones resigned on 21 February 2018.

*** David Bauernfeind was appointed 1 May 2017.

**** Paul Heal retired on 22 February 2017.

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 long term incentive 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. No such payments were made in FY2018.

2018 performance Related Bonuses

Gooch & Housego has continued to perform well in 2018, delivering strong financial performance and continuing to make progress in its key strategic goals of diversification and moving up the value chain.

Bonuses in 2018 were based 60% on EPS, 20% on operating cash flow and 20% on personal strategic objectives. Details of the performance achieved against the EPS and cash flow targets are shown in the table below:

Financial targets	Performance required to trigger bonus payment	Performance required at maximum	% payable at maximum performance	Performance outcome	% bonus awarded
EPS target (adjusted diluted)	53.5p	58.9p	60%	56.5p	46.7%
Operating cash flow target	£22.1m	£22.1m	20%	£11.9m	-

The EPS target for the year was exceeded, triggering a 46.7% pay-out against a maximum of 60%. However, due to the increase in working capital, the operating cash flow target was missed so this part of the bonus was not eligible for payment.

Personal strategic objectives, which accounted for 20% of the bonus opportunity, were set at the start of the year.

Our work to improve efficiency and customer service continued in FY18, resulting in eight of our sites being organised into three manufacturing centres to ensure best practice is shared, there is process harmonisation and optimal allocation of resource. In FY19, we will introduce the fourth manufacturing centre (systems) and we will also introduce three customer facing business units, which will mirror our three market sectors.

The Remuneration Committee felt it appropriate to focus the Executive Directors' personal objectives on the actions required to enable the above changes.

Details of the objectives set are summarised in the table below:

Mark Webster, CEO	Alex Warnock, COO	Andrew Boteler, CFO
• Deliver the first phase of organisational change to support the FY19 business plan and progress organisational change to meet longer term growth objectives • Deliver necessary changes to business systems and processes • Mature planning for the second phase of organisational change needed to underpin target growth • Deliver detailed strategic plans approved by the Board for the A&D Business Unit and the three Manufacturing Centres • Ensure that the HR and general staff management processes, systems and objectives are consistent with and enable the targeted long term sustainable growth	• Deliver the first phase of operational organisational change to support the FY19 business plan and progress organisational change to meet longer term growth objectives • Deliver necessary changes to business systems and processes • Define and begin implementation of a strategic plan for the manufacturing centres, sites and support functions • Define and begin implementation of specific improvement plans for the Boston and Moorpark sites • Deliver improved operational performance in On Time Delivery, RFQ lead time, Product lead time and Forecast output accuracy	• Deliver necessary changes to Business Systems • Develop new organisational structures, processes and procedures for the finance and IT groups • Introduce an internal trading system and revised legal / financial structure • Definition and implementation of a new organisational structure across BUs, Manufacturing Centres and Support functions without compromising FY 2018 performance • Develop Strategic Plans for the new organisation structures

The view of the Remuneration Committee is that excellent progress was made against the objectives set. After due consideration by the Committee, it was agreed the bonus pay outs on the personal objective part of the bonus scheme should be as follows: Mark Webster 83%, Alex Warnock 65% and Andrew Boteler 80%.

REMUNERATION COMMITTEE REPORT

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 (2017: 2). Contributions to a scheme on behalf of continuing Directors amount to 10% of the Director's basic salary. 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.

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.

Long Term Incentive Plan

Exercises under the Long Term Incentive Scheme by the Directors are summarised below. Gareth Jones' exercise in the year ended 30 September 2017 relates to LTIPs awarded to him during his tenure as an Executive Director. He retired on 21 February 2018 and no longer holds any unvested or unexercised share options.

The exercises in FY2018 for Mark Webster and Alex Warnock were exceptional awards granted by the Remuneration Committee on appointment.

2018	Scheme	Number of Share Options No.	Market Price p	Exercise Price p	Exercise Date	Total Gain £'000
Director						
M Webster	LTIP	90,866	1,400	0.0	19/01/18	1,272
A Boteler	LTIP	28,032	1,400	0.0	19/01/18	392
A Warnock	LTIP	68,878	1,400	0.0	19/01/18	964

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

Director Shareholdings

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

	Number of shares at 30 September 2018	% of salary as at 30 September 2018	Number of shares at 30 September 2017	% of salary as at 30 September 2017
Executive Directors				
Mark Webster	21,429	127%	–	–
Andrew Boteler	26,181	227%	26,181	196%
Alex Warnock	16,430	127%	–	–
Non-executive Directors				
Gary Bullard	3,172	N/A	–	–
Dr Peter Bordui	–	–	–	–
Brian Phillipson	–	–	–	–
David Bauernfeind	–	–	–	–

Shareholding Guidelines

Executive Directors are required to acquire and maintain a qualifying interest in the ordinary shares of the company equivalent to 100% of base salary. All were in compliance with this requirement as at 30 September 2018. 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 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. For any awards vested in relation to FY2019 grants, after sales to satisfy tax obligations, 50% must be held for a further year and 50% must be held for a further two years. The exercise price of all awards is nil.

	– Number of ordinary shares under option –						
	Date of grant	At 01.10.2017	Awarded in year	Exercised in year	Lapsed	At 30.09.2018	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	26.03.2021
M Webster	21.12.2017	–	24,145	–	–	24,145	21.12.2021
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 Warnock	21.12.2017	–	16,968	–	–	16,968	21.12.2021
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
A Boteler	21.12.2017	–	15,050	–	–	15,050	21.12.2021

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 ended 30 September 2018, £675,000 (2017: £587,000) 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 £185,000 (2017: £446,000) in respect of employer's national insurance contributions, based on a year end share price of £17.73 (2017: £14.20).

Brian Phillipson
Chairman of the Remuneration Committee

27 November 2018

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 2018 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 International Financial Reporting Standards (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 2018; 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, 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our Audit Approach

Overview

- Overall group materiality: £667,000 (2017: £620,000), based on 5% of profit before tax, after adding back a one-off impairment charge of £2.7m in relation to Moorpark.
- Overall parent company materiality: £92,500 (2017: £122,000), based on 5% of profit before tax.

- The UK audit team performed an audit of the complete financial information of two operating units in the USA (Gooch & Housego (Palo Alto) LLC, and Stingray Optics 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 five reporting units (post consolidation entries) account for 79% 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 one reporting unit in the UK (Kent Periscopes Limited).

- 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 £2.7m impairment had been taken in relation to the Moorpark business, the result of a poorer than expected result. 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. We concluded that the judgment that impairment was not required at any site, with the exception of Moorpark was 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). From our review of the impairment assessments, we note no impairment is required for investments held by the parent company. 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	ITL We reviewed the underlying transactions, agreed the fair value of the assets and liabilities acquired to supporting schedules, tested the valuation of intangible assets identified as part of the purchase price allocation, by reviewing the model and assumptions used, and reviewed the disclosures in the financial statements. There were no significant issues noted from our work. Included within the ITL total consideration was £8m 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 (£4.75m and £3.25m) will be made. We have reviewed the available information and based on our work consider that management's judgment is reasonable. Gould Technologies LLC We reviewed the underlying transactions, agreed the fair value of the assets and liabilities acquired to supporting schedules, tested the valuation of intangible assets identified as part of the purchase price allocation, by reviewing the model and assumptions used, and reviewed the disclosures in the financial statements. There were no significant issues noted from our work. Included within the Gould total consideration was $3.4m 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 ($1.2m and $2.2m) will be made. We have reviewed the available information and based on our work consider that management's judgment is 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.

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	£667,000 (2017: £620,000).	£92,500 (2017: £122,000).
How we determined it	5% of profit before tax, after adding back a one-off impairment charges of £2.7m relating to Moorpark.	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. These one-off costs have been excluded from the determination of overall materiality, because in our view the users of the financial statements will focus on the underlying profit of the business rather than the generally accepted benchmark of profit before tax, which is not impacted by these one-off costs.	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 £92,670 and £633,000. 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 £33,000 (Group audit) (2017: £31,000) and £4,500 (Parent company audit) (2017: £6,100) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going Concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, 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, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 27 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 34 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 34, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 36 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

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, 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.

Mark Ellis (Senior Statutory Auditor)

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

27 November 2018

GROUP INCOME STATEMENT

For the year ended 30 September 2018

	Note	2018 £'000	2017 £'000
Revenue	7	124,883	112,016
Cost of revenue		(74,811)	(65,937)
Gross profit		50,072	46,079
Research and Development		(8,229)	(8,119)
Sales and Marketing		(9,237)	(9,459)
Administration		(22,317)	(16,937)
Other income and expenses	9	507	1,714
Operating profit	11	10,796	13,278
Finance income	12	16	27
Finance costs	12	(699)	(703)
Profit before income tax expense		10,113	12,602
Income tax expense	13	(2,893)	(3,710)
Profit for the year		7,220	8,892
Basic earnings per share	15	29.3p	36.4p
Diluted earnings per share	15	29.0p	35.8p

Reconciliation of operating profit to adjusted operating profit:

	Note	2018 £'000	2017 £'000
Profit before tax		10,113	12,602
Amortisation of acquired intangible assets	17	2,141	2,202
Charge / (release) re-accrued contingent		417	(615)
Impairment of goodwill	17	2,708	615
Site closure costs		1,569	-
Restructuring costs	11	864	536
Transaction fees	11	605	390
Interest on discounted deferred consideration	12	340	381
Adjusted profit before tax		18,757	16,111

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2018

	Note	2018 £'000	2017 £'000
Profit for the year		7,220	8,892
Other comprehensive income / (expense) – items that may be reclassified subsequently to profit or loss			
Currency translation differences	26	1,657	(1,410)
Other comprehensive income / (expense) for the year net of tax		1,657	(1,410)
Total comprehensive income for the year attributable to the shareholders of Gooch & Housego PLC		8,877	7,482

GROUP BALANCE SHEET

As at 30 September 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	16	38,320	33,890
Intangible assets	17	65,734	40,250
Deferred income tax assets	24	1,944	2,703
		105,998	76,843
Current assets			
Inventories	18	24,445	21,078
Income tax assets		–	267
Trade and other receivables	19	35,028	24,723
Cash and cash equivalents	20	19,433	26,425
		78,906	72,493
Current liabilities			
Trade and other payables	21	(25,262)	(23,758)
Borrowings	22	(75)	(6)
Income tax liabilities		(309)	(579)
Provision for other liabilities and charges	23	(988)	(888)
Deferred consideration		(5,774)	(4,286)
		(32,408)	(29,517)
Net current assets		46,498	42,976
Non-current liabilities			
Borrowings	22	(29,964)	(11,492)
Deferred income tax liabilities	24	(6,322)	(5,938)
Deferred consideration		(8,363)	(4,253)
		(44,649)	(21,683)
Net assets		107,847	98,136
Shareholders' equity			
Called up share capital	25	4,982	4,903
Share premium account	26	15,530	15,530
Merger reserve	26	7,262	4,640
Cumulative translation reserve	26	7,231	5,574
Retained earnings	26	72,842	67,489
Total equity		107,847	98,136

The financial statements for Gooch & Housego PLC, registered number 00526832, on pages 52 to 81 were approved by the Board of Directors on 27 November 2018 and signed on its behalf by:

Mark Webster
Director

Andrew Boteler
Director

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2018

	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 2016		4,852	15,530	2,671	60,135	6,984	90,172
Profit for the financial year		–	–	–	8,892	–	8,892
Other comprehensive expense for the year		–	–	–	–	(1,410)	(1,410)
Total comprehensive income for the year		–	–	–	8,892	(1,410)	7,482
Dividends	14	–	–	–	(2,289)	–	(2,289)
Shares issued	25	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
At 1 October 2017		4,903	15,530	4,640	67,489	5,574	98,136
Profit for the financial year		–	–	–	7,220	–	7,220
Other comprehensive income for the year		–	–	–	–	1,657	1,657
Total comprehensive income for the year		–	–	–	7,220	1,657	8,877
Dividends	14	–	–	–	(2,647)	–	(2,647)
Shares issued	25	79	–	2,622	(45)	–	2,656
Fair value of employee services		–	–	–	675	–	675
Tax credit relating to share option schemes		–	–	–	150	–	150
Total contributions by and distributions to owners of the parent recognised directly in equity		79	–	2,622	(1,867)	–	834
At 30 September 2018		4,982	15,530	7,262	72,842	7,231	107,847

GROUP CASH FLOW STATEMENT

For the year ended 30 September 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Cash generated from operations	11,949	19,526
Income tax paid	(2,779)	(1,957)
Net cash generated from operating activities	9,170	17,569
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(24,029)	(5,658)
Disposal of trade and assets	384	-
Purchase of property, plant and equipment	(5,849)	(5,799)
Sale of property, plant and equipment	-	29
Purchase of intangible assets	(1,377)	(604)
Interest received	9	27
Interest paid	(304)	(326)
Net cash used in investing activities	(31,166)	(12,331)
Cash flows from financing activities		
Drawdown of borrowings	17,272	5,918
Repayment of borrowings	(16)	(5,523)
Dividends paid to ordinary shareholders	(2,647)	(2,289)
Net cash generated from / (used in) financing activities	14,609	(1,894)
Net (decrease) / increase in cash	(7,387)	3,344
Cash at beginning of the year	26,425	23,167
Exchange gains / (losses) on cash	395	(86)
Cash at the end of the year	19,433	26,425

NOTES TO THE GROUP CASH FLOW STATEMENT

For the year ended 30 September 2018

Reconciliation of cash generated from operations

	2018 £'000	2017 £'000
Profit before income tax	10,113	12,602
Adjustments for:		
– Amortisation of acquired intangible assets	2,141	2,202
– Amortisation of other intangible assets	683	199
– Proceeds from sale of trade and assets	(384)	–
– Impairment of goodwill	2,708	615
– Charge / (release) re-accrued contingent consideration	417	(615)
– Depreciation	4,009	3,664
– Share based payment charge	675	587
– Amounts claimed under the RDEC	(370)	(370)
– Finance income	(16)	(27)
– Finance costs	699	703
Total	10,562	6,958
Changes in working capital		
– Inventories	(1,295)	(1,442)
– Trade and other receivables	(7,847)	(1,465)
– Trade and other payables	416	2,873
Total	(8,726)	(34)
Cash generated from operating activities	11,949	19,526

Reconciliation of net cash (outflow) / inflow to movements in net cash / (debt)

	2018 £'000	2017 £'000
(Decrease) / increase in cash in the year	(7,387)	3,344
Drawdown of borrowings	(17,272)	(5,918)
Repayment of borrowings	16	5,523
Changes in net cash resulting from cash flows	(24,643)	2,949
Finance leases and borrowings acquired	(355)	–
Translation differences	(535)	310
Movement in net cash in the year	(25,533)	3,259
Net cash at 1 October	14,927	11,668
Net (debt) / cash at 30 September	(10,606)	14,927

Analysis of net cash

	At 1 Oct 2017 £'000	Cash flow £'000	Exchange movement £'000	Acquired £'000	At 30 Sep 2018 £'000
Cash at bank and in hand	26,425	(7,387)	395	–	19,433
Debt due after 1 year	(11,480)	(17,263)	(930)	(334)	(30,007)
Finance leases	(18)	7	–	(21)	(32)
Net cash / (debt)	14,927	(24,643)	(535)	(355)	(10,606)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 94.

The consolidated financial statements of the Group for the year ended 30 September 2018 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 89.

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,the United States and China.

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 2018, 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 have been no new standards, amendments or interpretations issued and made effective for the financial year ended 30 September 2018 that have had a material impact on the financial statements of the group.

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'

Includes new regulations for the recognition of revenue that are independent of a specific industry or transaction. The new standard replaces the current risk and reward approach of IAS 18: Revenue with a contract-based five-step model. In addition to substantially more extensive application guidance for the accounting treatment of revenue from contracts with customers, there are more detailed disclosure note requirements.

Application of the standard is mandatory for financial years beginning on or after 1 January 2018. The Group has not elected to early adopt the standard which will therefore apply for the first time from 1 October 2018. The Group has elected to apply the fully retrospective method for initial application, applying IFRS 15 retrospectively (and restating comparatives if necessary) from the period beginning 1 October 2017.

As part of the implementation, the Group has conducted an analysis of all material revenue streams and customer contracts and reviewed sales and accounting processes to identify the need for changes. The Directors have assessed the anticipated impact of implementing IFRS 15 to be not material to the Group balance sheet and income statement for the year ended 30 September 2018 based on the revenues generated during, and balance sheet position as at 30 September 2018.

IFRS16 leases

The Group is continuing to assess the impact of adopting IFRS 16, which will be effective for the year ending 30 September 2020.

4. Accounting Policies

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

Consolidation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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, G&H Property Holdings Limited, Integrated Technologies Limited, Integrated Technologies (Holdings) Limited, VITL Limited and ORF Limited are exempt from the requirement to file audited financial statements 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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

are classified as trade and other receivables in the balance sheet.

Inventories

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

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

Trade Receivables

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

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

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

Cash and Cash Equivalents

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

Trade Payables

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

Borrowings

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

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

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

Financial Instruments

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

Current and Deferred Income Tax

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

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

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 debt.

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

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

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

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

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

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

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

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

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

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

Financial Risks

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

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Where considered appropriate, the Company will use derivative financial instruments to hedge risk exposures, although no such arrangements were in place during the year ended 30 September 2018 or 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 2017, with all other variables constant, post tax profits for the year would have been unchanged (2017: £123,000 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 £738,000 lower (2017: £1,953,000 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 £901,000 higher (2017: £2,388,000 higher).

b. Cash flow interest rate risk

The Group has cash balances of £19.4m 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 £299,000 (2017: 146,000) 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 2017 and 2018, 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 2018 accounted for 25% of the Group's revenue (2017: 25%). No individual customer made up more than 6% of revenue in either the current or prior year.

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

b. Cash

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

iii. Liquidity Risk

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

The Company's facilities comprise a committed revolving credit facility of $40m of which $39m is drawn and an uncommitted flexible acquisition facility of $20m which is undrawn. Both are available until 31 August 2021. 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

and liabilities within the next financial year are outlined below.

Critical accounting judgements

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 ITL Limited and Gould Fiber Optics. 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.

Management do not consider there to be any key sources judgement uncertainty.

7. Segmental Analysis

The Company's segmental reporting reflects the information that management uses within the business. The business is divided into three market sectors, being Aerospace & Defence, Life Sciences / Biophotonics and Industrial, 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. The Scientific Research sector, which covers academic and government funded research including major multi-national projects, was merged with the Industrial sector in the year.

For the year ended 30 September 2018	Aerospace & Defence £'000	Life Sciences/ Biophotonics £'000	Industrial £'000	Corporate £'000	Total £'000
Revenue					
Total revenue	41,023	11,440	80,363	-	132,826
inter and intra-division	(234)	(227)	(7,482)	-	(7,943)
External revenue	40,789	11,213	72,881	-	124,883
Divisional expenses	(34,454)	(9,189)	(59,146)	(1,757)	(104,546)
EBITDA[1]	6,335	2,024	13,735	(1,757)	20,337
EBITDA%	15.5%	18.1%	18.8%	-	16.3%
Depreciation and amortisation	(758)	(399)	(2,450)	(1,085)	(4,692)
Operating profit before amortisation of acquired intangible assets and goodwill impairment	5,577	1,625	11,285	(2,842)	15,645
Amortisation of acquired intangible assets and goodwill impairment	-	-	-	(4,849)	(4,849)
Operating profit	5,577	1,625	11,285	(7,691)	10,796
Operating profit margin %	13.7%	14.5%	15.5%	-	8.6%
Add back non-recurring items, amortisation of acquired intangible assets and goodwill impairment	116	17	1,030	7,141	8,304
Adjusted operating profit	5,693	1,642	12,315	(550)	19,100
Adjusted profit margin %	14.0%	14.6%	16.9%	-	15.3%
Finance costs	-	-	-	(683)	(683)
Profit before income tax expense	**5,577**	**1,625**	**11,285**	**(8,374)**	**10,113**

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For the year ended 30 September 2018

For the year ended 30 September 2017	Aerospace & Defence £'000	Life Sciences/ Biophotonics £'000	Industrial £'000	Corporate £'000	Total £'000
Revenue					
Total revenue	34,860	9,570	74,661	-	119,091
inter and intra-division	-	-	(7,075)	-	(7,075)
External revenue	34,860	9,570	67,586	-	112,016
Divisional expenses	(29,880)	(8,165)	(53,238)	(1,389)	(92,672)
EBITDA[1]	4,980	1,405	14,348	(1,389)	19,344
EBITDA%	14.3%	14.7%	21.2%	-	17.3%
Depreciation and amortisation	(715)	(388)	(2,136)	(625)	(3,864)
Operating profit before amortisation of acquired intangible assets	4,265	1,017	12,212	(2,014)	15,480
Amortisation of acquired intangible assets and goodwill impairment	-	-	-	(2,202)	(2,202)
Operating profit	4,265	1,017	12,212	(4,216)	13,278
Operating profit margin %	12.2%	10.6%	18.1%	-	11.9%
Add back amortisation of intangibles, goodwill impairment, and non-recurring items	-	-	-	3,128	3,128
Adjusted operating profit	4,265	1,017	12,212	(1,088)	16,406
Adjusted profit margin %	12.2%	10.6%	18.1%	-	14.6%
Finance costs	-	-	-	(676)	(676)
Profit before income tax expense	4,265	1,017	12,212	(4,892)	12,602

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

Management have added back the amortisation of intangibles, impairment of goodwill, restructuring costs, site closure costs, charge / release in respect of contingent consideration 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:

	2018 Assets £'000	2018 Liabilities £'000	2018 Net Assets £'000	2017 Assets £'000	2017 Liabilities £'000	2017 Net Assets £'000
United Kingdom	93,311	(56,955)	36,356	75,104	(32,612)	42,492
USA	90,382	(19,999)	70,383	73,641	(18,477)	55,164
Continental Europe	495	(42)	453	545	(98)	447
Asia Pacific	716	(61)	655	46	(13)	33
	184,904	(77,057)	107,847	149,336	(51,200)	98,136

For the year to 30 September 2018 non-current asset additions were £3.8m (2017: £1.9m) for the UK and for the USA £3.6m (2017: £4.5m). There were no additions to non-current assets in respect of Europe (2017: £nil) or the Asia Pacific region (2017: £nil). The value of non-current assets in the USA was £62.4m (2017: £47.9m), the United Kingdom £45.7m (2017: £29.0m) and Europe £nil (2017: £nil). There were no non-current assets in the Asia-Pacific region.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

Analysis of revenue by destination:

	2018 £'000	2017 £'000
United Kingdom	21,081	18,624
North America	44,899	45,485
Continental Europe	29,788	24,233
Asia Pacific and Other	29,115	23,674
	124,883	112,016

8. Expenses by Nature

	Note	2018 £'000	2017 £'000
Raw materials and consumables		42,794	35,598
Changes in inventory		(1,005)	(710)
Employee costs	10	49,989	46,508
Other operating charges		12,858	12,991
Depreciation		4,009	3,664
Amortisation of acquired intangible assets		2,141	2,202
Amortisation of other intangible assets		683	199
Impairment of goodwill		2,708	615
Charge / (release) of accrued contingent consideration		417	(615)
Other income and expenses	9	(507)	(1,714)
		114,087	98,738

9. Other Income and Expenses

	2018 £'000	2017 £'000
Grants receivable	1,002	1,285
Amounts claimed under the RDEC	370	370
Other (expense) / income	(865)	59
	507	1,714

The other expense includes £1m of the site closure costs incurred in the year. The other site closure costs are included in the relevant income statement line.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

10. Employee Benefit Expense

	2018 £'000	2017 £'000
Wages and salaries	40,898	37,841
Social security costs	3,499	3,434
Share based payment charge	675	587
Medical and other insurance	3,323	3,233
Other pension costs	1,594	1,413
	49,989	46,508

The average monthly number of employees during the year was:

	2018 Number	2017 Number
Manufacturing	574	512
Sales, finance and administration	292	263
	866	775

Key management compensation

	2018 £'000	2017 £'000
Salaries and other short-term benefits	7,025	5,732
Share based payments	675	587
Other pension costs	651	187
	8,351	6,506

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

Directors' remuneration, including the highest paid Director, has been included on page 41 of the Remuneration Committee Report. These disclosures have been audited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

11. Operating Profit

Operating profit is stated after charging / (crediting):

	2018 £'000	2017 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	46	45
Fees payable to the Company's auditors and its associates for other services:		
– audit of the Company's subsidiaries pursuant to legislation	140	105
– taxation compliance services	25	82
– taxation advisory services	14	66
– taxation advisory services related to abortive acquisitions	33	–
– due diligence services related to grant funding	65	45
Net (gains) / losses on foreign exchange	(145)	225
Operating lease rentals	1,714	1,732
Transaction fees	605	390
Impairment of goodwill	2,708	615
Charge / (credit) in relation to accrued contingent consideration on acquisitions	417	(615)

Restructuring costs of £864,000 were incurred in the year (2017: £536,000). These related to the Palo Alto site move (£384,000) and reorganisation costs of £480,000. The costs have been included in the income statement within cost of revenue, administration costs and other income and expenses as appropriate.

The charge in relation to accrued contingent consideration on acquisitions relates to Kent Periscopes Limited. The business performed better than expected in FY2018 and therefore part of the amount released in FY2017 was charged back to the income statement.

12. Finance Income and Costs

	2018 £'000	2017 £'000
Finance income comprises:		
– Bank interest	16	27
Finance costs comprise:		
– Bank interest	(358)	(321)
– Finance lease interest	(1)	(1)
– Interest on discounted deferred consideration	(340)	(381)
	(699)	(703)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

13. Income Tax Expense

Analysis of tax charge in the year

	2018 £'000	2017 £'000
Current taxation		
UK Corporation tax	1,895	1,318
Overseas tax	1,381	2,165
Adjustments in respect of prior year tax charge	–	(1,315)
Total current tax	3,276	2,168
Deferred tax		
Origination and reversal of temporary differences	481	227
Adjustments in respect of prior year deferred tax	–	1,315
Impact of change in the UK tax rate	(864)	–
Total deferred tax	(383)	1,542
Income tax expense per income statement	2,893	3,710

The taxation expense for the year is higher (2017: higher) than the standard rate of corporation tax in the UK. An explanation of the differences is detailed below:

	2018 £'000	2017 £'000
Profit before income tax	10,113	12,602
Profit at the effective standard rate of tax of 19.0% for the year (2017: 19.5%)	1,921	2,457
Income not subject to tax	–	(72)
Permanent differences	233	(132)
Adjustments in respect of foreign tax rates	739	1,457
Total tax expense	2,893	3,710

Factors Affecting the Future Tax Charge

Overseas tax losses of £3.8m (2017: £3.7m) and UK tax losses of £0.8m (2017: £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 2017. 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 2018

14. Dividends

	2018 £'000	2017 £'000
Final 2017 dividend paid in 2018: 6.5p per share (Final 2016 dividend paid in 2016: 5.7p per share)	1,608	1,383
2018 Interim dividend paid: 4.2p per share (2017: 3.7p)	1,039	906
	2,647	2,289

The Directors propose a final dividend of 7.1p per share making the total dividend paid and proposed in respect of the 2018 financial year 11.3p (2017: 10.2p).

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:

	2018 Number	2017 Number
Number of shares used for basic earnings per share	24,629,591	24,457,701
Dilutive shares	265,817	412,901
Number of shares used for dilutive earnings per share	24,895,408	24,870,602

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

	2018		2017	
	£'000	pence per share	£'000	pence per share
Basic earnings per share	7,220	29.3p	8,892	36.4p
Amortisation of acquired intangible assets (net of tax)	1,865	7.6p	2,034	8.3p
Goodwill impairment	2,708	11.0p	615	2.5p
Charge / (release) re accrued contingent consideration	417	1.7p	(615)	(2.5p)
Site closure costs (net of tax)	1,210	4.9p	-	-
Restructuring costs (net of tax)	695	2.8p	431	1.8p
Transaction fees (net of tax)	489	2.0p	314	1.3p
Interest on deferred consideration	340	1.4p	381	1.6p
One off credit due to US tax rate change	(864)	(3.5p)	-	-
Total adjustments net of income tax expense	6,860	27.9p	3,160	13.0p
Adjusted basic earnings per share	14,080	57.2p	12,052	49.4p
Basic diluted earnings per share	7,220	29.0p	8,892	35.8p
Adjusted diluted earnings per share	14,080	56.5p	12,052	48.5p

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 2018

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 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
Additions	1,151	14	243	4,273	265	12	5,958
Acquired	–	1,650	–	326	99	12	2,087
Disposals	–	–	(201)	(974)	(213)	(16)	(1,404)
Reclassification	(3,805)	–	3,445	323	61	–	24
Exchange rate differences	5	2	428	441	30	–	(906)
At 30 September 2018	2,704	10,676	15,743	35,243	3,948	51	68,365
Accumulated depreciation							
At 1 October 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
Charge for the year	–	174	889	2,522	421	3	4,009
Disposals	–	–	(97)	(925)	(199)	(8)	(1,229)
Exchange rate differences	–	2	94	240	24	1	361
At 30 September 2018	–	1,993	3,492	21,864	2,663	33	30,045
Net book value							
At 1 October 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 2018	2,704	8,683	12,251	13,379	1,285	18	38,320

At 30 September 2018, plant and machinery purchased under a hire purchase or finance lease agreement had a cost of £77,000 (2017: £38,000) and net book value of £40,000 (2017: £25,000).

No interest was capitalised in the year (2017: £Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 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
Additions	-	-	497	958	1,455
Acquired	18,885	9,943	-	-	28,828
Disposals	-	-	(3)	(114)	(117)
Reclassifications	-	-	(24)	-	(24)
Exchange rate differences	544	408	19	6	977
At 30 September 2018	53,315	34,624	4,146	2,748	94,833
Accumulated amortisation and impairment					
At 1 October2016	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
Charge for the year	2,708	2,141	618	65	5,532
Disposals	-	-	(3)	(105)	(108)
Exchange rate differences	-	226	(19)	4	211
At 30 September 2018	9,748	16,032	1,647	1,672	29,099
Net book value					
At 1 October 2016	22,200	5,363	2,147	206	29,916
At 30 September 2017	26,846	10,608	2,606	190	40,250
At 30 September 2018	43,567	18,592	2,499	1,076	65,734

Goodwill is allocated according to each operating site as follows: Cleveland (£2.1m), Ilminster (£1.5m), Torquay (£1.6m), Moorpark (£3.6m), Boston (£5.1m), Palo Alto (£0.9m), St Asaph (£4.0m), Keene (£5.8m), Baltimore (£8.7m) and Ashford (£10.2m).

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 2023 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 2018

The Boston cash generating unit's performance was lower than expected during FY18 largely due to reduced demand from certain customers. As part of our work on driving efficiency, the Boston site has now been organised into our fibre optic manufacturing centre. It is therefore under new management, and a new strategy has been developed for the business. The strategy focusses on developing the product side of the business for which a number of target customers and markets have been identified. The impairment calculation for Boston utilises a specific set of growth assumptions based on revenue increasing by an average of 13% per annum in the period to 30 September 2023, 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, but acknowledge a significant improvement in the site's results is required to continue to support the carrying value of goodwill. If the discount rate were increased to 12.2%, the headroom on the impairment calculation would be reduced to zero. If the average annual EBITDA were reduced by 35%, then an impairment of £460,000 would arise.

The Moorpark site had a difficult year. The site has recently struggled to grow its business during some difficult times in the commercial aerospace sector which has seen price pressure from a key customer. Whilst recent improvements in the site's operational set up, the adoption of LEAN manufacturing principles, and diversification of its customer base, are moving Moorpark in the right direction, an impairment of £2.7m has been booked following this year's impairment review. The impairment calculation for the Moorpark cash generating unit is based on an average annual forecast revenue growth and EBITDA to 2023 of 8% and £0.6m respectively. A further impairment charge may arise if the business's results fall short of these forecasts.

18. Inventories

	2018 £'000	2017 £'000
Raw materials	9,043	7,374
Work in progress	10,992	9,819
Finished goods	4,410	3,885
	24,445	21,078

The cost of inventories recognised as an expense and included in cost of revenue amounted to £74.8m (2017: £67.0m).

The movement in the inventories provision is as follows:

	2018 £'000	2017 £'000
At 1 October	5,260	4,208
Acquired	868	328
(Utilisation of) / increase in provision	(459)	783
Exchange rate movement	61	(59)
At 30 September	5,730	5,260

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

19. Trade and Other Receivables

	2018 £'000	2017 £'000
Trade receivables	32,231	20,504
Other receivables	1,344	2,025
Grant funding held in trust account	484	1,535
Prepayments	969	659
	35,028	24,723

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

	2018 £'000	2017 £'000
Pound Sterling	14,172	9,041
US Dollar	19,370	14,334
Euro	1,245	1,342
Other	241	6
	35,028	24,723

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

	2018 £'000	2017 £'000
Current	23,190	15,417
1 to 3 months	6,980	4,139
Over 3 months	2,453	1,327
	32,623	20,883
Less provision for impairment	(392)	(379)
Net trade receivables	32,231	20,504

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:

	2018 £'000	2017 £'000
At 1 October	379	219
Acquired	7	-
Utilisation of provision	(113)	(35)
Increase in provision	117	198
Exchange rate movement	2	(3)
At 30 September	392	379

20. Cash and Cash Equivalents

	2018 £'000	2017 £'000
Cash at bank and on hand	19,433	26,425

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

21. Trade and Other Payables

	2018 £'000	2017 £'000
Trade payables	9,188	6,610
Other taxation and social security	864	1,095
Grant funding held in trust account	484	1,535
Accruals	14,726	14,518
	25,262	23,758

22. Borrowings

	2018 £'000	2017 £'000
Current:		
Bank borrowings	61	-
Finance leases	14	6
	75	6
Non-current:		
Bank borrowings	29,947	11,480
Finance leases	17	12
	29,964	11,492
Total borrowings	30,039	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 NatWest Bank. The Group's facilities were renewed in the year and now comprise a $40m dollar revolving credit facility and a $20m flexible acquisition facility. At 30 September 2018, the balance drawn on the revolving credit facility was $39m (2017: $8m) and on the flexible acquisition facility nil (2017: $7.5m).

The facilities above are committed until 31 August 2021 and attract an interest rate of between 1.2% and 1.7% above US LIBOR dependent upon the Company's leverage ratio, payable on rollover dates, typically quarterly.

Maturity Profile of Bank and Other Borrowings

	2018 £'000	2017 £'000
Within one year	75	6
Between one and five years	29,964	11,492
	30,039	11,498

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

23. Provision for Other Liabilities and Charges

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

	2018 £'000	2017 £'000
At 1 October	888	940
Acquired	50	80
Utilised during year	-	(135)
Charged to the income statement	46	13
Exchange movements	4	(10)
At 30 September	988	888

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.

24. Deferred Tax Assets and Liabilities

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

	2018 £'000	2017 £'000
At 1 October	(3,235)	(2,132)
Credited / (charged) to the income statement	383	(1,542)
Acquired	67	146
Arising on acquired intangible assets	(1,231)	-
(Debited) / credited directly to equity	(268)	148
Exchange movements	(94)	145
Net liability at 30 September	(4,378)	(3,235)

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

	2018 £'000	2017 £'000
Deferred income tax assets		
Intangible assets	587	906
Share options	453	721
Provisions	888	814
Other timing differences	16	262
	1,944	2,703
Deferred income tax liabilities		
Property, plant and equipment	(3,641)	(3,827)
Intangible assets	(2,681)	(2,111)
	(6,322)	(5,938)
Deferred tax balance at 30 September	(4,378)	(3,235)

Overseas tax losses of £3.8m (2017: £3.7m) and UK tax losses of £0.8m (2017: £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 (2017: £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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

25. Called Up Share Capital

	2018 Number	2017 Number	2018 £'000	2017 £'000
Issued and fully paid				
At 1 October	24,514,561	24,260,024	4,903	4,852
Shares issued and fully paid	393,270	254,537	79	51
At 30 September	24,907,831	24,514,561	4,982	4,903

During the year 227,403 shares (2017: 72,734 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 2017	15,530	4,640	5,574	67,489
Profit for the financial year	-	-	-	7,220
Dividends paid	-	-	-	(2,647)
Shares issued	-	2,622	-	(45)
Fair value of share options	-	-	-	675
Tax credit relating to share options	-	-	-	150
Currency translation differences	-	-	1,657	-
At 30 September 2018	15,530	7,262	7,231	72,842

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2018

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 six 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 2018 are summarised below:

	Grant date		
	21 Dec 2017	10 Mar 2017	23 Dec 2015
No. of options granted	96,123	133,146	147,458
Expected volatility	29%	26%	25%
Risk free rate	0.56%	0.9%	0.9%
Fair value (£)	914,164	784,041	629,506

A reconciliation of total share option movements is shown below:

	2018		2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	486,008	-	512,852	-
Awarded	96,123	-	133,146	-
Exercised	(227,403)	-	(72,734)	-
Lapsed	(12,461)	-	(87,256)	-
Outstanding at 30 September	342,267	-	486,008	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 786.0p per option (2017: 589.0p per option). For the options exercised, the average market price was 1,400p per share.

Share options outstanding at the end of the year expire one year after their respective vesting dates and have the following exercise prices:

	Weighted average exercise price	Number of share options	
		2018	2017
2013 LTIP	0.0p	342,267	486,008

The total charge for the year relating to share options was £675,000 (2017: £587,000), all of which related to equity-settled share based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

28. Operating Leases

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

	2018 £'000	2017 £'000
Within one year	1,804	1,166
Between one to five years	4,319	3,900
	6,123	5,066

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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Pound Sterling	4,927	16,438	356	18
US Dollar	12,202	8,101	29,683	11,480
Euro	2,233	1,849	–	–
Yen	71	37	–	–
	19,433	26,425	30,039	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

	2018 £'000	2017 £'000
Authorised and contracted but not provided for	325	1,440

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 2018

32. Acquisition of Integrated Technologies Limited

On 7 August 2018, the Group completed the acquisition of the entire share capital of VITL Limited, an Ashford, Kent, based specialist in the design, development and manufacture of high quality medical and in vitro diagnostic devices. The acquisition strengthened the Group's position in the life sciences sector, and further enables G&H's move into system based products.

The consideration for the acquisition will be up to £22m comprising initial consideration of £12.6m paid in cash and £1.4m paid in new G&H ordinary shares. There is also deferred contingent consideration of up to £8m, payable in cash, based on the performance of the business for a period of two years post acquisition.

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

	Provisional fair value £'000
Property, plant and equipment	2,074
Intangible assets	6,839
Cash	1,623
Trade and other receivables	1,669
Inventory	1,489
Trade and other payables	(1,144)
Current and deferred tax assets	(1,429)
Finance lease acquired	(21)
Bank borrowings acquired	(334)
Net assets acquired	10,766
Consideration paid:	
Cash and shares paid on completion	14,000
Deferred consideration	6,978
Goodwill	10,212

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

Post-acquisition, the acquired business contributed £2.2 million of revenue and £0.5 million of profit after tax to the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

33. Acquisition of Gould Fiber Optics

On 5 September 2018, the Group completed the acquisition of the trade and assets of Gould Technology LLC, a Baltimore, Maryland, based specialist in the design, development and manufacture of fibre optic components and sub systems. The acquisition strengthened the Group's position as the world leader in fused fibre optic technology and provides enhanced access to strategic US Aerospace and Defence customers.

The consideration for the acquisition will be up to $16.4m comprising initial consideration of $11.6m paid in cash and $1.4m paid in new G&H ordinary shares. There is also deferred contingent consideration of up to $3.4m, payable in cash, based on the performance of the business over the period to 30 September 2019.

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

	Provisional fair value £'000
Property, plant and equipment	27
Intangible assets	3,104
Trade and other receivables	369
Inventory	322
Trade and other payables	(141)
Net assets acquired	3,681
Consideration paid:	
Cash and shares paid on completion	10,120
Deferred consideration	2,234
Goodwill	8,673

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

Post-acquisition, the acquired business contributed £0.3 million of revenue and £0.1 million of profit after tax to the consolidated income statement.

COMPANY BALANCE SHEET

As at 30 September 2018

		2018		2017	
	Note	£'000	£'000	£'000	£'000
Non-current assets					
Investments	5		51,045		28,811
Property, plant and equipment	6		6,641		7,104
Intangible assets	7		892		47
Deferred income tax assets	9		666		793
			59,244		36,755
Current assets					
Other receivables	8	3,934	–	3,974	–
Cash and cash equivalents		2,605	–	10,298	–
		6,539	–	14,272	–
Current liabilities					
Trade and other payables	10	(9,692)	–	(5,301)	–
Net current (liabilities) / assets			(3,153)		8,971
Non-current liabilities					
Deferred income tax liabilities	9		(11)		(61)
Deferred consideration			(6,978)		(1,641)
Net assets			49,102		44,024
Shareholders' equity					
Called up share capital	11		4,982		4,903
Share premium account			15,530		15,530
Merger reserve			4,591		1,969
Retained earnings			23,999		21,622
Total equity			49,102		44,024

The financial statements on pages 82 to 93, were approved by the Board of Directors on 27 November 2018 and signed on its behalf by:

Mark Webster
Director

Andrew Boteler
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2018

	Note	Called up Share capital £'000	Share premium account £'000	Merger Reserve £'000	Retained earnings £'000	Total equity £'000
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
At 1 October 2017		4,903	15,530	1,969	21,622	44,024
Profit for the financial year		–	–	–	4,157	4,157
Total comprehensive income for the year		–	–	–	4,157	4,157
Dividends	4	–	–	–	(2,647)	(2,647)
Proceeds from shares issued		79	–	2,622	(45)	2,656
Fair value of employee services		–	–	–	675	675
Tax credit relating to share option schemes		–	–	–	237	237
Total contributions by and distributions to owners of the parent recognised directly in equity		79	–	2,622	(1,780)	921
At 30 September 2018		4,982	15,530	4,591	23,999	49,102

COMPANY CASH FLOW STATEMENT

For the year ended 30 September 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Cash generated from operations	2,374	1,461
Income tax paid	–	–
Net cash generated from operating activities	2,374	1,461
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(12,602)	–
Purchase of property, plant and equipment	(41)	(106)
Purchase of intangible assets	(896)	–
Interest received	7	21
Net cash used in investing activities	(13,532)	(85)
Cash flows from financing activities		
Dividends received from subsidiary companies	6,112	4,000
Dividends paid to ordinary shareholders	(2,647)	(2,289)
Net cash generated from financing activities	3,465	1,711
Net (decrease) / increase in cash	(7,693)	3,087
Cash at beginning of the year	10,298	7,211
Cash at the end of the year	2,605	10,298

NOTES TO THE COMPANY CASH FLOW STATEMENT

For the year ended 30 September 2018

Reconciliation of cash generated from operations

	2018 £'000	2017 £'000
Profit before income tax	4,116	1,549
Adjustments for:		
- Dividends received from subsidiaries	(6,112)	(4,000)
- Amortisation of other intangible assets	51	109
- Depreciation	504	483
- Share based payment charge	675	587
- Finance income	(7)	(21)
Total	(4,889)	(2,842)
Changes in working capital		
- Trade and other receivables	2,455	209
- Trade and other payables	692	2,545
Total	3,147	2,754
Cash generated from operating activities	2,374	1,461

Analysis of net cash

	At 1 Oct 2017 £'000	Cash flow £'000	At 30 Sep 2018 £'000
Cash at bank and in hand	10,298	(7,693)	2,605
Net cash	10,298	(7,693)	2,605

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 2018, 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 have been no new standards, amendments or interpretations issued and made effective for the financial year ended 30 September 2018 that have had a material impact on the financial statements of the Company.

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.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2018

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.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 £4,157,000 (2017: £1,962,000 profit).

Fees payable to the Company auditors for the statutory audit for the year amounted to £16,000 (2017: £16,000).

3. Employee Benefit Expense

	2018 £'000	2017 £'000
Wages and salaries	2,611	2,035
Social security costs	304	443
Medical and other insurances	30	26
Share based payments	675	587
Pension costs	43	38
	3,663	3,129

The average number of employees during the year was 13 (2017: 12), all of whom were administrative.

Directors' Remuneration

	2018 £'000	2017 £'000
Directors' remuneration	1,432	1,409
Medical and other insurances	37	26
Directors' pension scheme contributions	20	20
	1,489	1,455

The aggregate emoluments of the highest paid Director including gain on exercise of share options were £1,801,000 (2017: £504,000). Further information is included in the Remuneration Committee report on page 39.

The aggregate gain on Directors' share option exercises in the year was £2,628,000 (2017: £393,000).

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 2 (2017: 2).

4. Dividends

	2018 £'000	2017 £'000
Final 2017 dividend paid in 2018: 6.5p per share. (Final 2016 dividend paid in 2017: 5.7p per share)	1,608	1,383
2018 Interim dividend paid: 4.2p per share (2017: 3.7p)	1,039	906
	2,647	2,289

The Directors propose a final dividend of 7.1p per share making the total dividend paid and proposed in respect of the 2018 financial year 11.3p (2017: 10.2p). Should the final dividend be approved at the Company Annual General Meeting, cut-off dates for payment are:

- Record date 25 January 2019 - Payment date 1 March 2019

5. Investments

	2018 £'000	2017 £'000
Cost and net book value at 1 October	28,811	27,169
Additions	22,234	1,642
Cost and net book value at 30 September	51,045	28,811

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2018

The subsidiary companies at 30 September 2018, 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
Integrated Technologies Limited	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Development and manufacture of high quality medical and in vitro diagnostic devices
Integrated Technologies (Holdings) Limited	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Non-trading company
ORF Limited	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Non-trading company
VITL Limited	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Non-trading company
ITL (Virginia) Inc.	100%	305 Ashcake Rd, VA23005, USA	Development and manufacture of high quality medical and in vitro diagnostic devices
Integrated Electronic Systems (Shanghai) Ltd	100%	T3-11 Factory Building Unit 201, 5001 Huadong Road, Shanghai 201201 China	Development and manufacture of high quality medical and in vitro diagnostic devices

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 2018

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 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
Additions	14	–	–	27	41
At 30 September 2018	6,197	3,987	1,392	630	12,206
Accumulated depreciation					
At 1 October2016	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
Charge for the year	109	265	93	37	504
At 30 September 2018	1,464	2,585	983	533	5,565
Net book value					
At 1 October 2016	4,936	1,932	595	19	7,482
At 30 September 2017	4,828	1,667	502	107	7,104
At 30 September 2018	4,733	1,402	409	97	6,641

7. Intangible Assets

	Assets in the course of construction £'000	Computer software £'000	Other £'000	Total £'000
Cost or valuation				
At 1 October 2016	–	1,216	465	1,681
Additions	–	–	–	–
At 30 September 2017	–	1,216	465	1,681
Additions	842	–	54	896
At 30 September 2018	842	1,216	519	2,577
Accumulated amortisation				
At 1 October2016	–	1,159	366	1,525
Charge for the year	–	45	64	109
At 30 September 2017	–	1,204	430	1,634
Charge for the year	–	12	39	51
At 30 September 2018	–	1,216	469	1,685
Net book value				
At 1 October 2016	–	57	99	156
At 30 September 2017	–	12	35	47
At 30 September 2018	842	–	50	892

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2018

8. Other Receivables

	2018 £'000	2017 £'000
Amounts owed by Group undertakings	–	791
Prepayments and accrued income	119	102
Group tax relief receivable	3,815	3,081
	3,934	3,974

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:

	2018 £'000	2017 £'000
At 1 October	732	580
Charged / (credited) to the income statement	(102)	17
Credited directly to reserves	25	135
At 30 September	655	732

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

	2018 £'000	2017 £'000
Property, plant and equipment	(11)	(61)
Share options	453	632
Other timing differences	213	161
	655	732

Factors Affecting the Future Tax Charge

UK tax losses of £0.8m (2017: £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 2018

10. Trade and Other Payables

	2018 £'000	2017 £'000
Trade payables	686	221
Amounts owed to Group undertakings	4,165	2,593
Taxation and Social Security	518	583
Accruals and deferred income	2,186	1,904
Deferred consideration payable	2,137	-
	9,692	5,301

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.

11. Called Up Share Capital

	2018 Number	2017 Number	2018 £'000	2017 £'000
Allotted, issued and fully paid				
At 1 October	24,514,561	24,260,024	4,903	4,852
Shares issued and fully paid	393,270	254,537	79	51
At 30 September	24,907,831	24,514,561	4,982	4,903

During the year 227,403 shares (2017: 72,734 shares) were allotted under share option schemes.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 six 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 2018 are summarised below:

	Grant date		
	21 Dec 2017	10 Mar 2017	23 Dec 2015
No. of options granted	96,123	133,146	147,458
Expected volatility	29%	26%	25%
Risk free rate	0.56%	0.9%	0.9%
Fair value (£)	914,164	784,041	629,506

A reconciliation of total share option movements is shown below:

	2018		2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	486,008	-	512,852	-
Awarded	96,123	-	133,146	-
Exercised	(227,403)	-	(72,734)	-
Lapsed	(12,461)	-	(87,256)	-
Outstanding at 30 September	342,267	-	486,008	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 786.0p (2017: 589.0p). For the options exercised, the average market price was 1,400.0p per share.

Share options outstanding at the end of the year expire one year after their respective vesting dates and have the following exercise prices:

	Weighted average exercise price	Number of share options	
		2018	2017
2013 LTIP	0.0p	486,008	512,852

The total charge for the year relating to share options was £675,000 (2017: £587,000), 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	20 February 2019
Payment date for final dividend for the year ended 30 September 2018 to shareholders on the register at close of business 25 January 2019. Subject to approval by shareholders at the Annual General Meeting.	1 March 2019
Interim Results announcement	June 2019
Financial Year End	30 September 2019
Preliminary announcement of results for the year ending 30 September 2019	November 2019

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 Wills	020 7466 5000

NOTICE OF ANNUAL GENERAL MEETING

Form of proxy

You will not receive a form of proxy for the 2019 AGM in the post. Instead, you can vote online at www.signalshares.com. To register you will need your Investor Code, which can be found on your share certificate. You will still be able to vote in person at the AGM, and may request a hard copy proxy form directly from our Registrars, Link Asset Services on 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales.

Notice is hereby given that the Annual General Meeting of the Company will be held at Dowlish Ford, Ilminster, Somerset, TA19 0PF on 20 February 2019 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 2018 together with the Directors' Report and Auditors' Report thereon.

2 To receive and approve the Remuneration Committee Report set out on pages 39 to 44 (excluding page 40) of the Annual Report and Financial Statements for the financial year ended 30 September 2018.

3 To declare a final dividend, as recommended by the Directors, of 7.1 pence per ordinary share for the financial year ended 30 September 2018.

4 To elect Gary Bullard as a Director.

5 To re-elect Mark Webster as a Director.

6 To re-elect Alex Warnock as a Director.

7 To re-elect Andrew Boteler as a Director.

8 To re-elect Peter Bordui as a Director.

9 To re-elect Brian Phillipson as a Director.

10 To re-elect David Bauernfeind as a Director

11 To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors.

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

13 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 20 May 2020 (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 £1,660,522 (representing approximately one third of the total ordinary share capital of the Company in issue at 27 November 2018). 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:

14 (a) 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 13 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 £249,078 (representing approximately 5 per cent. of the total ordinary share capital of the Company in issue at 27 November 2018); and

NOTICE OF ANNUAL GENERAL MEETING

(b) THAT the Directors of the Company be authorised in addition to any authority granted under Resolution 14(a) to allot equity securities (as defined in section 560 of the Act) for cash under the authority conferred by resolution 13 above as if section 561 of the Act did not apply to any such allotment, provided that the power hereby conferred shall be:

(i) limited to the allotment of equity securities up to an aggregate nominal amount of £249,078 (representing approximately 5 per cent. of the total ordinary share capital of the Company in issue at 27 November 2018); and

(ii) used only for the purpose of financing (or refinancing, if the authority is to be used within 6 months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

The powers hereby conferred in this Article 14 shall expire at the conclusion of the next Annual General Meeting of the Company or 20 May 2020 (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.

15 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 2,490,783 (representing approximately 10 per cent. of the total ordinary share capital of the Company in issue at 27 November 2018);

(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 20 May 2020 (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

27 November 2018

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

NOTES

1 Shareholders can vote online by logging on to www.signalshares.com and following the instructions. Alternatively shareholders can request a hard copy proxy form by contacting our registrars, Link Asset Services, on 0871 664 0300 from the UK (calls cost 12p per minute plus network extras) or +44371 664 0300 from outside the UK (calls chargeable at the applicable international rate) and returning it according to paragraph 4 below.

2 Explanatory note on Resolution 2: Resolution 2 is an advisory vote only. The Remuneration Committee Report is set out on pages 39 to 44 of the Annual Report and Financial Statements for the financial year ended 30 September 2018. Pages 39, 41, 42, 43 and 44 of the Remuneration Committee Report set out the pay and benefits received by each of the directors for the year ended 30 September 2018. The Company's policy on remuneration and potential pay outs to directors in the future, which is set out on page 40 of the Annual Report and Financial Statements for the financial year ended 30 September 2018, is specifically excluded from this Resolution.

3 Resolutions 1 to 13 (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 14 and 15 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.

4 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.

5 To vote by proxy outside of the CREST system, you can do so online via www.signalshares.com, or you can request a proxy form from our Registrars (see Note 1). 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.

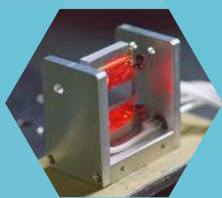
6 To appoint as a proxy a person other than the Chairman of the meeting, a member must insert the proxy's full name in the box on the proxy form. If a member signs and returns a proxy form with no name in the box, the Chairman of the meeting will be deemed to be the member's proxy. Where a member appoints 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.

7 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 18 February 2019. 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 18 February 2019.

8 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.

9 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 18 February 2019 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.

10 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



Gooch & Housego PLC

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