Gooch & Housego

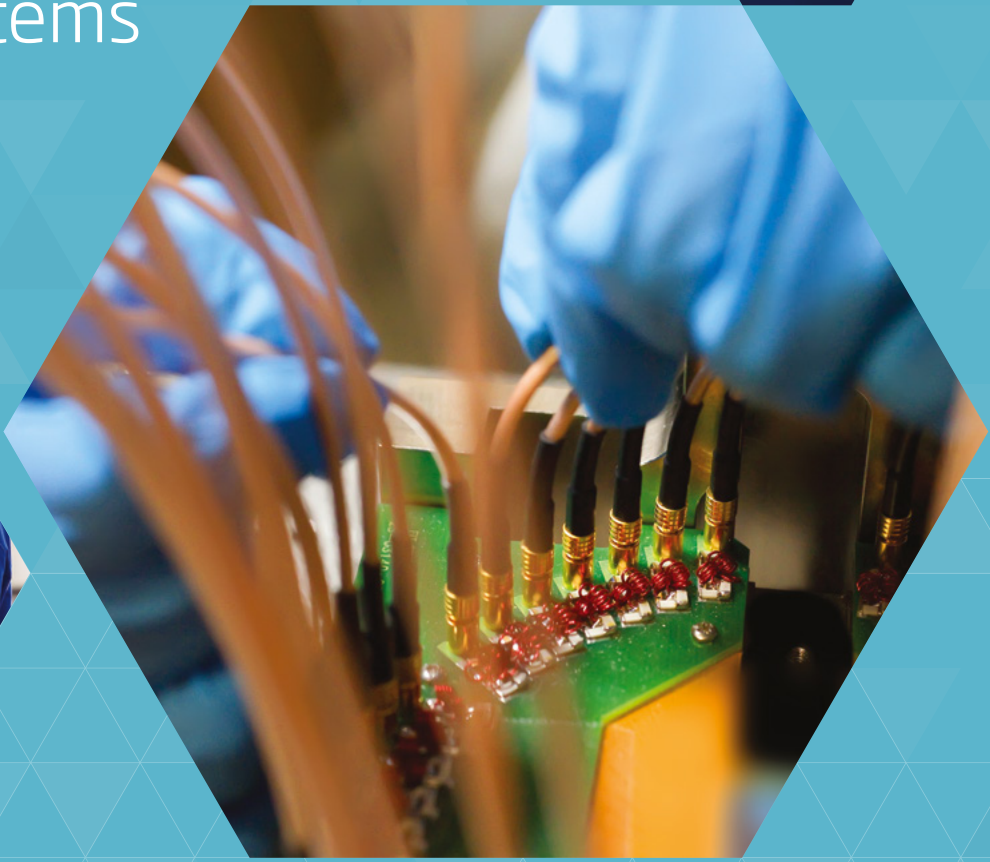
CHANGING THE WORLD WITH PHOTONICS

ANNUAL REPORT SEPTEMBER 2020

From sites across the UK, USA and Asia, our capabilities span a uniquely broad range of photonic technologies:

- Crystal growth
- Optical materials processing
- Acousto-optics and electro-optics
- Active and passive fibre optic components
- Precision optics
- Opto-mechanical
- Medical systems



CONTENTS

Highlights 2
Sectors and Applications 6

Strategic Report
Chairman's Statement 10
Chief Executive Officer's Statement 12
Market Overview 16
Our Strategy 22
Financial and Operating Review 23
Sustainability Report 27
Principal Risks and Uncertainties 30
S172 Statement 32

Governance
Board of Directors 34
Corporate Governance 36
Directors' Report 38
Audit Committee Report 40
Nomination Committee Report 42
Remuneration Committee Report 43

Financial Statements
Independent Auditors' Report 49
Group Income Statement 55
Group Statement of Comprehensive Income 55
Group Balance Sheet 56
Group Statement of Changes in Equity 57
Group Cash Flow Statement 58
Notes to the Group Cash Flow Statement 59
Notes to the Group Financial Statements 60
Company Balance Sheet 85
Company Statement of Changes in Equity 86
Company Cash Flow Statement 87
Notes to the Company Cash Flow Statement 88
Notes to the Company Financial Statements 89

Shareholder Information
Company Information 97
Notice of Annual General Meeting 98

HIGHLIGHTS

Revenue
(£m)

122.1
(5.5%)
2019 129.1

2020	122.1
2019	129.1
2018	124.9
2017	112.0
2016	86.1

Basic earnings per share
(pence)

15.1
–
2019 15.1

2020	15.1
2019	15.1
2018	29.3
2017	36.4
2016	29.1

Adjusted profit before tax*
(£m)

9.8
(35.1%)
2019 15.0

2020	9.8
2019	15.0
2018	18.8
2017	16.1
2016	14.2

Total dividend per share
(pence)

–
(11.5p)
2019 11.5

2020	-
2019	11.5
2018	11.3
2017	10.2
2016	9.0

Adjusted basic earnings per share*
(pence)

30.5
(34.8%)
2019 46.8

2020	30.5
2019	46.8
2018	57.2
2017	49.4
2016	42.5

Net debt excluding IFRS16
(£m)

6.5
(£7.8m)
2019 14.3

2020	(6.5)
2019	(14.3)
2018	(10.6)
2017	14.9
2016	11.7

Statutory profit before tax
(£m)

5.4
(9.4%)
2019 6.0

2020	5.4
2019	6.0
2018	10.1
2017	12.6
2016	10.1

Net debt
(£m)

14.7
(£0.4m)
2019 14.3

2020	(14.7)
2019	(14.3)
2018	(10.6)
2017	14.9
2016	11.7

*adjusted figures exclude the amortisation of acquired intangible assets, impairment of goodwill, adjustments to accrued contingent consideration, non-underlying items being restructuring costs, site closure costs, settlement of lease litigation, interest thereon and interest on deferred consideration, together with the related tax impact.

HIGHLIGHTS

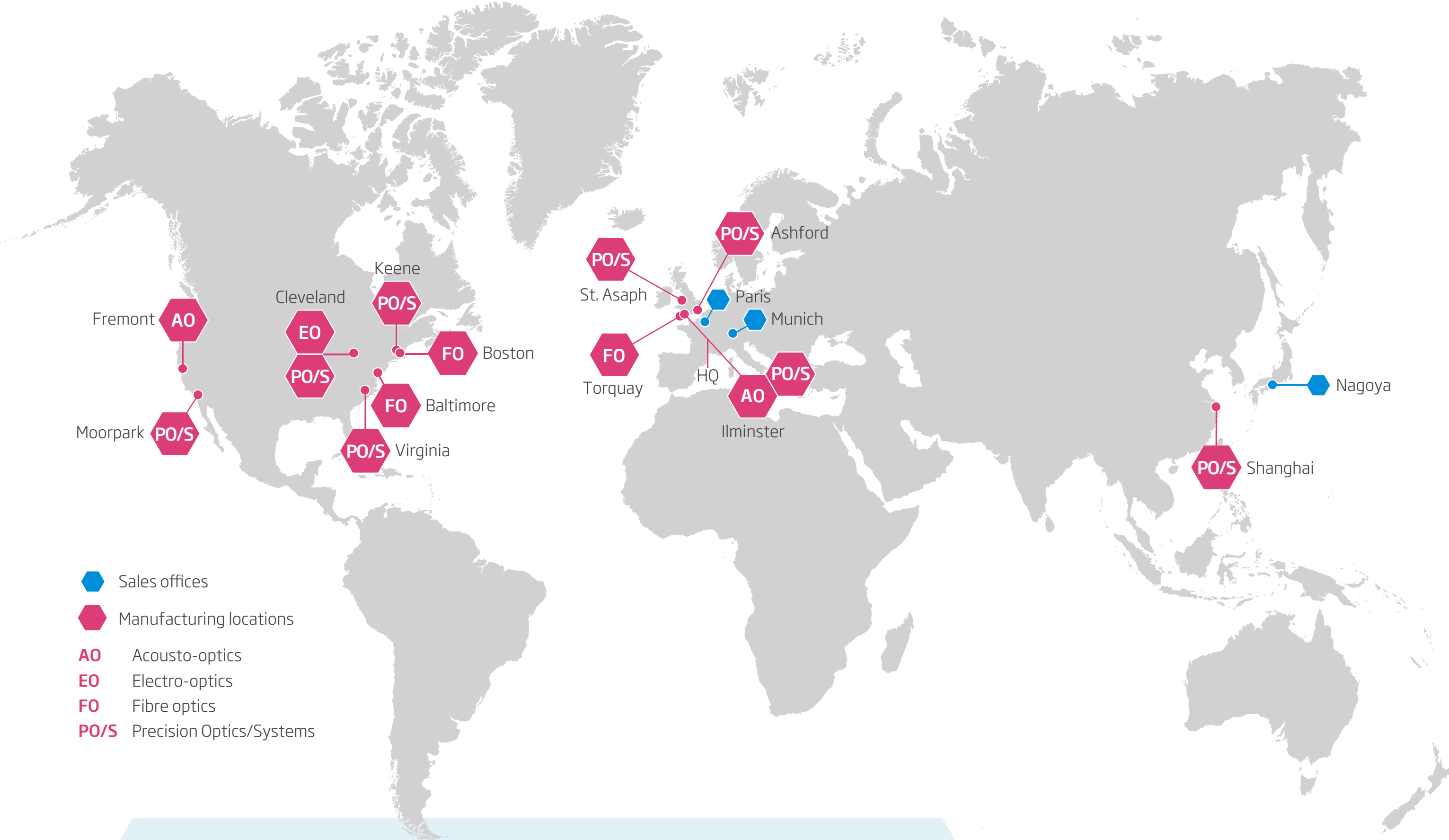
Operating & Strategic Key Points

- Trading reflected a challenging global economic environment due to the COVID-19 pandemic.
- G&H is proud of the way our staff responded.
- Management actions contributed to a stronger second half. These included ensuring all of our manufacturing sites in USA, UK and China were able to operate at full capacity, compliant with all relevant regulations and guidelines.
- Overall demand for our technologies and capabilities was robust. Medical diagnostics saw strong demand, whilst Industrial lasers were below 'normalised' levels.
- New products contributed record revenue of £16.9m during FY2020 (FY2019: £13.5m). We continued to invest in our high priority R&D targets.
- G&H's plans to streamline our manufacturing are progressing well and on track to deliver previously announced profitability.
- There remains substantial long term growth potential for our photonic technologies and system capabilities in all of our target sectors.

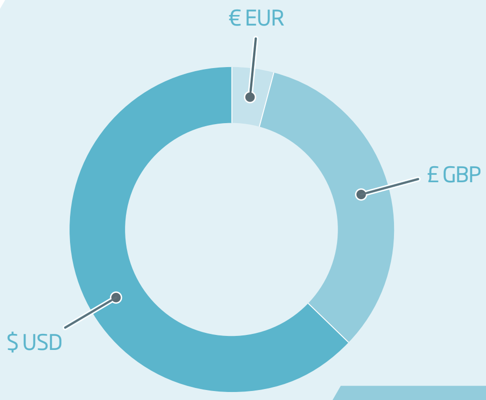
Financial Key Points

- Revenue of £122.1m, down by 5.5%.
- Adjusted profit before tax of £9.8m, down 35.1%, reflecting temporary disruption to G&H's manufacturing sites and lower demand in some subsectors due to the COVID-19 pandemic.
- Improved net debt excluding IFRS16 of £6.5m, reflecting active cash management.
- Year end order book of £92.4m, 0.8% higher than the same time last year on a constant currency basis. Reflecting strong demand for fibre optics, hi-reliability fibre couplers and our A&D and Life Science capabilities. Industrial laser demand at below 'normalised' levels. Improved demand for medical diagnostics, in particular ventilator systems.

HIGHLIGHTS



REVENUE BY CURRENCY



$ USD
63.1%
£77.1m

2019
£81.0m 62.7%

£ GBP
32.5%
£39.7m

2019
£34.7m 31.9%

€ EUR
4.4%
£5.3m

2019
£7.0m 5.4%

HIGHLIGHTS

Mark Webster, Chief Executive Officer, commented

“Our priority during the ongoing COVID-19 pandemic remains the health and safety of our staff, customers and suppliers. We are very proud of the way our staff have responded to this unprecedented challenge.

“FY2020 profits were affected by temporary disruption to manufacturing and lower demand in some subsectors due to the COVID-19 pandemic. We have continued to invest in our high priority R&D targets, been able to maintain a strong balance sheet and have improved our liquidity levels.

“Our order book is robust and there remains considerable long term potential for our photonic technologies and system capabilities in all of our target sectors.

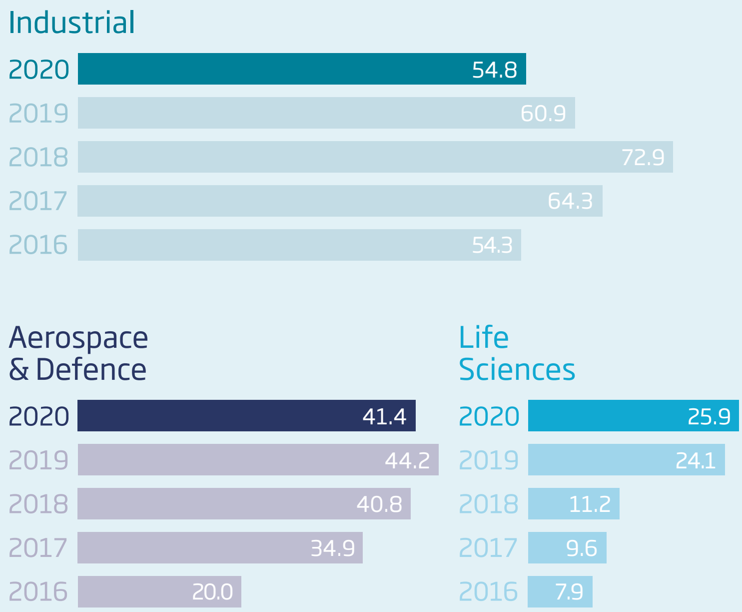
“The challenge of the pandemic has validated our long term strategic goals of diversification and moving up the value chain. We intend to vigorously pursue these goals through internal investment and where appropriate, acquisitions.”

Industrial & Telecom (£millions)
54.8
44.9%

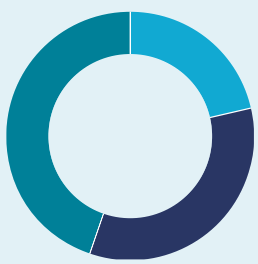
Aerospace & Defence (£millions)
41.4
33.9%

Life Sciences & Biophotonics (£millions)
25.9
21.2%

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 utilise 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

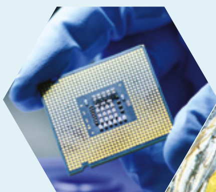
We serve the more demanding applications within telecommunications. Our customers deploy our fibre-based products in undersea networks and in space for satellite-to-satellite communications.

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 (A&D)

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 A&D customers.

Communications

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

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

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

Imaging Under Extreme Conditions

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

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

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

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

Countermeasures for Ground-Based Systems and Airborne Platforms

Infrared countermeasures protect military assets from missile attacks. These systems require accurate modulation of the infrared energy under extreme environmental conditions. We provide fibre optic, acousto-optic, and nonlinear crystal products which are used in customer-specific countermeasure applications, both ground based and airborne.

Gyroscopes for Navigation

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

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

OUR SECTORS AND APPLICATIONS


Image courtesy of NASA/Unsplash

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 NASA/Unsplash


Image courtesy of NASA/Unsplash


Image courtesy of NASA/JPL-CALTECH


Image courtesy of ESA

OUR SECTORS AND APPLICATIONS

Life Sciences and Biophotonics

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

Optical Coherence Tomography (OCT)

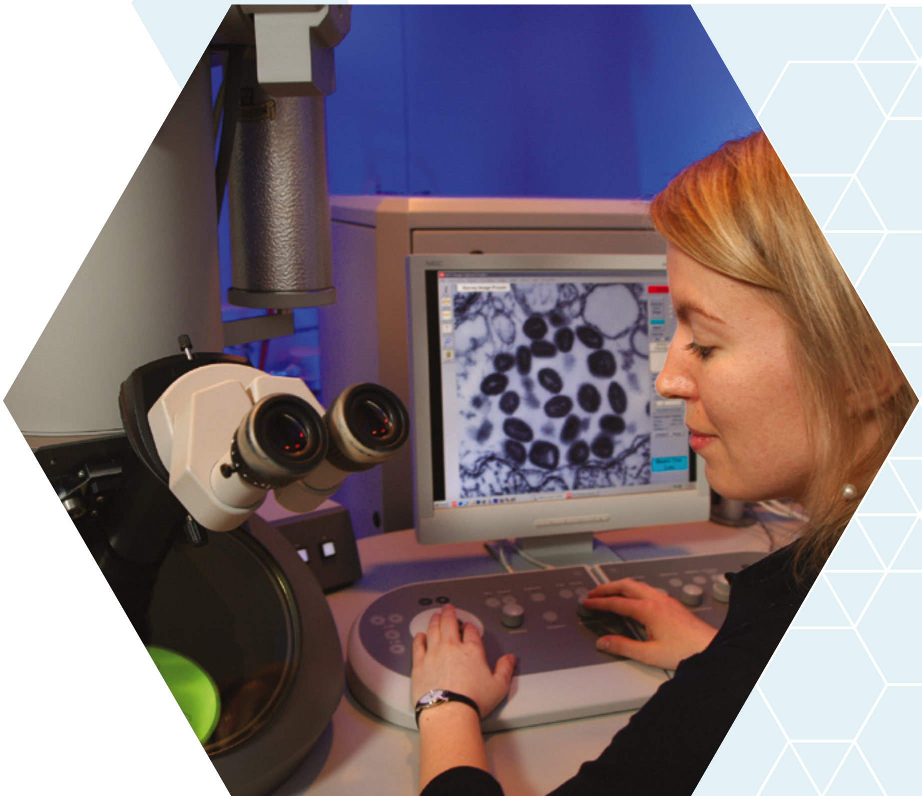
Widely used for ophthalmic imaging, OCT has proven invaluable in improving the diagnosis of glaucoma and macular degeneracy. We serve most of the world's leading manufacturers of OCT retinal imaging systems.

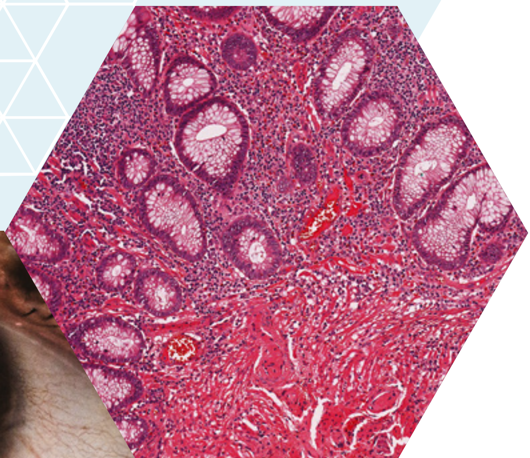
Medical and Cosmetic Laser Systems

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

We provide 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

Strategic Development

In 2020 we continued to execute our strategic objectives despite the unprecedented challenges created by the pandemic for the majority of the financial year. The year's trading also demonstrated the benefits of the Group's ongoing strategy of further diversification into the Aerospace & Defence and Life Sciences markets, reducing its dependency upon its traditional Industrial markets and making G&H a more balanced and resilient business.

Our sustained investment in R&D and the close relationships we have built with our customers supporting them with their next generation product developments means we are well placed to benefit from the long-term structural growth drivers in our markets. Our photonic technologies and applications are providing our customers with new solutions to their needs. In 2020 we made continued progress in repositioning the Group to provide more complex sub-assemblies and systems. These give more predictable and longer term revenue streams and the opportunity for enhanced returns.

Operational Improvement

During the year the business has remained focused on its operating costs to provide our customers with competitive offerings and our investors with enhanced returns. The project announced in March 2020 to migrate the manufacture of many of the Acousto-Optic products produced at our Ilminster site to our Asian contract manufacturing partner, the creation of an Acousto-Optic design and engineering centre in Fremont, CA, allowing the creation a UK Precision Optics Centre of Excellence at our Ilminster site, and the subsequent closure of our Glenrothes facility remains on track to deliver on time and with the expected returns.

Our Response To The Pandemic

G&H's primary concern during the ongoing pandemic remains the health and safety of our staff, customers and suppliers.

Progress on our established strategic and operational objectives was achieved alongside our employees having to respond from the second quarter of the financial year with great commitment and agility to the developing pandemic. New policies and procedures were implemented to allow the Group to operate effectively whilst strictly complying with best practice guidelines. Additional training was provided to our managers to help them lead their teams in the new and unfamiliar circumstance of many team members working from home. Some physical changes have had to be made to our facilities to support enhanced social distancing. All of these measures mean the Group is now well placed to withstand the continuing operational disruption that the pandemic continues to bring.

The hard work of our employees ensured we were able to keep our facilities open for the majority of time and able to support our customers' programmes. I am very proud of their achievement and on behalf of the Board I would like to thank all our people for their hard work and dedication in what has been a very challenging year.

"Delivering the strategy in the face of operational and market challenges."

Trading Performance

The effects of the pandemic were felt most keenly in our Industrial markets which were already impacted by cyclical downturn and the effect of cross border trade disputes. Our Aerospace & Defence market proved to be more resilient with the exception of some of our commercial aircraft programmes. Life Sciences delivered growth supported by strong trading from our recently acquired ITL business. Thanks to swift adjustments to the cost base the Group continued to be profitable and cash generative despite the impact of the pandemic. Order intake recovered well in the latter part of the financial year and we enter the new trading period with an order book 0.8% higher in constant currency than at September 2019 which provides an important underpin to the Group's revenues for FY2021.

Dividends

In light of the increased global economic uncertainty and in accordance with the Board's priority of conserving cash and managing the Group in a prudent manner through that uncertainty, a dividend will not be declared in respect of FY2020.

The Board will review its position for the current financial year with the intention of reinstating its long term progressive dividend policy as soon as it is appropriate to do so.

The Board

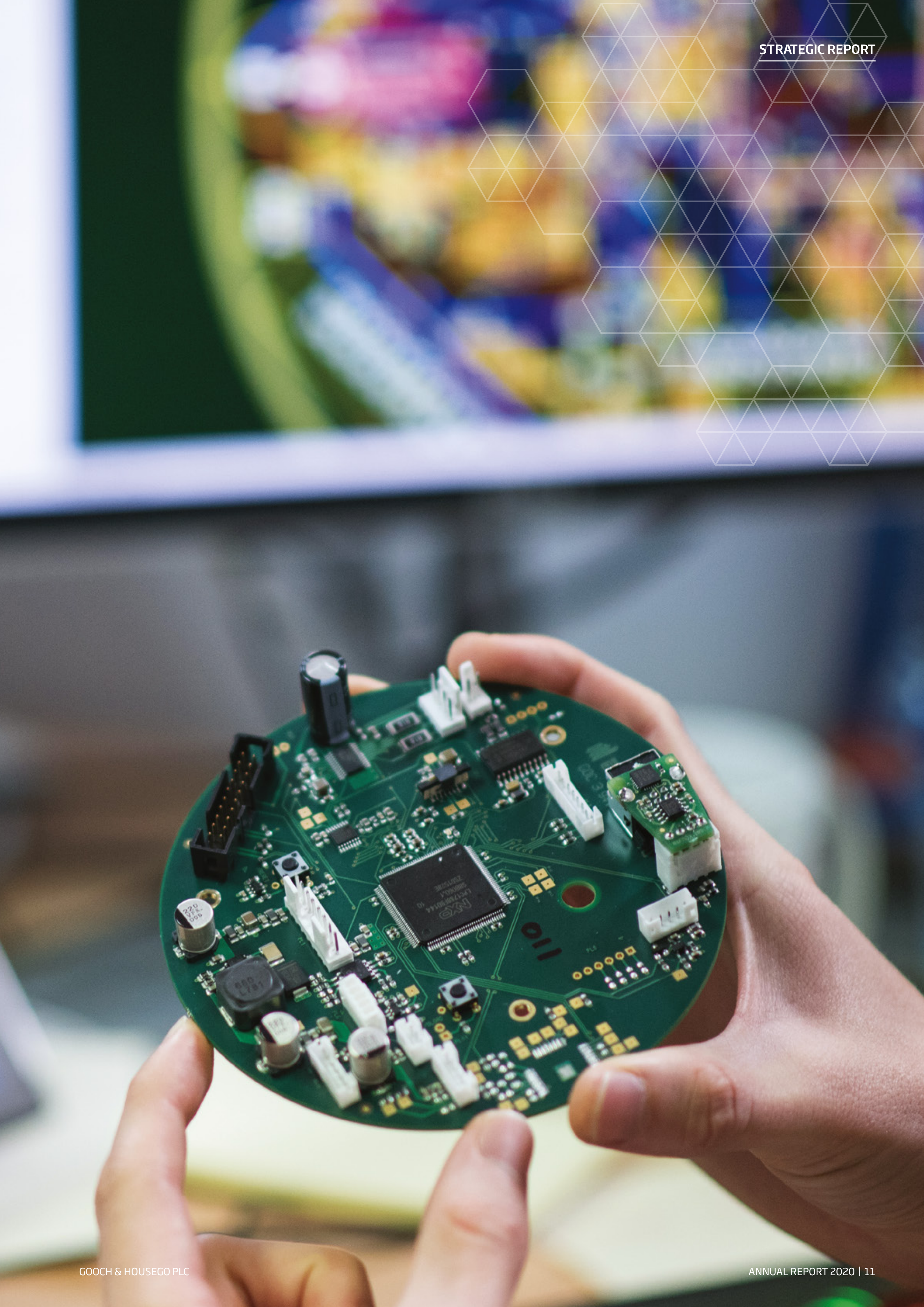
In December 2019 we were shocked and saddened by the death of our Audit Committee Chairman, David Bauernfeind. Since joining the Board in 2017, David had provided invaluable support to the business and his significant contribution to G&H is sadly missed.

In May 2020 we welcomed Louise Evans to the Board in the role of Non-Executive Director and Chair of the Audit Committee. She brings extensive experience from her strategic leadership roles in both listed and privately owned technical engineering groups. Louise has substantial expertise in the areas of financial management and M&A as well as the implementation of internal control and risk management frameworks. We are enjoying working with her.

Looking Ahead

Whilst the macroeconomic environment remains uncertain we enter the new financial year with a solid order book, cutting edge products and technologies and an increasingly competitive cost base. Our strategy is making G&H a better, more balanced business, and subject to the macroeconomic background, I am confident the Group is well positioned to deliver material progress in FY2021 and indeed beyond.

Gary Bullard
Chairman
1 December 2020



CHIEF EXECUTIVE OFFICER'S STATEMENT

FY2020 Performance

During the financial year 2020 G&H achieved revenue of £122.1m, representing a decrease of 5.5% over previous year or excluding foreign exchange, a decline of 5.4%. Adjusted profit before tax was £9.8m, a decline of 35.1%.

Overall demand for our technologies and capabilities was robust. There was an improved level of demand for medical diagnostics. Industrial lasers, the part of our portfolio most exposed to the wider economy, was below 'normalised' levels.

Trading reflected a challenging economic environment due to the COVID-19 pandemic.

Our primary concern during the ongoing pandemic remains the health and safety of our staff, customers and suppliers. Wherever possible our employees are working from home and for those that need to work at our manufacturing sites we have implemented a range of new health and safety measures to ensure that we rigorously meet social distancing and cleanliness requirements and all other relevant guidelines and regulations.

In the second quarter of the financial year two of our six US sites were temporarily shut down, due to state wide 'stay at home' orders. All of our five sites in the UK remained open, though Torquay, our largest site operated at reduced capacity in order to comply with social distancing regulations.

We are very proud of the way that our staff responded to these unprecedented challenges.

In the latter part of the year G&H returned to full manufacturing capacity at all of our sites in the UK, USA and China. Action taken to reduce the Group's cost base and headcount had a positive impact on our second half performance.

Throughout the financial year we have closely controlled the cash resources of the business. As a result, the Group remains in a sound financial position with a strong balance sheet. Liquidity levels improved during the period, supported by a $10m (£7.7m) extension to the Group's revolving credit facility, secured in April 2020, taking the total to $50m (£38.7m).

G&H has entered the new financial year with a solid order book. As at 30 September 2020 it stood at £92.4m (30 September 2019: £94.4m), 2.2% lower than the same period previous year, or an increase of 0.8%, excluding the impact of foreign exchange.

The year end order book reflects strong demand for fibre optics, hi-reliability fibre couplers for undersea cables and our A&D and life science capabilities. Demand improved for medical diagnostic equipment, in particular for ventilator systems. Industrial laser demand remains at below 'normalised' levels, though there has been a sustained improvement in the semiconductor subsector.

Industrial laser demand will return to longer term growth through technical innovation in end market applications such as 5G, AI and new laser-based manufacturing techniques, though the exact timings are hard to predict.

Our long term strategic commitment to diversification and moving up the value chain has been validated by the COVID-19 pandemic and has been instrumental in partially offsetting its impact. The Group has continued to invest in the business during the financial year, in line with these long term strategic goals.

New products from R&D contributed record revenues in FY2020 of £16.9m (FY2019: £13.5m). G&H was able to make further R&D investment in areas we 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.

In line with our strategic commitment to improving manufacturing efficiency, customer service and capacity we have continued to move forward with streamlining our manufacturing, as announced in March 2020. This is on schedule and in line to complete by the end of the calendar year 2021, with the expected improvement in profitability unchanged.

Strategic Goals

We remain committed to our twin strategic goals of further diversification and moving up the value chain. This enables us to more fully exploit our photonic technologies and system capabilities.

Aerospace & Defence ("A&D") and life sciences provide a counter balance to the industrial laser business. These sectors both have high quality and compliance barriers to entry and as markets move towards greater use of photonic technologies, G&H is increasingly well placed to serve customers in these markets.

Our aim remains to achieve a broadly equal split between the three market sectors. In FY2020 A&D represented 33.9% (FY2019: 34.2%) of G&H's revenue and life sciences 21.2%

"Trading reflected a challenging global economic environment due to the COVID-19 pandemic. G&H is very proud of the way that our staff responded. Management actions contributed to a stronger second half. These included ensuring all of our manufacturing sites were now able to operate at full capacity and are compliant with all new health and safety rules and regulations. Overall demand for our technologies and capabilities was robust and showed the benefit of a diversified portfolio. We have been able to improve on our already strong financial position, while still investing in our high priority R&D targets. There remains considerable long term potential for our photonic technologies and system capabilities in all of our target sectors."

CHIEF EXECUTIVE OFFICER'S STATEMENT

(FY2019: 18.7%), which represents considerable progress over the last few years.

G&H will continue to pursue our twin strategic objectives through internal investment and where appropriate, acquisitions.

Acquisitions

ITL is a UK based specialist in the design, development and manufacture of high quality medical devices. This acquisition has been a significant factor in G&H more than doubling the size of its life science business over the last two years. ITL's portfolio consists entirely of systems based products and that systems capability enables G&H to present an enhanced offering of photonic systems to our customers that will form a durable platform for further growth in the life science sector.

ITL was acquired in August 2018. Its performance has exceeded expectations and it has fully achieved its second year earn-out payment for the year ended 30 September 2020.

Research and Development ("R&D")

There has been continued benefit from concentrating our R&D resources on fewer higher return projects that the Group has identified as offering the highest growth potential for our photonic technologies and system capabilities. During FY2020 we introduced 40 new products and delivered record new product revenue.

G&H continues to work with our industrial laser and industrial laser system partners on the latest ultrafast precision lasers. We recently signed a multi-year partnership contract in order to develop the next generation of extreme UV lithography lasers that will be used in the production of atomic level nanoelectronics.

We have capitalised on our expertise in lasers to provide solutions for 'harsh environment' sensing. The 'laser engine' technology developed for wind detection in wind turbines and oil pipeline security is now being utilised in development of a wider range of security applications.

Unmanned aerial vehicles ("UAVs") have a variety of commercial and military uses. Our expertise in the design, engineering and manufacturing of bespoke complex optical arrays in the IR spectrum for the UAVs' imaging and communication systems represents a rich vein of opportunity for the Group.

G&H's laser based satellite communication system has passed rigorous pre-flight tests for commercial satellites and will be launched in the near future. We continue to work on European and UK space agency funded work, as well other commercial programmes. There is substantial opportunity to expand similar technology into small satellite constellations and near space UAVs.

We have a number of ongoing A&D programmes in the US and Europe which operate under high level security or confidentiality restrictions. At our Boston, MA site we have built on the leading edge development work for existing programmes enabling us to acquire further contracts.

Our ITL business has a range of leading edge medical diagnostic R&D collaborations. By combining G&H's core photonic technologies with ITL's system capabilities we have been able to work on new types of opportunities for our medical diagnostic customers.

Streamlining of G&H's Manufacturing Base

As part of our move towards improving manufacturing efficiency, customer service and capacity, we announced in March 2020 that we will streamline our manufacturing operations.

In the first instance this will be achieved by outsourcing Acousto Optic (AO) Q-switch manufacturing to a contract manufacturer in Asia and creating an AO engineering and design hub at our Fremont, CA site. Secondly, we are establishing a UK Precision Optic (PO) hub for the UK in Ilminster, Somerset by moving our specialist PO manufacturing from Glenrothes, Scotland and then closing the site. The restructuring remains on track to complete by the end of the calendar year 2021 and the expected financial benefits are unchanged.

Our manufacturing sites are organised within three manufacturing centres based around technical areas of excellence. Each manufacturing centre is led by an experienced manufacturing head whose role is to ensure best practice is shared, there is process harmonisation and optimal allocation of resource.

We are in year two of a three year programme of upgrading and harmonising our financial and business systems, which are designed to support and enable improved performance in the manufacturing and commercial functions. This project is on track and has already delivered tangible benefits.

Markets and Applications

Industrial

44.9% of FY2020 Group Revenue

The industrial division services a diverse range of industrial applications aligned to our world class photonic technologies. It splits into four distinct areas, industrial lasers, optical communications, 'harsh environment' sensing and scientific research.

Our industrial division declined by £6.0m or 9.9% compared with the previous year.

Industrial lasers went through a cyclical downturn in FY2019 on the back of a strong FY2018. As the area of our business most exposed to the wider economy there was no return to demand growth in FY2020 due to the COVID-19 pandemic. In the latter part of the year demand has picked up in certain subsectors, most notably semiconductors.

Longer term technological progress in end market applications will drive demand growth in the high innovation, higher margin section of the market. We are actively engaged with our industrial laser partners in developing the next generation of precision lasers. Outsourcing lower innovation products to a contract manufacturer in the Far East will enable us to compete more effectively in this subsector.

Hi-reliability fibre couplers for undersea cables are undergoing a multi-year growth phase driven by the well capitalised 'Silicon Valley' companies laying their own undersea cable networks. G&H has continued to invest in improving capacity for this section of business as we believe there will be good growth dynamics for the foreseeable future.

'Harsh environment' sensing has performed well and we have picked up new orders for our 'laser engines' used for directional sensing in wind farms and security related to oil pipelines and other related areas.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Scientific research includes high profile 'Big Science' projects such as supplying critical components to the world's most powerful laser system at the National Ignition Facility at Lawrence Livermore National Laboratory ("LLNL") in Northern California and its European equivalent, Commissariat a l'energie atomique et aux energies alternatives("CEA") in Bordeaux, France. G&H is a primary supplier to these facilities and this represents a profitable and prestigious part of our industrial business.

Aerospace & Defence
33.9% of FY2020 Group Revenue

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

Delivering product quality, reliability and high performance in harsh environments is essential in the A&D arena and this very much plays to G&H's strengths. Our customers include the main tier one US and European A&D companies.

A&D revenue declined by £2.8m or 6.4% compared with the previous year.

During FY2020 we were able to continue to deliver on a number of high profile US contracts and win further business from existing and new contracts. Our revenues in the UK suffered from contract phasing issues. Though all of our tier one A&D customers continued to operate, the effect of working from home meant that many of the demanding, 'high hurdle' quality, compliance and supply chain aspects inherent in this sector took longer to navigate than usual and slowed down the business momentum in this sector.

G&H has exited FY2020 with a record A&D order book in the US and a much improved order book in the UK and Europe as a result of the determined work by our teams throughout the year in order to take advantage of good underlying demand for our capabilities.

We expect to have our laser based satellite communication system in space during FY2021, having passed all of the rigorous pre-flight operating tests. The use of fibre optic lasers to transmit information means satellite communication systems are more efficient, robust and substantially lighter. We believe this will lead to further utilisation of our technology in small satellite constellations and near space UAVs.

Life Sciences/Biophotonics
21.2% of FY2020 Group Revenue

Life Science revenues grew by £1.8m or 7.6% compared with the previous year.

Our medical diagnostic system business grew strongly during the year and benefited from increased demand for our products as a result of the COVID-19 pandemic. This was particularly true for a product manufactured by ITL which is designed to improve respiratory function and oxygen uptake, as part of a ventilator system for patients in critical care. It is available globally, but has greatest traction in the US.

G&H's principal photonic applications in life sciences are optical coherence tomography ("OCT"), laser surgery and laser microscopy. OCT is widely used in ophthalmology for 3D retinal scanning and G&H has a market leading position in this area. Similar technology is also applied to cardiovascular and cancer disease detection systems for US based medical diagnostic companies.

In contrast to our medical diagnostic business there was a reduction in the number of non COVID-19 medical procedures. This resulted in lower OCT business and a sharp reduction in the number of procedures using medical lasers, in particular for cosmetic procedures. In the latter part of the year demand for our OCT diagnostics and critical components for medical lasers started to demonstrate a return to demand growth.

Outlook

In the short term, there is significant global economic uncertainty due to the COVID-19 pandemic, but G&H's order book remains robust and a testament to the benefits of a diversified portfolio.

During FY2020 a number of management actions have enabled the Group to build in greater resilience to our business. All of our manufacturing sites in the US, UK and China are open, able to operate at full capacity and are compliant with all national and local health and safety requirements. Our manufacturing site at Torquay is now able to operate at full capacity while complying with social distancing regulations due to infrastructure and process improvements undertaken since the start of the pandemic. G&H's six US sites are now all classified as fully or mainly exempt, as they produce products deemed essential or vital for national security.

G&H's plan to streamline its manufacturing is on track and will deliver the improvements in profitability outlined in the March 2020 announcement. Our cost base and headcount has been reduced and is now in line with the demands of the current working environment. Going forwards, we will continue to review further improvements to the Group's operations.

The Company remains in a sound financial positon, with a strong balance sheet having improved its liquidity levels through FY2020 and into the start of the current financial year.

New products delivered a record contribution in FY2020 and we will continue to invest in those areas identified as delivering the highest return for our photonic technologies and system capabilities. There remains substantial long term growth potential for our photonic technologies and system capabilities in all of our target sectors.

Our commitment to our strategic objectives of diversification and moving up the value chain has been validated and will provide a robust platform for future growth. G&H intends to continue to vigorously pursue this policy through internal investment and where appropriate, further acquisitions.

Subject to the short term global economic environment, the Board remains confident that G&H is well positioned to deliver material progress in FY2021 and substantial long term growth.

Mark Webster
Chief Executive Officer
1 December 2020

MARKET OVERVIEW
Industrial

Applications, Products and Markets

Industrial Lasers for materials processing applications. G&H 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. Whilst the market has recently experienced a cyclical downturn, extended by the COVID-19 pandemic, the move towards 5G, AI and new laser enabled production techniques provides strong long term growth drivers for this market.

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.

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.

Optical Communications specifically for high reliability and high performance applications. The products supplied into this market are based upon the Group's f*ibre 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 in recent years and this has continued during the current year.

Remote Sensing for applications including asset protection, perimeter security, strain, temperature and pressure sensing. G&H supplies *fibre optic* and *acousto-optic components and subassemblies*, including the G&H developed Fibre-Q. Manufacturers of these systems address diverse end markets such as wind energy and oil and gas exploration and production.

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. G&H supplies many of the world's leading nuclear fusion and energy research facilities. We are also the primary 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 reduced by 9.9% in both absolute and constant currency terms during the year, with revenues of £54.8m, compared with £60.9m last year.

- This reduction was driven by continuing below 'normalised' demand for critical components used in industrial lasers for microelectronics although there was sustained recovery in the period from the semiconductor manufacturing market. The cyclic downturn was exacerbated and extended by continuing trade tensions between the US and China and then the COVID-19 pandemic.

- In contrast, demand for fibre optic products and hi-reliability fibre couplers used in undersea networks has continued to be strong. The investment we had made in the second half of FY2019 and the first months of FY2020 supported the ramp up in deliveries achieved in the year. This was affected by our Torquay facility operating at reduced capacity for part of the year, due to COVID-19 restrictions. Our Torquay site is now operating at full capacity.

- Our industrial business has also seen continuing growth in the sensing market securing new contracts for directional sensing for wind farms and in support of border security.

- Adjusted operating profit for the Industrial business was lower at £4.1m, compared with £9.0m last year, reflecting the reduced revenue especially for relatively higher margin industrial laser products.

Growth Strategy

- To continue to invest in R&D and process engineering in order to develop our existing portfolio.

- To bring to the market new products and to ensure that we remain at the cutting edge of technology in this important area. During FY2020 G&H introduced a new laser engine product deployed in wind sensing applications and new Pockels cells products. We also signed a multi-year contract with a laser system company to develop the next generation of Extreme UV lithography lasers for production of atomic level nanoelectronics.

- To focus on niche markets that play to the strengths of G&H, 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 build strong relationships with our customers' development teams to ensure we are designed in to their next generation products.

- To make strategic acquisitions. The Company will continue to seek high quality acquisition opportunities as a route to grow its industrial business.

Percentage of Revenue

44.9%

2019 47.1%

Revenue (£millions)

54.8

-9.9%

2019 60.9

Adjusted Operating Profit (£millions)

4.1

-54.2%

2019 9.0

MARKET OVERVIEW
A&D

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*. G&H 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 the European Space Agency, UK Space Agency and commercial organisations to develop and deploy subsystems for inter-satellite and satellite to ground communications, radio over fibre and optically inter-connected on-board processors within telecommunications satellites.

Periscopes & 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 Subsystems for Unmanned Aerial Vehicles. The business provides system level optical products (including in IR and SWIR frequency bands and LIDAR sensors) for use in harsh environments to key US defence and European A&D customers. This is a growing area in both the core defence and commercial markets.

Financial Performance

- A&D revenue was £41.4m, a reduction of 6.4% on last year, primarily as a result of production deliveries concluding on several periscope and sighting systems programmes prior to newly secured contracts entering their production delivery phase. Though all of our tier one A&D customers continued to operate, the effect of working from home meant that many of the 'high hurdle' quality, compliance and supply chains demands in this sector took far longer to navigate than usual, due to the COVID-19 pandemic. This slowed down some of the business momentum during the period. Excluding foreign exchange our A&D sector declined by 6.1%.

- This sector secured some important new contracts, especially our Boston site, which exited the financial year with a record order book. This reinforces our belief that this division represents a growth opportunity for G&H, as optical technologies continue to be increasingly deployed in this market.

- Operating margins in this sector reduced a little from 8.0% in the prior year to 6.8%. This was due to the lower revenue.

Growth Strategy

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

- To continue to invest in manufacturing processes and engineering in order to meet the needs of our customers. The investments made in new surface polishing machines for our newly formed UK Precision Optics centre of excellence in Ilminster are evidence of our intent to secure further market share in this sector.

- To make strategic acquisitions that will provide synergies, are complementary to our existing A&D business and will help us move towards our strategic goal of building "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 take on projects with a high technical content initiated by our customers. During FY2020 G&H introduced 30 new products that addressed its A&D market including space satellite laser based communication systems, new sighting systems and IR lens assemblies for UAVs to address our customers' needs.

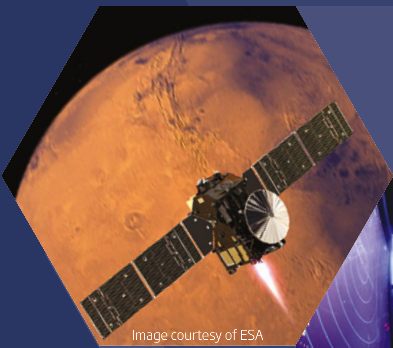


Image courtesy of ESA

Revenue (£millions)

41.4

-6.4%

2019 44.2

Percentage of Revenue

33.9%

2019 34.2%

Adjusted Operating Profit (£millions)

2.8

-20.6%

2019 3.5

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, but now including cardiovascular disease and cancer diagnostics. G&H 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. G&H'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 G&H has a range of capabilities including full product development, design, manufacturing, certification and after sale service for the commercialisation of high-quality medical diagnostic, in vitro diagnostic (IVD) devices, precision analytical, electro-mechanical and laboratory instruments.

The growth strategy for Life Sciences / Biophotonics is to fully exploit our photonic technologies, such as OCT, add adjacent technologies such as OCT endoscopy, minimally invasive surgery and robotic surgery and use our enhanced systems capability, through ITL to move up the value chain with our customers. As with our A&D customers, typically multi-national medical diagnostic companies are receptive to our technologies being presented as systems or sub-systems.

Financial Performance

- In FY2020 Life Sciences / Biophotonics revenue was £25.9m, up 7.6% compared with the prior year or 7.7% excluding foreign exchange. This was driven by our ITL business which again exceeded expectations, delivering revenues of £16.4m due to very strong ramp up in volume of products supplied into an end customer's respirator programme.

- In contrast, outside of medical diagnostics there was a global decline in non-COVID-19 medical procedures. This resulted in lower demand for our OCT products and specialist components used in medical lasers for surgery. In the latter part of the year these subsectors started to return to a more familiar growth profile.

- Operating margins in this sector were 18.0% compared with 21.1% in the prior year reflecting changes in the product mix year on year.

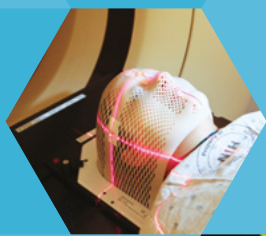
Growth Strategy

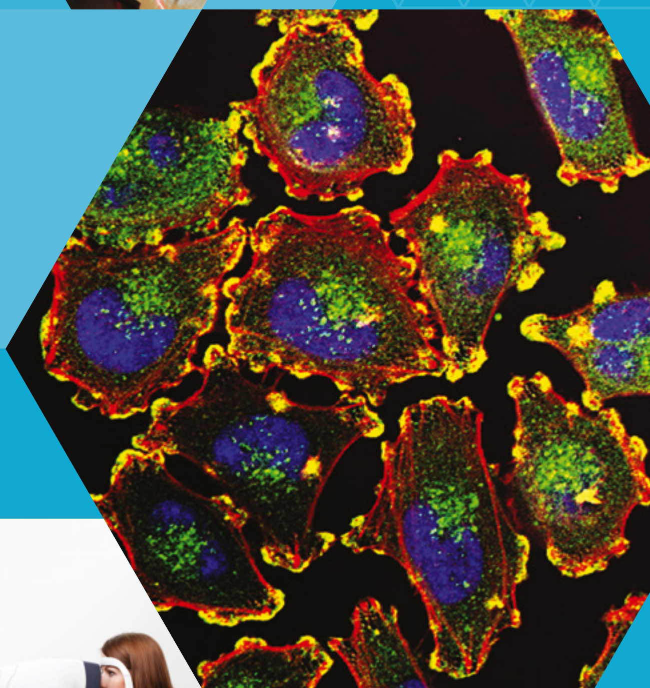
- To continue to invest in R&D projects in close collaboration with our customers, to develop the existing portfolio of products and to ensure that they remain competitive. During FY2020 G&H introduced seven new products that address its Life Sciences / Biophotonics market, especially in the medical instrumentation market.

- Where appropriate to sell the full range of our Life Sciences / Biophotonics products to a wider range of customers.

- To utilise the considerable improvement in our systems capability with the acquisition of ITL to present our breadth of technologies as part of subsystems or systems.

- 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. G&H continues to seek acquisition opportunities.





Revenue
(£millions)

25.9
+7.6%

2019 24.1

Percentage of Revenue

21.2%

2019 18.7%

Adjusted Operating Profit
(£millions)

4.7
-8.5%

2019 5.1

OUR STRATEGY

G&H has two fundamental strategic objectives:
- To diversify in to new markets and
- To secure a greater proportion of the Group's revenues from sub-assemblies and systems.

We have identified three strategic priorities to support the achievement of these objectives:
- R&D investment
- Operational excellence
- Value enhancing acquisitions

R&D Investment

At G&H our R&D teams have market leading skills in photonic technologies. Our customers recognise this and we have established important collaborative relationships with many OEM customers who look to G&H's expertise to assist them in designing and developing the next generation of photonic based products. Through this close working relationship we are able to participate in early stage design discussion and identify opportunities to support our customers in new adjacent markets.

We have developed clear technology roadmaps in each of our three market areas – Industrial, Aerospace & Defence and Life Sciences. These roadmaps are customer focussed, that is we concentrate our development activities where we can see a clear customer demand. In this way we maximise the return from our R&D investment and are often able to secure customer or research establishment funding to support our own investments.

During the financial year our R&D spend totalled £8.0m or 6.5% of revenue. 40 new products/systems transitioned to be revenue generative in the year. These covered all three of our markets and included important new systems and subsystem products. Many are helping us build new positions in important adjacent sub-markets such as space communications and lung disease diagnostic equipment. New development funding was secured from Innovate UK to work as part of a consortium on the commercialisation of quantum technology and we secured customer funding to assist in the development of Extreme UV based industrial lasers.

Operational Excellence

We have state of the art manufacturing facilities located in the UK, the USA and China. We deliver robust and reliable products to our customers frequently to the most demanding quality standards. This is supported where appropriate by strategic long term relationships with our third-party suppliers.

During the year we announced that we would outsource the manufacture of many of our Acousto- Optic products to our Asian contract manufacturing partner. This will allow us to continue to offer cost competitive products to our customers and make further focussed investment in our newly create UK precision optics centre of excellence at Ilminster. The project to transfer production activities to Ilminster from our Glenrothes facility is progressing well and production at that facility will cease at the end of this calendar year reducing the fixed cost base of G&H.

New investments were made to equip the Ilminster facility with state of the art precision optic cutting and polishing machines that will allow us to access new adjacent markets that require larger optics based upon sophisticated, harder to work materials.

Where it was appropriate to do so, action was taken during the year to reduce our operating costs where there was market softness.

We have also continued to develop our business systems and reporting to allow our manufacturing managers to access better, more detailed manufacturing data in real time supporting more rapid operational decision making.

Value Enhancing Acquisitions

G&H uses targeted, complementary acquisitions to accelerate our strategy through accessing new adjacent markets and combining products of acquired businesses with those of our existing Group to offer our customers a larger range of sub-assemblies and systems.

During the year our ITL acquisition continued to perform ahead of expectations. Through its significant systems level R&D capabilities it has been able to secure important new programme positions with large Life Science OEMs. Synergy opportunities have been identified combining our traditional photonic products with ITL's systems expertise and we expect this to generate important new programme wins in the near future. We will use ITL's presence in the Chinese market as a means to target new customers and programmes in that territory for G&H as a whole.

We continue to develop our acquisition pipeline and review acquisition opportunities that would add complementary capabilities and market access. Whilst the pandemic has required us to delay progressing any acquisition targets to completion we are well prepared to do so once restrictions are lifted. Our good cash conversion during the year together with the expanded debt facilities secured in April 2020 mean that the Group has significant funding available to pursue future acquisitions.

FINANCIAL AND OPERATING REVIEW

Overview

The Group's trading performance in the year reflected the impact of the pandemic on demand in our Industrial and Commercial Aerospace markets and some temporary closures of our facilities. Revenue and underlying profit before tax for the year were, however, marginally ahead of management's revised expectations following the advent of the pandemic, reflecting a faster than expected recovery to full operational capacity in the second half of the year.

Group revenue for the year totalled £122.1m. This represents a reduction of £7.0m, or 5.5% over the previous year. On a constant currency basis, revenues declined by 5.4%.

The Group's adjusted profit before tax amounted to £9.8m (2019: £15.0m) and represented a margin of 8.0% (2019: 11.6%). Statutory profit before tax was £5.4m compared with £6.0m in the prior year. Adjusted profit before tax is a key alternative performance measure by which the Board evaluates the Group's performance as it better represents the underlying trading of the Group with restructuring costs, acquisition and disposal items excluded from this measure. Further details of alternative performance measures are provided later in this review.

Cash performance for the year was good with the business generating £21.6m of cashflow from operating activities. In April 2020 the Group entered in to an agreement to increase its revolving credit facility from $40m (£31.0m) to $50m (£38.7m), extending the maturity date out from August 2021 to April 2023.

Revenue

	2020		2019	
Year ended 30 September	£'000	%	£'000	%
Industrial	54,811	44.9%	60,854	47.1%
A&D	41,390	33.9%	44,203	34.2%
Life Sciences/Biophotonics	25,894	21.2%	24,076	18.7%
Group Revenue	122,095	100%	129,133	100%

Revenue for the year totalled £122.1m, compared with £129.1m in the prior year. In the first quarter of the trading year our Industrial business segment was impacted by the ongoing weaker demand in its end markets and then from the second quarter by the COVID-19 pandemic. Industrial revenue declined by 9.9%, in both absolute and constant currency terms, from £60.9m last year to £54.8m this year. However the sector's H2 revenues grew compared to the first six months of the year supported by the continuing ramp up in revenues from its telecoms markets.

In A&D important milestones were achieved on US development programmes allowing progression to the production stage of the contracts but overall revenues declined year on year by 6.4% (6.1% at constant currency) from £44.2m to £41.4m primarily due to the completion of programme deliveries to customers of our St Asaph facilities prior to new programmes reaching their production phase in the second half of FY2021.

Our Life Sciences/Biophotonics business delivered year-on-year growth of 7.6% (7.7% at constant currency). Our ITL business saw strong demand for components used in respirator systems more than offsetting a downturn in the medical laser market as a result of the pandemic. Life Sciences / Biophotonics revenue increased in absolute terms from £24.1m to £25.9m.

Operating Costs

In response to the challenging trading conditions we took a number of actions to reduce the Group's cost base. Group headcount decreased from 984 at 30 September 2019 to 902 at 30 September 2020. Headcount reductions were partially attributable to the restructuring project described later in this review, but other reductions were made to adjust to reduced trading volumes. Labour costs were also mitigated as some employees were furloughed, primarily at our Torquay site which temporarily ran at reduced capacity. There are currently no employees furloughed and Torquay is back operating at full capacity. Actions were also put in place to reduce discretionary spend such as travel and exhibitions which also contributed to the decrease in operating costs.

Research & Development (R&D)

The Group continued to invest for the future with R&D spend at 6.5% of revenue, which was in line with prior year. R&D spend in the period was £8.0m. There were 40 new products released in FY2020, together with five new patents granted. Important developments were completed in the fields of space satellite communications and sighting systems for armoured vehicles. The Group capitalised £0.5m of development expenditure in the year (2019: £0.7m).

Alternative Performance Measures

Alternative performance measures are presented in these financial statements as management believe they provide investors with a means of evaluating the performance of the Group on a consistent basis. These alternative performance measures exclude the impact of non-underlying items on the Group's financial results. The Group's alternative performance measures and their reconciliation to IFRS measures are shown in the table below. In addition to the measure shown in the table below, the Group presents Adjusted Profit Before Tax which is Adjusted Operating Profit less Adjusted net Finance Costs.

Non-Underlying Items

Statutory operating profit was £6.3m (2019: £8.4m) and statutory profit before tax was £5.4m (2019: £6.0m). Non-underlying items are presented separately as the Directors believe that they require separate disclosure on account of their nature and size in order to provide a clear and consistent presentation of the Group's underlying business performance.

Adjusted operating profit declined by 31% to £11.2m (2019: £16.3m) and adjusted profit before tax by 35% to £9.8m (2019: £15.0m) after excluding net charges of £4.4m (2019: £9.1m) in respect of non-underlying items. These comprised restructuring and site closure costs of £2.6m (FY2019: £1.0m), charges in respect of acquisitions and the amortisation of acquired intangible assets of £2.7m (2019: £9.9m) and a non-underlying credit of £1.2m (2019: £nil) in respect of a legal judgement in our favour associated with the lease of our Fremont facility.

The restructuring costs incurred in the year related to expenses arising from the project to establish the Ilminster facility as our UK Precision Optics Centre of Excellence and the resultant closure of our Glenrothes facility. This project is described more fully in the Operations section of this review. The costs recorded in the period principally comprised redundancy costs and the write downs of both tangible fixed assets and inventories of products which will be discontinued at the completion of the project.

FINANCIAL AND OPERATING REVIEW

In March 2020 long running litigation with the landlord of our Fremont facility was finally concluded and G&H was awarded a total of $3.6m (£2.8m) comprising damages, reimbursement of our costs and interest arising from the landlord's non-performance in respect of the lease and this amount was received in full in June 2020.

The reimbursement of costs and interest received of £1.2m was treated as a non- underlying credit in the income statement whilst the damages element of the award was credited against the right of use asset held on the balance sheet.

Reconciliation of Adjusted Performance Measures

	Operating profit		Net finance costs		Taxation		Earnings per share	
Year ended 30 September	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 pence	2019 pence
Reported	6,334	8,408	(942)	(2,456)	(1,610)	(2,191)	15.1p	15.1p
Amortisation of acquired intangible assets	2,676	3,690	–	–	(397)	(676)	9.1p	12.1p
Restructuring and site closure	2,609	973	–	–	(392)	(206)	8.9p	3.0p
Settlement of lease dispute	(410)	–	(818)	–	271	–	(3.8p)	–
Impairment of goodwill	–	6,258	–	–	–	(921)	–	21.4p
Adjustment to accrued contingent consideration	–	(3,075)	–	–	–	662	–	(9.7p)
Interest on deferred consideration	–	–	303	1,218	–	–	1.2p	4.9p
Adjusted	11,209	16,254	(1,457)	(1,238)	(2,128)	(3,332)	30.5p	46.8p

Interest

The net underlying interest expense of £1.5m (2019: £1.2m) increased by £0.2m. This was largely due to the adoption of IFRS16 from 1 October 2019 which added £0.4m to the Group's interest charge.

Tax and Earnings Per Share

The tax charge for the year was £1.6m (2019: £2.2m) with an underlying tax charge of £2.1m (2019: £3.3m) after excluding a credit on items excluded from underlying profit of £0.5m. This resulted in an underlying effective tax rate of 21.8% (2019: 22.2%), a marginal reduction on the prior year as we were able to increase the utilisation of historical tax losses in our US operations. 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.

Group Earnings Performance

All amounts in £'000	Adjusted		Reported	
Year ended 30 September	2020	2019	2020	2019
Operating profit	11,209	16,254	6,334	8,408
Net finance costs	(1,457)	(1,238)	(942)	(2,456)
Profit before taxation	9,752	15,016	5,392	5,952
Taxation	(2,128)	(3,332)	(1,610)	(2,191)
Profit for the year	7,624	11,684	3,782	3,761
Basic earnings per share (p)	30.5p	46.8p	15.1p	15.1p

Basic underlying earnings per share decreased to 30.5p (2019: 46.8p).

Balance Sheet

The Group's total equity at the end of the year was £113.4m, an increase of £0.5m over the prior year. This comprised an increase of £2.0m from retained earnings, a £0.3m increase from adjustments to reserves for long term incentives and a net reduction of £1.8m from foreign exchange and other movements.

Additions to tangible and intangible fixed assets totalled £6.8m (2019: £7.5m), equivalent to 1.08 times owned asset depreciation and amortisation (2019: 1.43 times). The most significant additions were new state of the art precision optic cutting and polishing equipment located in our newly formed UK centre of excellence in Ilminster. We made further investments in our IT system with our Keene, St Asaph and Baltimore businesses now migrated on to the Group's core ERP systems.

For the full year there was a £4.7m inflow from working capital (2019: £6.6m outflow). Within working capital, inventory decreased to £30.6m from £33.3m at the beginning of the year reflecting lower business volumes and our continuing work to improve our demand forecasts on which our manufacturing build plan is based.

Trade and other receivables at year end were £26.3m, a reduction of £6.9m compared with the prior year. The reduction was due to the lower trading levels and a continued strong focus on collections, although we are experiencing continued pressure from many of our larger customers for extended payment terms.

Net interest (excluding IFRS 16 interest and interest received on the legal settlement) and tax paid reduced to £2.2m from £2.4m in the prior year.

IFRS 16 Leases

The Group implemented IFRS 16 leases with effect from 1 October 2019. On adoption of the standard the Group recognised right of use assets of £9.6m and a lease liability of £9.4m. The impact on the income statement in the year has been to increase underlying operating profit by £0.3m and interest expense by £0.4m.

FINANCIAL AND OPERATING REVIEW

Cash and Net Debt

Cash balances at 30 September 2020 were £19.7m, compared with £17.5m in the prior year. Net cash flows from operating activities totalled £20.4m, compared with £11.6m last year, supported by the lower levels of working capital year-on-year. During the year net debt excluding lease liabilities decreased by £7.8m to £6.5m, of which £1.2m was as a result of exchange rate movement on the Group's US$ denominated borrowings. IFRS 16 lease liabilities added a further £8.2m bringing the Group's reported net debt to £14.7m at the year end.

As at 30 September 2020, available undrawn committed and uncommitted debt facilities totalled $36m (£27.9m).

Movement in Net Debt

All amounts in £m	Gross Cash	Bank borrowings	Net Debt Exc IFRS16	Lease Liabilities	Net Debt
At 1 October 2019	17.5	(31.8)	(14.3)	–	(14.3)
Adoption of IFRS16	–	–	–	(9.4)	(9.4)
Operating cash flows	16.8	–	16.8	–	16.8
Debt repayments	(4.3)	4.3	–	–	–
Lease repayments	(1.6)	_	(1.6)	1.6	–
Acquisitions (deferred consideration)	(4.8)	–	(4.8)	–	(4.8)
Net capital expenditure	(6.4)	–	(6.4)	–	(6.4)
Working capital	4.7	–	4.7	–	4.7
Interest, tax and dividends	(3.4)	–	(3.4)	–	(3.4)
Legal dispute settlement	1.6	–	1.6	–	1.6
Non cash movements	–	0.1	0.1	(0.8)	(0.7)
Exchange movements	(0.4)	1.2	0.8	0.4	1.2
At 30 September 2020	19.7	(26.2)	(6.5)	(8.2)	(14.7)

Funding and Liquidity

In April 2020 the Group entered into an agreement to increase its revolving credit facility from $40m (£31.0m) to $50m (£38.7m), taking the maturity date out from August 2021 to April 2023.

Borrowings from the Group's revolving credit facility are drawn at the Group level and lent to the operating subsidiaries.

The main financial covenants in the revolving credit facility restrict net debt to below 2.5 times underlying EBITDA, and EBITDA is required to cover net interest costs (excluding IFRS 16 interest) by 4.5 times. As at 30 September 2020, net debt : underlying EBITDA was 0.4 (2019: 0.6) and interest cover was 10.8 (2019: 15.4).

The rationale for preparing the financial statements on a going concern basis is set out below.

Operations

As announced in March 2020, the Group has launched a significant restructuring project to streamline its Acousto-Optic (AO) and Precision Optic (PO) manufacturing facilities. An AO hub is being created at our Fremont, California site which combines the AO capabilities of our Fremont and Ilminster facilities. Fremont will lead the Group's AO technology roadmap. In support of this approach we entered in to an agreement to outsource much of our AO manufacturing currently undertaken by our Ilminster facility to an established contract manufacturer in South East Asia. These plans enable us to consolidate design, engineering and R&D resources and to continue to provide high quality, cost competitive products to the industrial laser market.

As part of this same project the Group is establishing a single UK PO hub at our Ilminster facility fashioned from our two current PO sites at Ilminster and Glenrothes. As part of this plan we are transferring Glenrothes PO manufacturing resources and capabilities into Ilminster and the Glenrothes site will be closed at the end of the current calendar year. The project is expected to be fully complete by the end of 2021 financial year. The total investment is expected to be c. £5m across FY2020 and FY2021 and the one off income statement impact has been excluded from adjusted profit before tax. Total non-underlying charges on the project in FY2020 were £2.4m. Savings are expected to build over time, and to achieve a positive benefit in the second half of FY2021 and an annualised benefit of c. £1.25 m by FY2022.

We have now completed the roll out of our Syspro ERP/MRP system to all of the Group's sites with the exception of ITL which had recently upgraded to an Epicor system shortly prior to the acquisition of the business by the Group in 2018. We have developed a suite of business reports based upon data warehousing which has significantly enhanced the quality of information available to the management team.

COVID-19 Pandemic

As a result of the pandemic we implemented a range of measures to keep our employees safe, to continue to support our customers' programmes and to protect the financial position of the business. In the early stages of the pandemic whilst many of our customers' facilities were partially or fully closed and we were in the process of making alterations to some of our facilities approximately 20% of our employees worked reduced hours. In the UK we utilised the Government's Coronavirus Job Retention Scheme and received a total of £0.4m in furlough grants. In the US we received an amount of $1.4m (£1.1m)under the Government's Paycheck Protection Programme.

In accordance with FRC & ESMA best practice guidance we have not separately identified the impact of the pandemic on the Group's trading performance for the year. Instead we have included all costs incurred and support received within the reported underlying financial results of the business.

The Group's cash flows were temporarily supported by the UK Government's scheme allowing businesses to defer sales and payroll tax payments, however, all amounts owing were fully paid by the end of the financial year.

The cashflow of the Group has been resilient during the pandemic. We have not experienced any deterioration in our collections performance nor has there been any increase in our expected credit loss.

Order Book

As at 30 September 2020, the Group order book stood at £92.4m, compared with £94.4m at the end of the 2019 financial year. Excluding foreign exchange the order book was 0.8% higher. The book to bill ratio for the business as a whole was 1.01 (six month rolling average) as at 30 September 2020 (2019: 0.98). This reflects an improving order intake trend in the latter stages of the year.

FINANCIAL AND OPERATING REVIEW

Staff

The Group workforce decreased from 984 at 30 September 2019 to 902 at the end of September 2020. The reduction reflects the action the business has taken to adjust to the lower levels of market demand following the onset of the pandemic and initial releases of staff from our Glenrothes site as part of the restructuring programme.

Key Performance Indicators (KPIs)

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

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

Total revenue growth	2020	2019	2018
At actual exchange rates	(5.5)%	3%	12%
At constant exchange rates	(5.4)%	-	16%

The Board is focused on driving long term revenue growth by investing both organically and through acquisitions. The Group's revenue measured at constant exchange rate declined by 5.4% year-on-year reflecting the impact of the pandemic on our Industrial and Aerospace & Defence sector partially offset by the growth delivered by our Life Sciences/Biophotonics sector.

Target market revenue	2020	2019	2018
A&D (£m)	41.4	44.2	40.8
Life Sciences (£m)	25.9	24.1	11.2

The Group's target markets of A&D and Life Sciences provide a route to sustainable growth, and a more diversified revenue base. These markets also provide significant opportunities for G&H 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. Measured on a constant currency basis Life Sciences revenues grew 7.7% thanks to strong demand for products from our medical diagnostics business which more than offset the impact of the pandemic on revenues for our medical laser products. In A&D revenues declined by 6.1% on a constant currency basis reflecting the completion of deliveries on some material programmes prior to the ramp up of deliveries on new secured programmes. Our A&D order book at 30 September is strong and provides a good underpin for revenue growth in the coming year.

Net debt analysis	2020	2019	2018
Net debt (£m)	14.7	14.3	10.6

In order to balance business risk with the investment needs of the Company, management closely monitors and manages net debt. Excluding the impact of the new lease standard, IFRS16, net debt reduced by £7.8m in the year thanks to a reduction in the Group's working capital levels and the benefit of favourable exchange rate movement on the Group US$ denominated borrowing. This represents a Net Debt : Adjusted EBITDA ratio of c.0.4. Lease liabilities added a further £8.2m within the total reported net debt of £14.7m.

Earnings per share (EPS)	2020	2019	2018
Adjusted diluted EPS (pence)	30.2p	46.7p	56.5p

As a result of the continuing challenging trading environment in the industrial laser sector and then the impact of the pandemic on the Group's markets adjusted diluted EPS fell 35.3%, from 46.7p to 30.2p.

The effect of adopting IFRS16 in the year was to reduce profit before tax by £0.1m and to reduce adjusted diluted earnings per share by 0.3p.

SUSTAINABILITY REPORT

At G&H we are focussed on creating a long term sustainable business for the benefit of all of our stakeholders. We aim to support the communities in which we operate and minimise the Group's impact on the environment. We are determined to maintain our high standards of business conduct as we know our reputation is key in ensuring our long term success.

A Sustainable Business Model

Our strategy is delivering sustainable value by positioning the business in attractive growth markets where our innovative, state of the art products provide our customers with solutions to some of their most challenging needs.

In each of our chosen markets photonic solutions are at the heart of more efficient and more capable product solutions. In our industrial markets the need for improved manufacturing efficiency as well as the continued reduction in components sizes drives the continued demand for automation and robotics where our products play a critical role at the heart of the sensing and control capabilities of a broad suite of industrial lasers. Our laser based modules provide remote sensing capabilities reducing costs for the end customer and maximising efficiency, for example in the control of wind powered generators.

In our medical markets we see a growing demand for healthcare globally. Ageing populations and growing incomes support this trend. There is a clear growth in demand for preventative care where our design and manufacturing capabilities are well positioned. Increasing disposable income also provide long term support for the growth in cosmetic procedures creating long term sustainable demand for our Pockels cells products used within cosmetic lasers.

In our A&D markets there are a number of structural growth drivers. The demand for increased precision is driving sustained demand for our fibre and ring laser gyro products used in guidance systems whilst our precision optics are used in the harshest environments to ensure precision in military application in land, sea and air weapon systems. We are working with our partners in the development of directed energy weapon systems. Whilst the commercial aerospace market is experiencing softness as a result of the pandemic our fibre based products provide the capability for reducing the weight and power demand of the platform compared to more traditional systems and sub systems. In space, our laser based communication systems provide significant weight and efficiency benefits for satellite systems.

OUR PEOPLE

Our people are our most important asset. Their skills and experience are key to ensuring the long term sustainability of our business. The Board recognises that only by fully engaging with our workforce will we achieve our strategic objectives.

Developing and Retaining Our Talent

It is essential that we develop the skills and capabilities of our employees, and to attract and retain the best talent available in the regions in which we operate.

The Group operates an online performance management and appraisal system which also provides opportunity for individual discussions on training needs and career planning. This is supported by a talent management and succession planning process from which the Executive Management Team assess the outcomes, formulate actions plans and review progress. The Board are kept informed of the results.

The loss of key personnel is identified by the Board as a key risk and is set out in further detail in the Principal Risks and Uncertainties schedule below. Voluntary labour turnover was 11% across the Group in FY2020.

Communicating With Our Employees

The Group recognises the importance of communication and involvement to engage and motivate employees to support and help deliver the company's objectives.

Keeping employees informed on matters relating to their employment, on business developments and on the financial and economic factors affecting the Group is essential in maintaining good working relationships. This is achieved through briefings from the Chief Executive Officer and other members of the executive team, "all-hands" meetings held at our sites, internal announcements, the Group's website and the distribution of preliminary and interim announcements and press releases. Works councils or employee consultation groups, comprised of management and elected employee representatives operate at the majority of our UK sites. These allow managers to listen to representatives' views and take them into account when making decisions.

The Group also operates a global survey of all its employees each year to gauge opinion and feedback on a variety of topics, from which action plans are developed to address areas for improvement. The Group also uses pulse surveys, for example, to get feedback on home-working during the coronavirus pandemic.

Health & Safety

The Group is committed to Health & Safety throughout its operations and has mature operating policies and procedures in place. These include executive level involvement in regular reviews, which incorporate key performance indicators and mitigating action plans where necessary. This data along with benchmarking within industry sectors confirms improving trends and best in class performance levels. This is further supported by the Group's work towards achieving ISO45001 accreditation which includes a regular internal assessment process.

The Group recognises the value of supporting employees through mental health challenges. In FY2020 in the UK G&H partnered with MIND to train 10 mental health first aiders at the Ilminster site. Leaders have been trained in how to identify and manage mental health issues in their teams and further training and education programmes on this matter are scheduled.

The Group provides for external employee assistance programs ("EAP") for employees along with access to third party advice on good practice health & well-being.

SUSTAINABILITY REPORT

Our Employment Policies

Employment policies throughout the Group have been established to comply with relevant local legislation and codes of practice relating to all aspects of employment including equal opportunities and Health & Safety. The Board is committed to providing equal employment opportunities for all employees and applicants for employment and aims to improve the representation of women at all levels, notably in leadership positions that (excluding the directors) are currently 90% male (88% including the Directors). In support of this objective, recruitment partners have now been instructed to include female candidates in their shortlist submissions.

Human Rights

98% of the Group's employees are based within the major advanced economies of the UK, USA, France, Germany and Japan, which have strong legislation governing human rights. The Group complies fully with applicable legislation in these areas, and the other countries in which it operates, to ensure the rights of every person (whether employees, suppliers, clients or stakeholders) are respected. We uphold employment policies and practices which support and promote diversity and equal opportunities to make sure all employees are treated with dignity and respect, and all staff are provided with a safe, secure and healthy environment in which to work.

Modern Slavery

The Group is committed to acting ethically and with integrity in all our business dealings and relationships, and implementing and enforcing effective systems and controls to ensure modern slavery in all its forms (including human trafficking, forced labour and child labour), is not taking place anywhere in our Group businesses or in any of our supply chains. The Group has published a Group-wide Modern Slavery Policy and a statement on the steps taken to prevent slavery, which is available on the Group's website.

Whistleblowing

We have a whistleblowing policy which encourages open and honest communication where incidents of non-compliance are seen in our business. Whistleblowing issues are reported directly to management, and any significant issues, should they arise, are reported to the Audit Committee. In each instance, cases are investigated in detail and appropriate action taken.

Our People Response to the Pandemic

Through the ongoing pandemic our priority is the health and safety of our employees. We have ensured that our facilities are safe, in many cases implementing operational changes in advance of them being required by government.

At the same time, the Board recognises the commitment of the Group's employees demonstrated through the coronavirus pandemic as they responded with great agility and dedication to the new ways of working required.

At the peak of the pandemic, 191 employees were either furloughed under the UK's Coronavirus Job Retention Scheme, or equivalent in the US. Nevertheless, all sites continued to remain operational in some capacity, in compliance with social distancing and hygiene rules. Home working was implemented shortly prior to the UK "lockdown" and where possible, employees continue to work from home. Detailed COVID-19 safe working policies and practices that incorporated feedback from our employees about their experiences of workings through the initial stages of the pandemic have been developed, implemented and regularly audited.

The workforce responded well during this period, including the adoption of new working patterns to enable social distancing practices to be implemented successfully. Site management teams have worked hard to implement safe working and the Group invested significantly in internal communications to keep employees informed and engaged in these times.

OUR COMMUNITIES

We look to support and work with the local communities in which we operate.

Working With Our Communities

The Group supports and develops students and apprentices, especially in the field of engineering and technology.

We continue to provide young students with work experience and undergraduates and interns with summer placements as well as operating formalised apprentice programmes.

The Group has long-standing relationships with several universities in UK, including Herriot Watt Edinburgh, Strathclyde, Glasgow, Exeter and University College London with whom we work on collaborative projects as well as providing letters of support to academic research projects.

Ethics

G&H holds ethical standards at the forefront of everything we do.

We do not tolerate practices which contravene international standards. Regulatory demands upon us vary around the world; however, we have established a core compliance team to ensure the Group fully adheres to legislative and regulatory requirements whilst adapting to local needs.

The Environment

We are committed to conducting our business in an environmentally responsible, sustainable manner. The Group fully complies with local and national regulatory requirements in respect of the environment relating to its use, storage, handling and disposal of materials, chemicals, and certain waste products. We carefully monitor compliance with these requirements through regular audits.

We are working on optimising our cost base and environmental impact by reducing our footprint. In the year we announced the consolidation of our UK precision optics capabilities which will result in the closure of our Glenrothes facility in December 2020, improving the efficiency of the Group.

The Group is responding to increasing environmental compliance regulations and standards, as well as specific customer compliance requirements. Where these regulations and standards have an impact on the material composition of our products entering specific markets, i.e. RoHS, REACH, Conflict Minerals, the Group has engaged with third party specialists to support our full compliance with these standards.

We are working hard to reduce the Group's impact on the environment. FY2020 has seen a number of initiatives introduced

SUSTAINABILITY REPORT

along with SECR (Streamlined Energy & Carbon Reporting). These have included piloted introduction of Voltage Optimization and PV Solar installations, which form the basis for a wider deployment.

Our products support the generation of cleaner, cheaper energy. Our LIDAR laser modules are used to improve the efficiency of wind farms and many of our products are designed to help our customers' products reduce their power consumption. We provide our customers with a range of products used in laboratory analysis, minimally invasive procedures and medical diagnostic equipment all of which help to improve wellbeing.

Our Emissions Report

We have followed the 2019 HM Government Environmental Reporting Guidelines. We have also used the GHG Reporting Protocol – in line with the 2020 UK Government's Conversion Factors for Company Reporting.

Intensity Measurement

We have chosen to adopt as our intensity measurement ratio the total gross emissions in metric tonnes Carbon Dioxide Equivalent ("CO2e") per £0.1m of revenue. This is the first year we have reported this measure and will establish a baseline for future improvements.

Measures Taken to Improve Energy Efficiency

Within the UK, the Group has commenced a transition to LED lighting. One of our manufacturing sites has also installed a 297kWp Solar PV system along with Voltage Optimisation equipment.

Further consideration of a potential 300+kWp Solar PV is being explored for FY2021.

Due to recent homeworking guidelines the Company has embraced video conferencing technology for many of the day-to-day meetings and this has significantly reduced the need for travel between sites.

Greenhouse Gas Emissions	Current reporting year FY2020		
	UK and offshore	Global (excluding UK and offshore)	Total
Emissions from activities which the company own or control including combustion of fuel & operation of facilities (**Scope 1**) / tCO2e	656	258	914
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (**Scope 2**, location-based) / tCO2e	1,152	3,786	4,938
Total gross **Scope 1** & **Scope 2** emissions / tCO2e	1,808	4,044	5,852
Energy consumption used to calculate above emissions: /kWh	5,760,010	10,825,581	16,585,591
Intensity ratio: tCO2e (gross Scope 1 + 2) – /£100,000 revenue	2.80	7.02	4.79

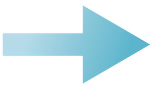
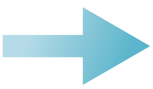
Definitions	
Scope	Reported
Scope 1 – direct GHG emissions	
Includes emissions from activities owned or controlled by G&H that release omissions into the atmosphere. Examples include emissions from combustion in owned or controlled boilers and vehicles.	Includes emissions from combustion of gas and fuel for transport purposes.
Scope 2 – energy indirect emissions	
Includes emissions from G&H's own consumption of purchased electricity, steam, heat and cooling. These are a consequence of the company's activities but are from sources not owned/controlled.	Includes emissions from purchased electricity.
Scope 3 – other indirect emissions (voluntary)	
Emissions that are as a consequence of the company's actions but the source is not owned or controlled, and which are not classed as scope 2 emissions. For example business travel in private cars.	Includes emissions from business travel in rental or employee-owned vehicles where the company is responsible for purchasing the fuel.

PRINCIPAL RISKS AND UNCERTAINTIES

G&H 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.

Change from FY2019	Risk	Mitigation
	Competition	
→	There is an ongoing risk of loss of market share or price erosion due to the activities of competitors in our marketplaces. 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. We also seek to stay ahead of our competition by bringing new, technologically superior products to the market. This will help us to counteract the emergence of lower cost competitors in the market. Our significant investment in R&D enabled us to launch 40 new products during FY2020. 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. During FY2020 we announced as part of the streamlining of our Acousto Optic and Precision Optic manufacturing the closure of our Glenrothes facility which will drive significant overhead reduction for the Group. The business will be transferred to Ilminster, which will become our Precisions Optics hub in the UK. Going forward we will consider further site consolidation in order to optimise our cost base. These actions will enable the Group to remain cost competitive in the market place. Our business development teams maintain a presence in the marketplace and attend key trade shows which enables them to monitor competitor activity and respond accordingly.
	COVID-19	
↑	During FY20, the business responded well to the challenges presented by the pandemic. Two of our US sites temporarily shut and our Torquay facility operated at reduced capacity for part of the year. All are now open and operating at full capacity and compliant with all relevant health and safety regulations. Our other sites were able to remain fully open throughout. However, until a cure or vaccine is developed, the virus will present risk. Subsequent waves of cases could lead to further restrictions and / or staff absences which could affect our ability to produce. Furthermore, additional waves may have an effect on demand for our products and services which in turn could affect our revenue and profitability.	Our factories in the US are now all classified as fully or mainly exempt due to their products being essential or vital for national security. New policies and procedures have been implemented across all our sites in the US, UK and China to ensure our business can continue to operate effectively whilst rigorously complying with all relevant regulation and guidelines. Additional training has been provided to managers to assist them in managing team members working from home. Infrastructure and process changes have been made to our facilities to support enhanced social distancing and other health and safety requirements. The above measures will support the Group in mitigating the impact of a second wave.

PRINCIPAL RISKS AND UNCERTAINTIES

Change from FY2019	Risk	Mitigation
	Retention of Key Personnel	
	The Group recognises the importance of retaining and developing its highly skilled management team and workforce in order to achieve its strategic objectives. This is particularly important as we progress our strategy of operational consolidation.	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. Regular employee surveys are conducted. In response to employee feedback we intend to implement an all employee share scheme during FY2021. Succession planning is reviewed by the senior management team on a regular basis.
	Global economic trends	
	Adverse changes in the major markets in which the Group operates can have a significant impact on the Group's performance. Global trade tariffs levied by the US and China could affect our sales and margins into certain markets.	Through our strategy of market diversification and moving up the value chain, the Group seeks to secure routes to new markets and reduce its dependence on any one market sector. We have robust order book going into FY2021. 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 or other sites. Our supply chain strategy in which we seek to make greater use of lower cost Asian contract manufacturers also reduces the Group's exposure to US/China tariffs.
	Brexit	
	Brexit could affect the group's financial position, supply chain and people.	Our Brexit steering group continues to monitor the evolving impact of Brexit and oversees our response. We have assessed that our supply chain is not materially exposed to supply from the EU and have ensured the business is carrying adequate inventory where it makes sense to do so. The majority of our terms with customers are for delivery ex-works. Therefore our exposure to incremental tariffs is also limited.
	Information and Cyber Security	
	There is a risk of loss of digital intellectual property/data or ability to operate systems due to internal failure or external attack.	Clear ownership of cyber risk and IT controls defined. A risk framework has been established with plans for management, mitigation and resolution of device failures. Data is appropriately stored and backed up with IT system recovery plans in place. Employee training programmes and regular communication have been put in place to warn employees of the risk of cyber-crime.

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

Mark Webster
Chief Executive Officer
1 December 2020

S172 STATEMENT

The Companies Act 2006 (the "Act"), as amended by the Companies (Miscellaneous Reporting) Regulations 2018, now requires companies to include a "Section 172(1) Statement" in the Strategic Report describing how directors have had regard to the matters set out in Section 172 (1) (a) to (f) of the Act when performing their duties. Section 172 of the Act requires Directors of a company to act in a way they consider, in good faith, would most be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the:

- Likely consequences of any decision in the long-term;
- Interests of the Company's employees;
- Need to foster the Company's business relationships with suppliers, customers and others;
- Impact of the Company's operations on the community and environment;
- Company's reputation for high standards of business conduct; and
- Need to act fairly as between members of the Company.

The Directors' duties under Section 172 are embedded in all of the decisions that the Board and its Committees make, together with a range of other factors, including alignment with our strategy and our values. Accordingly, information on how s172 matters have been considered during the year are detailed throughout this Annual Report.

The Board understands the importance of effectively engaging with the Company's key stakeholders, in order to better understand their views and interests, and to better consider the potential impact of the Directors' decisions on them.

The Board is aware that the interests of stakeholders may not always align with each other and that it may not always be possible to provide a positive outcome for all stakeholders from a given decision.

The Board strives to follow best corporate governance practice and has a governance framework in place that allows it to make reasoned and informed decisions. Further information on how the Board and its Committees operate can be found in the Corporate Governance Report on pages 36 to 37 of this Annual Report.

The identification and assessment of risk is an integral part of the Board's decision making process, particularly when it comes to considering the longer-term consequences and the sustainability of the Company's business model and strategy. The Group maintains a risk register, which the senior leadership team keep updated, and which is presented to the board on an annual basis.

Examples of How We Engage With Our Stakeholders

Customers

Our customers depend on us to supply our products on time and to the required quality. We also support them in the development of their next generation products. Our customers expect us to operate in a responsible manner maintaining the highest standard of business ethics.

The Board is regularly updated on the timeliness and quality of product deliveries to our customers as well as developments with targeted customers and new customer wins. Our sales and engineering teams engage with our customers and solicit feedback which is used to inform our technology roadmaps. There are regular exchanges with our customers on their new programmes especially through engineer to engineer interactions so that we can better understand their emerging needs.

We worked hard to ensure our factories could continue to operate and supply our customers even at the height of the pandemic.

We invested £8m in R&D focussing on those areas where we see the opportunity to support our customers' next generation product developments. Our manufacturing centres are sharing best practices across the Group to improve our manufacturing processes.

Employees

Our people play a crucial role in helping us pursue our strategic goals. We engage and support them to achieve their full potential. There are regular internal communications from the management team and feedback from employee representative groups. Employee surveys are undertaken every year.

The Health and Safety of our employees is of the highest importance to us. More details of our engagement with our employees and the results of those engagements are set out in the Sustainability Report.

Shareholders

We maintain strong relationships with shareholders ensuring they understand our strategy, progress and performance and that we understand how they view our business. We engage with our shareholders through Investor Roadshows led by the Chief Executive Officer and Chief Financial Officer.

The Group's brokers provide independent feedback to the Board on shareholder opinions and their views on our meetings with investors. Regular trading updates are provided as well as the Annual Report.

The Chair of the Remuneration Committee has engaged with our largest shareholders regarding proposed changes to our Directors Remuneration arrangements.

Information provided at analysts' meetings and financial press releases are made available on the Group's website.

Feedback received from shareholders has informed the Board's discussions and decisions on Group strategy.

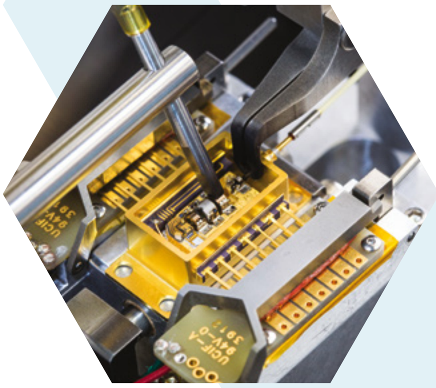
S172 STATEMENT

Suppliers

The supply of goods and services to our operations is critical to our overall success. We regularly review the performance of our suppliers and work with them to implement improvement programmes. In FY2020 a new supplier risk assessment process was developed which has assisted the Group in prioritising which suppliers require further support to improve their performance. We are investing further in our in house team that work with our suppliers to make them more efficient.

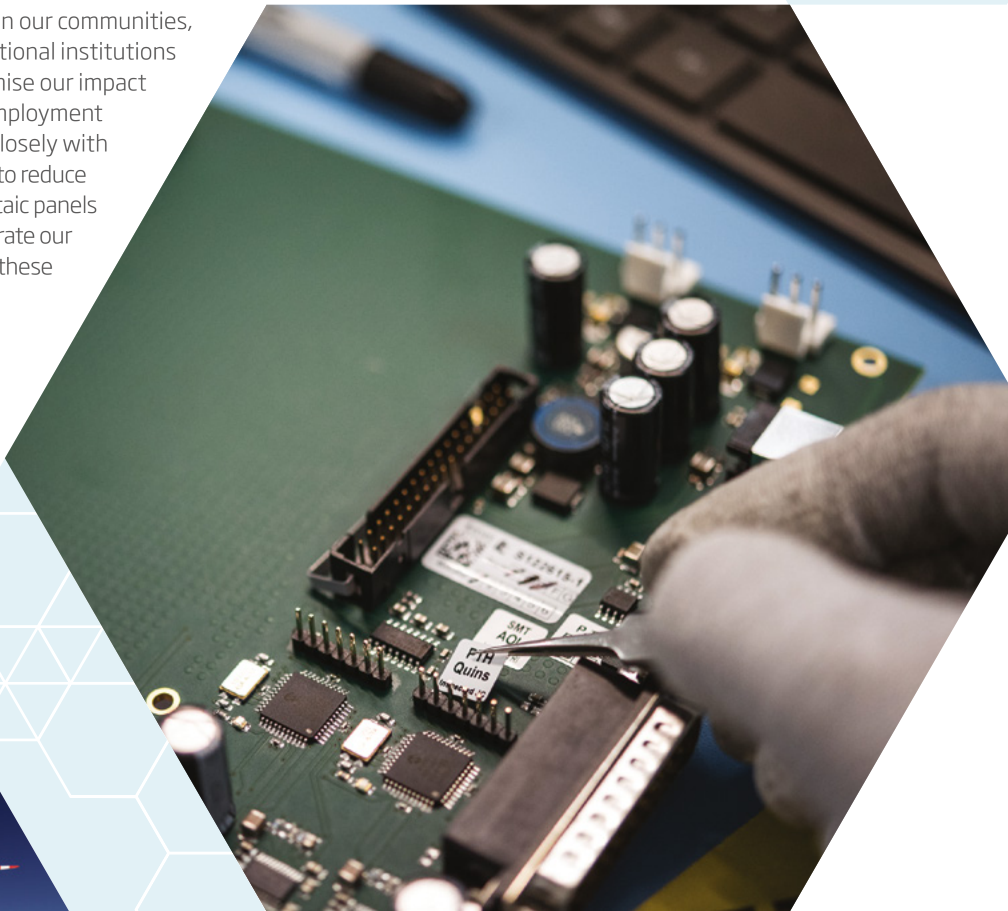
During the year we entered in to a significant new agreement with an Asian contract manufacturer. Under that agreement we plan to outsource a large volume of acousto-optics products that were previously manufactured in house. We intend to build further on this relationship in the future. In support of this development we are investing in new systems that will allow us to share delivery and product quality information with this supplier.

The Group has established a comprehensive set of policies covering the areas of business ethics. We require our suppliers to operate to the same high standards and these are set out in our Supplier Code of Conduct which they are required to adhere to.



Communities and the Environment

G&H aspires to be a responsible citizen within our communities, offering local recruitment, supporting educational institutions and the local economy. We also look to minimise our impact on the environment. G&H offer a range of employment opportunities for apprentices and we work closely with educational establishments. We are investing to reduce greenhouse gas emissions and have photovoltaic panels fitted to the roof of our largest facility to generate our own electricity. More detail on our activities in these areas is given in our Sustainability Report.



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.

Chris Jewell Chief Financial Officer (Appointed September 2019)

Chris has twenty five years' experience working in senior finance roles in international engineering and manufacturing businesses, operating in Europe, North America and Asia. Prior to joining Gooch & Housego PLC Chris was Group Director of Financial Control at TT Electronics PLC, Senior Vice President of Finance at Cobham PLC and Finance Director of MBDA UK. He qualified as a Chartered Accountant whilst working with Ernst & Young.

Chris holds masters degrees from Cambridge University and the London School of Economics. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

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 and was a non-executive director of Chloride Group plc and Rotork 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. 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 G&H Board.

Dr Peter Bordui Senior Independent Director (Appointed February 2012)

Peter has thirty years' experience in the photonics industry in senior leadership roles within Bookham, NewFocus, JDSU and Siemens and has held a number of additional non-executive chairman and director roles. He is also currently 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 is the Senior Independent Director. He is Chairman of the Nomination Committee and a member of the Remuneration and Audit Committees.

Peter will be retiring following the forthcoming AGM.

Brian Phillipson (Appointed 1 September 2015)

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

Brian has also undertaken a number of interim/consultancy roles and is currently CTO of Munich based Lilium GmbH.

Brian holds an MA (Hons) in Engineering from Cambridge University and is a Fellow of the Royal Academy of Engineering.

Brian is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Louise Evans (Appointed 11 May 2020)

Louise has wide financial leadership experience, having held Group Finance Director roles at Braemar Shipping Services plc and Williams Grand Prix Holdings plc. She has also held senior positions at RPS Group plc and Reynard Motorsport. She qualified as a Chartered Accountant whilst working with Ernst & Young.

Louise is a non-executive director and Audit Committee chair of AB Dynamics plc and the International Foundation for Aids to Navigation and is a non-executive director of SCB Brokers SA.

Louise holds a bachelor's degree in Management Science from the University of Wales and is a Fellow of the Institute of Chartered Accountants in England & Wales.

Louise is Chair of the Audit Committee and a member of the Remuneration and Nomination Committees of the G&H 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 has adopted the UK Corporate Governance Code (2018). The Code is available to download at www.frc.org.uk. This is the first year to which the 2018 Code was applicable. In order to ensure compliance with the revised code we have made a number of changes. Our pension contribution level for Executive Directors was brought in line with the wider UK workforce in FY2019, and we have also introduced a two year holding period for shares vesting under the LTIP.

Gooch & Housego PLC has complied with the Code during the year ended 30 September 2020.

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 two executive and four non-executive Directors. The directors holding office during the period of this report and their biographies are detailed from pages 34 to 35 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 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 understands and recognises the benefits that diversity can bring, and our recruitment partners are briefed on our requirements in this regard.

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 G&H's locations other than its head office in Ilminster. This allows the non-executive directors the opportunity to gain a deeper understanding of other G&H businesses and to meet local staff. During FY2020, this was not possible due to COVID-19 travel restrictions, so a number of board meetings were conducted by video conference. We expect to hold a meeting at one of our US sites in FY2021 if the current travel restrictions are lifted.

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 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.

The Board is responsible for setting the Group's strategy. The board calendar includes two multi-day strategy sessions per year. At these sessions, members of the leadership team present updates on strategic progress to the board in advance of wider discussions which form the basis of our ongoing strategy. Further details of our strategy can be found in the Strategic Report.

Board meeting attendance is presented in the following table.

Executive Directors		
Mark Webster	8/8	
Chris Jewell	8/8	
Alex Warnock	1/1	(Resigned 8 November 2019)
Non-executive Directors		
Gary Bullard	8/8	
Peter Bordui	8/8	
Brian Phillipson	8/8	
Louise Evans	3/3	(Appointed 11 May 2020)

CORPORATE GOVERNANCE

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.

Engagement With the Workforce

The Code suggests a number of ways in which the board should ensure engagement with the workforce. These include one or a combination of the following: a director appointed from the workforce; a formal workforce advisory panel; and a designated non-executive director.

The board is satisfied that the level of engagement with the workforce is appropriate absent one of the above specific recommendations. The ways in which we ensure appropriate engagement with our workforce are set out in the Strategic Report. These activities enable the Board to gauge the Group's culture and to make changes where necessary to ensure it is aligned with our strategy.

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 took place in October 2019, and was led by the Senior Independent Director, Peter Bordui. One of the key themes coming out of this review was the need for greater gender diversity on the Board. Progress has been made in this area during FY2021 and the board remains cognisant of the benefits diversity can bring.

The Senior Independent Director leads an annual appraisal of the Chairman's performance. This review took place during August and September 2020. Peter Bordui met with each of the Directors and the Company Secretary to obtain feedback on the Chairman's performance. This feedback was collated and fed back to the Chairman by Peter Bordui. The Chairman summarised the key aspects of the feedback and the actions arising at the September 2020 board meeting.

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.

G&H 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 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 visit the sites to perform reviews of controls and processes in place. We recruited a new member of the Group finance team early in FY20. Our intention was for a proportion of this person's time to be spent visiting sites in a quasi-internal audit role. However, due to the travel restrictions brought about by COVID-19, we have not progressed this as far as had been intended. As soon as travel restrictions are lifted, we expect regular site visits to resume.

Annual budgets and 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 2020. The Directors who held office during the year are shown on pages 34 and 35.

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. 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. An analysis of the segmental information by market sector is given on in the Market Overview.

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 26 of the Financial and Operating Review.

Dividends

During the year ended 30 September 2020 a final dividend of 7.2p per share was paid for the previous financial year. No interim dividend was paid for the half year ended 31 March 2020 (2019: 4.3p).

For the year ended 30 September 2020, the Directors have not proposed a final dividend.

Substantial Shareholdings

As at 13 November 2020, 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	3,358,811	13.41%
Invesco	2,435,451	9.73%
Investec Group	1,891,230	7.55%
Standard Life Aberdeen	1,808,354	7.22%
Black Rock Inc	1,548,464	6.18%
Canaccord Genuity Wealth Management	1,493,858	5.97%
Franklin Resources	1,060,000	4.23%
Bangarra Group	845,063	3.37%
Charles Stanley Group	773,092	3.09%

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

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, the Company also entered into contracts to sell US Dollars at specific rates in the future. Further details are given in Note 5 to the financial statements.

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.

Further information on financial risks is given in note 5 to the Financial Statements.

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.

Statement of Directors' Responsibilities

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

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 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 company and of the profit or loss of the group and company for that period. In preparing the 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 group and company will continue in business.

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

DIRECTORS' REPORT

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

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.

Stakeholder Engagement

The ways in which we have engaged with our stakeholders in the year are set out in our S172 Statement and our Sustainability Report.

Going Concern

The Directors have reviewed the budget for FY2021 and the projections for FY2022 developed as part of the annual strategic plan update. They have assessed the future funding requirements of the Group and compared them with available borrowing facilities. Details of the financial and liquidity positions of the Group are given on page 25.

At 30 September 2020 the Group has a strong balance sheet with net current assets of £52.4m. The Group's cash and undrawn available facilities totalled £32.1m.

The Directors have reviewed severe but plausible scenarios that estimate the potential impact of the principal risks that the Group faces (see pages 30 to 31 of this report) on the financial forecasts. These include the impact of a second wave pandemic and the resultant reduced demand in certain of the Group's markets, most notably commercial aerospace and the industrial laser market driven by softness in consumer end market demand. This assessment covered not only the coming 12 month period but also for the period to September 2023 in order to support the Viability Statement given below.

We have compared the downside risk adjusted cash projections against the Group's available cash and borrowing facilities and have been able to conclude that the Group would continue to be able to operate even if a number of the risks occurred simultaneously.

As a result of the assessments undertaken the Directors are satisfied that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Viability Statement

The directors have also assessed the viability and long term prospects of the Group for the period to September 2023 taking into account the Group's current position and the potential impact of the principal risk and uncertainties set out on pages 30 to 31 of this Report.

Business planning processes within G&H require the preparation of detailed financial plans as part of an annual review and update of the Group's three year strategic 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 three year horizon.

The Group's strategy is key to understanding its prospects. Further details of the strategy can be found in the Strategic Report. By focussing on diversification in to attractive adjacent markets with our sub assembly and systems capabilities, thereby reducing the Group's dependency upon the industrial laser market and by creating differentiated products and capabilities through our R&D investment we are making the Group sustainable for the long term. The Group's geographical and sector diversification helps to reduce the impact of many of the risks that the Group faces. Furthermore the Group's revenue is not overly concentrated with any particular customers or markets.

We have determined that the period to September 2023 represents an appropriate period over which to provide the viability statement as this aligns with the business cycle and order intake trends of the Group.

As described above we have stress tested the Group's financial projections for the period covered by the viability statement, testing it for the severe but plausible risks that the business faces including, in the near term, the continuing impact of the pandemic. This assessment confirmed that the Group would continue to be able to operate even if a number of the risks occurred simultaneously.

Based upon these assessments the Directors confirm that at the time of approving the financial statements, there is a reasonable expectation that the Group will have adequate resources to continue in operation over the period to September 2023.

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

Mark Webster
Director
1 December 2020

AUDIT COMMITTEE REPORT

Membership

The Audit Committee is chaired by Louise Evans, a Chartered Accountant with significant recent experience in senior finance roles, and who the Board are therefore satisfied has recent and relevant experience. The Committee comprises Louise Evans, 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		
Louise Evans	2/2	(Appointed 11 May 2020)
Dr Peter Bordui	3/3	
Brian Phillipson	3/3	

At the invitation of the Committee, representatives of the external auditors, PricewaterhouseCoopers LLP, attended meetings together with the Chairman, Chief Executive Officer, Chief Financial 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 website 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 auditors and the approval of their remuneration and terms of engagement;
- Assessing the external auditors' independence and objectivity and the effectiveness of the audit process;
- Reviewing the policy on the engagement of the external auditors to supply non-audit services.

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
Impact of COVID-19	
The Committee considered the impact of the pandemic on the financial statements of the Group, in particular the estimates used to arrive at the valuations of the Group's assets at the balance sheet date and its financial position.	The Committee reviewed management's risk assessment of the impact of the pandemic on the business. It also carefully reviewed future cashflow projections used to confirm management's going concern assessment and the longer term viability of the Group. The Committee concluded that these projections adequately reflected the impact of the pandemic on the Group's operations and future expected cash flows.
Long Term Contract Accounting	
Some of the Group's sites are engaged in long term development contracts. These contracts must be traded based upon an estimate of the contracts' outturn profitability which requires estimation and judgement.	The Committee considered the procedures in place to monitor both the stage of completion and the outturn profitability of long term contracts within the Group. It also reviewed the procedures in place for the correct segregation of costs between contracts. After careful consideration the Committee concluded that the judgements and estimates made in this regard were 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 has reviewed the change to the CGUs in the year which now follow our manufacturing centre structure (with the exception of Ashford, which has not yet been aligned to a manufacturing centre) This change has been planned for some time and reflects the recent reorganisation of the business. The Committee is satisfied that the carrying value of goodwill is supported based on the value in use calculations prepared by management, taking into consideration the impact of the pandemic. The Committee has reviewed the sensitivity disclosures in note 19 and concluded that they are appropriate.

AUDIT COMMITTEE REPORT

Area of Focus	Conclusion
Inventories	
The Committee reviewed management's estimates in relation to inventory valuation and obsolescence.	The Committee reviewed the level of inventory at the year end, which has decreased in the year. The Committee was satisfied that the provisions made adequately reflected the risk of impairment.
Non-Underlying 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 non-underlying items.	The Committee was satisfied that the presentation of adjusted 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 non-underlying items. This was based on a review of the items added back in arriving at underlying profit. The Committee was satisfied the FRC's guidance discouraging companies from excluding charges and credits associated with the pandemic from alternative performance measures had been followed.
Financial Systems	
	We recruited a new member of the group finance team earlier in FY2020. As reported last year, it was intended that this individual would support a programme of site visits to review the financial controls environment. However, due to the travel restrictions brought about by COVID-19, this has not been possible during FY2020. Our current intention is to introduce the reviews as soon as travel restrictions are lifted.
Financial Policies and Controls	
	The Committee reviewed the work that is underway to refresh and harmonise the financial policies and controls in place across the Group. It is intended in the coming year, once the travel restrictions imposed by the pandemic ease, that Group Finance personnel will make regular site visits to review compliance with these newly issued policies and controls.
Fair, Balanced Understandable and Comprehensive Reporting	
	The Committee was updated on the work that is being undertaken to develop the Group's financial reporting systems. The Group is developing a suite of financial reports populated from a data warehouse that is regularly refreshed from the sites' ERP systems. In this way the Group management teams are able to access financial and operational information in a faster, more reliable manner. It is expected that this project will conclude during FY2021

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 auditors 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 PricewaterhouseCoopers LLP for the audit service, audit-related services and non-audit work.

Approval

Louise Evans
Chairman of the Audit Committee
1 December 2020

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 FY20

- Appointment of a new Chair of the Audit Committee following the tragic loss of David Bauernfeind in December 2019.
- Succession planning for other members of the Board

Advisors

During FY20, the Committee appointed Warren Partners, an external search agency, to assist with the identification of suitable candidates for the role of Chair of the Audit Committee.

Appointment Process

As part of the appointments process, the Committee determined the selection criteria for the Audit Committee Chair role. The Committee worked with Warren Partners who drew up a list of 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 Louise Evans who joined the board on 11 May 2020.

Changes in the Coming Year

Having served a tenure of nine years with G&H, Peter Bordui will retire following the forthcoming AGM. We have commenced a search for a replacement for Peter, who will stand down when a suitable replacement is identified and appointed.

Membership and Attendance at Meetings Held in FY2020

Non-executive Directors		
Dr Peter Bordui	4/4	
Gary Bullard	4/4	
Brian Phillipson	3/4	
Louise Evans	0/0	(Appointed 11 May 2020)
Executive Directors		
Mark Webster	4/4	

Approval

Peter Bordui
Chairman of the Nomination Committee
1 December 2020

REMUNERATION COMMITTEE REPORT

Introduction

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

The members of the Remuneration Committee monitor market reports on key aspects of Executive Director remuneration for AIM Companies. The last formal review of our schemes was in FY2017, conducted with input from FIT Remuneration Consultants. The Committee has sought advice from FIT on a number of matters since then, and this, combined with information received by the Committee on market practice, mean the Board is satisfied that in normal circumstances our combination of salary, bonus and annual long term incentive schemes provides a good mix of incentives and rewards in both the short, medium and long terms. Therefore in FY2020 no changes to our overall remuneration schemes were considered to be necessary, which we believe drive behaviours that are consistent with our company values and strategy.

However all extant awards under our share schemes are now significantly under water, because of adverse market movements including in particular that due to due to COVID-19. In addition, the targets for annual bonuses have not been achieved in the last two years. As our LTIP scheme is based on a three year vesting period followed by two year holding obligations, the loss of value of awards from the last three years has effectively opened up a significant gap between our annual salary and bonus, and what is effectively a five year LTIP.

The company is currently part way through a significant programme of integration and consolidation. Due to COVID- 19 we are also faced with severe restrictions on travel and on face-to-face meetings, and in progressing this programme are therefore highly reliant on the existing management's knowledge of our sites, our people and our businesses. Any new recruitment would be difficult in itself but it would be particularly difficult for any new recruit to become familiar with our businesses given the ongoing restrictions to travel. In what we see is therefore a critical time to ensure our Executive Directors and senior management team are retained and motivated, the loss in value of recent LTIP awards and the gap of five years to realising value from new awards has caused us to consider whether some additional action might be appropriate to address management retention.

We have therefore consulted our major shareholders to discuss options and have concluded that the most appropriate action is to grant a one-time award of options which would have a reduced vesting period to the normal annual LTIP grant.

The Remuneration Committee has reviewed the remuneration of the senior management team directly below board level during the year. A particular aim was to ensure there was an appropriate alignment with remuneration of Directors and the Management. The Committee is satisfied that this is the case.

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.

The Committee has been advised by FIT Remuneration Consultants on certain matters during the year.

Attendance at meetings held in FY2020

Brian Phillipson (Chairman)	2/2	
Gary Bullard	2/2	
Dr Peter Bordui	2/2	
Louise Evans	1/1	(Appointed 11 May 2020)

REMUNERATION COMMITTEE REPORT

Remuneration Policy Table

The table below summarises our policy for FY2020 and the planned changes for FY2021:

Element of remuneration	Purpose and link to strategy	FY2020 Policy and approach	Opportunity	FY2021 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 1.5% increase to the Executive Directors' salaries effective from 1 April 2021. This is in line with the increase given to the wider workforce.
Annual Bonus	Incentivise achievement of short-term financial targets that the Committee considers to be critical drivers of business growth.	• Awarded annually. • Based on broad 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.	FY2021 proposal: • 15% payable for hitting 90% of target EPS, 37.5% for achieving target EPS and 60% for 110% of target EPS. • 5% payable for 90% of budgeted operating cash flow, 12.5% for achieving target and 20% for 110% of target operating cash flow. • No change to the personal objective element.
Pension	Provide employees with market competitive pension scheme.	• Defined contribution personal pension plan. • Company contributes 10% of salary for Directors appointed prior to 1 October 2018. For Directors appointed thereafter, the Company contributes 6% of salary.	6 – 10% of base salary. 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, and are then subject to a two year holding period. • Absolute TSR for 60% of awards, with full vesting at 15% TSR per annum. • 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. Annual awards of 120% of base salary for the CEO and 110% for the CFO. Maximum award of 300% of base salary.	No changes proposed to the normal annual grants.
Exceptional "one-off" LTIP awards for FY2021	Awarded to address the loss of retention incentives arising from loss of value of extant LTIPs	• N/A	CEO: 80% of basic salary CFO: 90% of basic salary	One off award including windfall clawback provisions should recent LTIPs vest. Awards will vest after two years and our normal holding provisions will apply. Awards will vest in full for compound EPS growth of 21% per annum

REMUNERATION COMMITTEE REPORT

Directors' Remuneration

2020	Basic pay £'000	Performance related bonus £'000	Benefits in kind £'000	Pension contribution £'000	Subtotal 2020 £'000	LTIPs exercised £'000	Total 2020 £'000
Executive							
M Webster	350	–	14	–	364	–	364
C Jewell	259	–	5	10	274	–	274
A Warnock*	41	–	–	2	43	–	43
Non-executive							
G Bullard	80	–	–	–	80	–	80
Dr P Bordui	44	–	–	–	44	–	44
B Phillipson	44	–	–	–	44	–	44
L Evans**	18	–	–	–	18	–	18
D Bauernfeind***	14	–	–	–	14	–	14
	850	–	19	12	881	–	881

2019	Basic pay £'000	Performance related bonus £'000	Benefits in kind £'000	Pension contribution £'000	Subtotal 2019 £'000	LTIPs exercised £'000	Total 2019 £'000
Executive							
M Webster	342	–	14	–	356	353	709
C Jewell****	16	–	1	1	18	–	18
A Boteler*****	168	–	8	8	184	218	402
A Warnock	247	–	9	10	266	263	529
Non-executive							
G Bullard	78	–	–	–	78	–	78
Dr P Bordui	42	–	–	–	42	–	42
B Phillipson	42	–	–	–	42	–	42
D Bauernfeind	42	–	–	–	42	–	42
	977	–	32	19	1,028	834	1,862

The above disclosure has been audited.

* Alex Warnock resigned on 11 November 2019
** Louise Evans was appointed on 11 May 2020
*** David Bauernfeind deceased on 26 December 2019
**** Chris Jewell was appointed on 9 September 2019
***** Andrew Boteler resigned on 14 June 2019

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 FY20.

Benefits

Executive Directors receive private health insurance, life assurance and long term disability insurance.

2020 Performance Related Bonuses

Bonuses in 2020 were based 60% on EPS, 20% on operating cash flow and 20% on personal strategic objectives. The element related to personal objectives is not eligible for payment unless the budgeted EPS target is achieved. 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%	30.2p	-
Adjusted operating cash flow target	£21.5m	£21.5m	20%	£22.5m	20% (see below)

The EPS target for the year was not achieved. Whilst the cash flow target was achieved, the Directors have waived their entitlement to this element of the bonus in recognition of the challenging year faced by the business.

Personal strategic objectives, which accounted for 20% of the bonus opportunity, were set at the start of the year. These were subject to review and approval by the Remuneration Committee. They are focussed on a range of activities which are key to enabling our strategic objectives.

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

Mark Webster, CEO

- Achieve quarterly turnover at or above phased budget levels.
- Implement the next phase of organisational change to support the FY20 business plan and progress organisational change to meet longer term growth objectives.
- Deliver necessary changes to business systems and processes.
- Develop strategies for the manufacturing centres, business units and research and development function.

Chris Jewell, CFO

- Achieve quarterly turnover at or above phased budget levels.
- Introduce a new suite of financial reporting metrics aligned to the structure of the business.
- Finance reports to be fully automated utilising the company's systems.
- Introduce a formal programme of controls reviews for each site.

The view of the Remuneration Committee is that excellent progress was made against the objectives set. However, because the EPS target was not met, the part of the bonus related to personal objectives was not eligible for payment.

Directors' Pension Arrangements

During FY2019, the rate of Company pension contributions for new executive directors was reduced from 10% to 6%. This brought company's policy in line with the UK Corporate Governance Code 2018 which recommends that contribution rates for executive directors, or payments in lieu thereof, should be aligned with those available to the workforce.

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 1 (2019: 1). Mark Webster is entitled to company pension contributions of 10% of his basic salary, although he sacrificed this entitlement for an increase in salary of the same amount. Chris Jewell is entitled to company pension contributions of 6% of his basic salary, although he has sacrificed part of that 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.

REMUNERATION COMMITTEE REPORT

Long Term Incentive Plan

There were no exercises under the Long Term Incentive Scheme by the Directors in the year ended 30 September 2020.
The details of exercises in the year ended 30 September 2019 are summarised below.

2019	Scheme	Number of Share Options No.	Market Price p	Exercise Price p	Exercise Date	Total Gain £'000
Director						
M Webster	LTIP	28,437	1,240	0.0	28/03/19	353
A Boteler	LTIP	17,601	1,240	0.0	28/03/19	218
A Warnock	LTIP	21,240	1,240	0.0	28/03/19	263

Director Shareholdings

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

	Number of shares at 30 September 2020	% of salary as at 30 September 2020	Number of shares at 30 September 2019	% of salary as at 30 September 2019
Executive Directors				
Mark Webster	36,366	113%	36,366	137%
Chris Jewell	1,278	5%	1,278	6%
Non-executive Directors				
Gary Bullard	10,535	N/A	7,024	N/A
Dr Peter Bordui	–	–	–	–
Brian Phillipson	1,954	N/A	1,954	N/A
Louise Evans	473	N/A	–	N/A

Shareholding Guidelines

Executive Directors are required to maintain a qualifying interest in the ordinary shares of the company equivalent to 100% of base salary from shares vesting under the LTIP. The Directors will not be permitted to sell shares vesting in the future under the LTIP unless the specified shareholding has been achieved, other than sale of shares to satisfy tax obligations.

REMUNERATION COMMITTEE REPORT

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 FY19 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 01.10.2019	Awarded in year	Exercised in year	Lapsed	At 30.09.2020	Expiry Date
Executive							
M Webster	10.03.2017	34,606	–	–	(34,606)	–	26.03.2021
M Webster	21.12.2017	24,145	–	–	–	24,145	21.12.2021
M Webster	08.01.2019	26,676	–	–	–	26,676	08.01.2023
M Webster	13.01.2020	–	29,942	–	–	29,942	13.01.2024
C Jewell	13.01.2020	–	37,867	–	–	37,867	13.01.2024
A Warnock	10.03.2017	25,674	–	–	(25,674)	–	26.03.2021
A Warnock	21.12.2017	16,698	–	–	(16,968)	–	21.12.2021
A Warnock	08.01.2019	18,301	–	–	(18,301)	–	08.01.2023

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 2020, £303,000 (2019: £191,000) 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 a credit of £17,000 (2019: credit £106,000) in respect of employer's national insurance contributions, based on a year end share price of £10.00 (2019: £11.88).

Brian Phillipson
Chairman of the Remuneration Committee
1 December 2020

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

Report on the audit of the financial statements

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

- give a true and fair view of the state of the group's and of the company's affairs as at 30 September 2020 and of the group's profit and the group's and the 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 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 2020; the Group Income Statement and Group Statement of Comprehensive Income, the Group and Company Cash Flow Statements, and the Group and Company Statements of Changes in Equity for the year then ended; and the Notes to the Group and Company Financial Statements, which include a description of the significant accounting policies.

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

Our Audit Approach
Overview

Materiality
- Overall group materiality: £533,000 (2019: £525,000), based on 5% of the last 3 years' (2020, 2019, 2018) average consolidated profit before tax, after adding back any impairment of goodwill, less the release of any accrued contingent consideration and adding interest on discounted deferred consideration in the applicable years.
- Overall company materiality: £300,000 (2019: £49,000), based on 1% of net assets (restricted by group materiality).

Audit Scope
- 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 Gooch & Housego (Ohio) LLC)) and two operating units in the UK (Integrated Technologies 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 Group level in respect of centralised processes and functions, including the audit of consolidation journals.
- Specific audit procedures were also performed by the UK audit team on certain other balances and transactions within the remaining sixteen reporting units. In particular, additional detailed testing was performed on revenue at one reporting unit in the US, EM4 Inc., and one in the UK, Gooch & Housego (UK) Limited.
- Taken together, these seven reporting units (post consolidation entries) account for 70% of Group's revenue.

Key Audit Matters
- Goodwill impairment assessment (Group).
- Risk of fraud in revenue recognition, particularly in respect of long-term contract accounting (Integrated Technologies Limited, EM4 Inc and Gooch & Housego (Ohio) LLC) (Group).
- Impact of the outbreak of COVID-19 on the Financial Statements (Group and Company)

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 period 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
to the Members of Gooch & Housego PLC

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Goodwill impairment assessment (Group). At 30 September 2020, the Consolidated Statement of Financial Position includes £37.7 million of goodwill (2019: £38.9 million). In accordance with the requirements of IFRS, management has performed impairment reviews in relation to the goodwill held in the Group's cash generating units (CGUs). Management has prepared value in use calculations for each of the CGUs using the board approved strategic plan. The impairment reviews include significant estimates and judgements in respect of future growth rates and cash flows, and the discount rate employed.	We obtained the relevant CGU cash flow forecasts supporting management's calculation of value in use and evaluated the appropriateness of key assumptions. We assessed the methodology used by management in performing the assessments and challenged key inputs. Our procedures included: • Verifying the accuracy of the underlying calculations in the model and agreeing the cash flow forecasts to the strategic plan approved by the Board; • Evaluating the appropriateness of forecast cash flows by understanding management's process for forecasting, examining the support for forecast cash flows and assessing CGU specific cash flow assumptions. • Evaluating the appropriateness of the projected revenue growth rates used, both over the short-term to 2023 and over the longer-term, including assessing the assumptions on the expected impact of Covid-19 on trading; • Consideration of prior year and current performance in comparison to historic projected results; • Considering the impact of a range of sensitivities to assess the impact of reasonably possible changes in key assumptions compared to those used by management; • Evaluating the appropriateness of the discount rate used, which included comparing the rate used to a range provided by our valuation experts; • Evaluating other key inputs to the cash flows, including capital expenditure; and • Reviewing the appropriateness of management's disclosures in the Financial Statements. Based on our audit work, we are satisfied that the assumptions in the value in use model are reasonable. We have concluded that the disclosures in the Financial Statements in respect of key assumptions and sensitivities that would result in further impairment are appropriate. Based upon our audit work, we concur with the assessment performed. We consider that the carrying value of the goodwill balance is fairly stated based on materiality and that the disclosures in the Financial Statements are appropriate.
Risk of fraud in revenue recognition, particularly in respect of long-term contract accounting (Group) We determined that the most likely risk of fraud in revenue recognition would be due to an overstatement of revenue, particularly in respect of posting journals to revenue and the judgements surrounding long-term contract accounting, rather than normal transactional point-in-time revenue recognition. Long-term contract accounting has also been assessed by management as the main area of the Group's activities affected by the adoption of IFRS 15 'Revenue from contracts with customers'. Revenue of £5.5m (2019: £5.8m) was generated by the Group from long-term contracts in the year, and we have focussed our audit work in this area.	We performed testing over journals posted in the year using Computer Aided Audit Techniques ("CAATs") by specifically identifying any unusual journal combinations impacting revenue and testing these by agreeing them to valid supporting documentation. No issues were noted from our testing. We reviewed management's assessment of contracts with customers to determine the appropriateness of transaction prices and identification of performance obligations. We tested management's assessment by reviewing a sample of contracts with customers to determine the impact of IFRS 15 and if management's assessment was appropriate. We tested a sample of costs incurred in the year to assess whether they have been allocated appropriately to either a long-term contract or a normal point in time sale. For a sample of contracts, we agreed the total contract value to the contract and re-calculated the revenue to be recognised under a percentage of completion basis in accordance with IFRS 15 and assessed the costs to complete by obtaining progress information from the customer to challenge the reasonableness of the costs to complete that had been recognised in the period. From our testing performed we did not identify any material misstatements in revenue recognition.
Impact of the outbreak of Covid-19 on the Financial Statements (Group and Company) In March 2020 the global pandemic from the outbreak of Covid-19 became significant and is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The pandemic had the most significant impact on the Industrial sector, however the impact was felt across the Group with some short-term site closures and reduced employee hours. Disclosure of the risk to the Group and Company of Covid-19 and management's conclusions on going concern have been included within the relevant sections of the Annual Report.	We audited management's assessment of the impact of Covid-19. We considered and critically assessed: • The timing of the development of the outbreak across the world and in the UK; and • How the Financial Statements and business operations of the Group and Company might be impacted by the pandemic and related disruption. In forming our conclusions over going concern, we evaluated whether management's going concern assessment considered appropriate impacts arising from Covid-19. Our procedures in respect of going concern included: • We reviewed and challenged management's going concern assessment, based upon the bottom-up full year 2021 budget and strategic forecast to September 2023, to ensure the impacts of Covid-19 have been appropriately considered and reflected; and • We have challenged the key assumptions in this assessment, including the availability of sufficient cash resources and compliance with future banking covenants. Based on the work performed, we are satisfied that the matter has been appropriately evaluated and reflected in the Financial Statements and concur with management's assessment that the impact of COVID-19 has not had a significant impact on the going concern assessment. We also assessed the adequacy of disclosures related to Covid-19 included in the Financial Statements and consider these to be appropriate.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

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 company, the accounting processes and controls, and the industry in which they operate.

- 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 Gooch & Housego (Ohio) LLC) and two operating units in the UK (Integrated Technologies 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 Group level in respect of centralised processes and functions, including the audit of consolidation journals.
- Specific audit procedures were also performed by the UK audit team on certain other balances and transactions within the remaining sixteen reporting units. In particular, additional detailed testing was performed on revenue at two reporting units, one in the US (EM4 Inc), and one in the UK (Gooch & Housego (UK) Limited).
- Taken together, these seven reporting units (post consolidation entries) account for 70% of Group's revenue.

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	Company Financial Statements
Overall materiality	£533,000 (2019: £525,000).	£300,000 (2019: £49,000).
How we determined it	5% of the last 3 years' (2020 ,2019, 2018) average consolidated profit before tax, after adding back any impairment of goodwill, less the release of any accrued contingent consideration and adding interest on discounted deferred consideration in the applicable years.	1% of net assets (restricted by Group materiality).
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report and Financial Statements 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/income 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 determined our materiality based on total assets, which is more applicable than a performance-related measure as the Company is primarily an investment holding Company for the Group and does not have any revenues as a result.

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 £232,000 and £400,000. 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 £26,650 (Group audit) (2019: £26,000) and £15,000 (Company audit) (2019: £2,450) 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 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 company's ability to continue as a going concern.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

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

Based on the responsibilities described above and our work undertaken in the course of the audit, 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 2020 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 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' 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 39 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 39 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' 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 39, 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 company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 40 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
to the Members of Gooch & Housego PLC

Responsibilities for the Financial Statements and the Audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 38, 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 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 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 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 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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Jason Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
1 December 2020

GROUP INCOME STATEMENT
For the year ended 30 September 2020

	Note	30 September 2020 Underlying £'000	30 September 2020 Non-underlying (see note 14) £'000	30 September 2020 Total £'000	30 September 2019 Underlying £'000	30 September 2019 Non-underlying (see note 14) £'000	30 September 2019 Total £'000
Revenue	7	122,095	–	122,095	129,133	–	129,133
Cost of revenue		(82,845)	–	(82,845)	(84,231)	–	(84,231)
Gross profit		39,250	–	39,250	44,902	–	44,902
Research and Development		(7,924)	–	(7,924)	(7,074)	–	(7,074)
Sales and Marketing		(7,440)	–	(7,440)	(8,545)	–	(8,545)
Administration		(13,759)	(4,875)	(18,634)	(13,298)	(8,228)	(21,526)
Other income and expenses	9	1,082	–	1,082	269	382	651
Operating profit	11	11,209	(4,875)	6,334	16,254	(7,846)	8,408
Finance income	12	16	818	834	21	–	21
Finance costs	12	(1,473)	(303)	(1,776)	(1,259)	(1,218)	(2,477)
Profit before income tax expense		9,752	(4,360)	5,392	15,016	(9,064)	5,952
Income tax expense	13	(2,128)	518	(1,610)	(3,332)	1,141	(2,191)
Profit for the year		7,624	(3,842)	3,782	11,684	(7,923)	3,761
Basic earnings per share	16	30.5p	(15.4p)	15.1p	46.8p	(31.7p)	15.1p
Diluted earnings per share	16	30.2p	(15.2p)	15.0p	46.7p	(31.7p)	15.0p

GROUP STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2020

	Note	2020 £'000	2019 £'000
Profit for the year		3,782	3,761
Other comprehensive income / (expense) – items that may be reclassified subsequently to profit or loss			
Gains on cash flow hedges	28	333	–
Currency translation differences	28	(2,105)	2,549
Other comprehensive (expense) / income for the year net of tax		(1,772)	2,549
Total comprehensive income for the year attributable to the shareholders of Gooch & Housego PLC		2,010	6,310

GROUP BALANCE SHEET
For the year ended 30 September 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment	17	38,741	39,621
Right of use assets	18	6,742	-
Intangible assets	19	54,624	58,598
Deferred income tax assets	26	1,432	1,539
		101,539	99,758
Current assets			
Inventories	20	30,580	33,313
Trade and other receivables	21	26,298	33,190
Cash and cash equivalents	22	19,734	17,512
		76,612	84,015
Current liabilities			
Trade and other payables	23	(17,971)	(22,668)
Borrowings	24	(64)	(77)
Lease liabilities	24	(1,832)	-
Income tax liabilities		(1,120)	(1,114)
Deferred consideration		(3,250)	(4,750)
		(24,237)	(28,609)
Net current assets		52,375	55,406
Non-current liabilities			
Borrowings	24	(26,211)	(31,722)
Lease liabilities	24	(6,364)	-
Provision for other liabilities and charges	25	(1,692)	(1,243)
Deferred income tax liabilities	26	(6,294)	(6,409)
Deferred consideration		-	(2,947)
		(40,561)	(42,321)
Net assets		113,353	112,843
Shareholders' equity			
Called up share capital	27	5,008	5,008
Share premium account	28	16,000	16,000
Merger reserve	28	7,262	7,262
Cumulative translation reserve	28	7,675	9,780
Hedging reserve	28	333	-
Retained earnings	28	77,075	74,793
Total equity		113,353	112,843

The financial statements for Gooch & Housego PLC, registered number 00526832, on pages 55 to 84 were approved by the Board of Directors on 1 December 2020 and signed on its behalf by:

Mark Webster
Director

Chris Jewell
Director

GROUP STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2020

	Note	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained Earnings £'000	Hedging reserve £'000	Cumulative translation reserve £'000	Total equity £'000
At 1 October 2018		4,982	15,530	7,262	74,013	–	7,231	109,018
Profit for the financial year		–	–	–	3,761	–	–	3,761
Other comprehensive expense for the year		–	–	–	–	–	2,549	2,549
Total comprehensive income for the year		–	–	–	3,761	–	2,549	6,310
Dividends	15	–	–	–	(2,849)	–	–	(2,849)
Shares issued	27	26	470	–	(19)	–	–	477
Fair value of employee services		–	–	–	191	–	–	191
Tax debit relating to share option schemes		–	–	–	(304)	–	–	(304)
Total contributions by and distributions to owners of the parent recognised directly in equity		26	470	–	(2,981)	–	–	(2,485)
At 30 September 2019		5,008	16,000	7,262	74,793	–	9,780	112,843
At 1 October 2019		5,008	16,000	7,262	74,793	–	9,780	112,843
Profit for the financial year		–	–	–	3,782	–	–	3,782
Other comprehensive income / (expense) for the year		–	–	–	–	333	(2,105)	(1,772)
Total comprehensive income / (expense) for the year		–	–	–	3,782	333	(2,105)	2,010
Dividends	15	–	–	–	(1,803)	–	–	(1,803)
Fair value of employee services		–	–	–	303	–	–	303
Total contributions by and distributions to owners of the parent recognised directly in equity		–	–	–	(1,500)	–	–	(1,500)
At 30 September 2020		5,008	16,000	7,262	77,075	333	7,675	113,353

GROUP CASH FLOW STATEMENT
For the year ended 30 September 2020

	2020 £'000	2019 £'000
Cash flows from operating activities		
Cash generated from operations	21,561	12,967
Income tax paid	(1,119)	(1,321)
Net cash generated from operating activities	20,442	11,646
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(4,750)	(3,940)
Purchase of property, plant and equipment	(5,495)	(5,792)
Sale of property, plant and equipment	353	1,480
Purchase of intangible assets	(1,291)	(1,620)
Interest received	846	21
Interest paid	(1,399)	(1,116)
Legal dispute settlement	1,580	–
Net cash used in investing activities	(10,156)	(10,967)
Cash flows from financing activities		
Drawdown of borrowings	8,346	–
Repayment of borrowings	(12,610)	(60)
Principal elements of lease repayments	(1,583)	(14)
Dividends paid to ordinary shareholders	(1,803)	(2,849)
Net cash used by financing activities	(7,650)	(2,923)
Net increase / (decrease) in cash	2,636	(2,244)
Cash at beginning of the year	17,512	19,433
Exchange (losses) / gains on cash	(414)	323
Cash at the end of the year	19,734	17,512

NOTES TO THE GROUP CASH FLOW STATEMENT

For the year ended 30 September 2020

Reconciliation of cash generated from operations

	2020 £'000	2019 £'000
Profit before income tax	5,392	5,952
Adjustments for:		
– Amortisation of acquired intangible assets	2,676	3,690
– Amortisation of other intangible assets	984	672
– Profit on disposal of property, plant and equipment	(27)	(741)
– Impairment of goodwill	–	6,258
– Adjustment to accrued contingent consideration	–	(3,075)
– Depreciation	6,901	4,548
– Share based payment charge	303	191
– Amounts claimed under the RDEC	(315)	(350)
– Finance income	(834)	(21)
– Finance costs	1,776	2,477
Total	11,464	13,649
Changes in working capital		
– Inventories	2,042	(6,646)
– Trade and other receivables	6,812	2,729
– Trade and other payables	(4,149)	(2,717)
Total	4,705	(6,634)
Cash generated from operating activities	21,561	12,967

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

	2020 £'000	2019 £'000
Increase / (decrease) in cash in the year	2,636	(2,244)
Drawdown of borrowings	(8,346)	–
Repayment of borrowings	14,193	74
Changes in net cash resulting from cash flows	8,483	(2,170)
Adoption of IFRS16 Leases	(9,429)	–
New leases	(766)	–
Translation differences	1,165	(1,511)
Non cash movements	97	–
Movement in net debt in the year	(450)	(3,681)
Net debt at 1 October	(14,287)	(10,606)
Net debt at 30 September	(14,737)	(14,287)

Analysis of net debt

	At 1 Oct 2019 £'000	Adoption of IFRS16 £'000	Cash flow £'000	New leases £'000	Exchange movement £'000	Non cash movement £'000	At 30 Sep 2020 £'000
Cash at bank and in hand	17,512	–	2,636	–	(414)	–	19,734
Debt due within 1 year	(62)	–	60	–	–	(62)	(64)
Debt due after 1 year	(31,719)	–	4,204	–	1,145	159	(26,211)
Finance leases	(18)	(9,429)	1,583	(766)	434	–	(8,196)
Net debt	(14,287)	(9,429)	8,483	(766)	1,165	97	(14,737)

The non-cash movements in the above tables include debt arrangement fees and movements between amounts due within one year and after one year due to the lapse of time.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

1. General Information
Gooch & Housego PLC (the "Company") is a public limited company 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 97.

The consolidated financial statements of the Group for the year ended 30 September 2020 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 92.

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 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 2020, 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
The following two new standard standards were effective for the financial year ended 30 September 2020:

IFRS16 leases
IFRS 16 provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases unless.

On adoption of IFRS16, the group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 October 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 October 2019 was 3.33%.

The group applied the modified retrospective approach to transition. The effect of adopting the standard was to increase liabilities (and net debt) by £9.4m at 1 October 2019. Right of use assets of £9.6m were recognised on adoption of the new standard whilst £0.2m previously held in other receivables relating to lease deposits was eliminated on adoption of the new Standard.

The standard had the effect of reducing profit before tax by £0.1m. This comprised an increase in depreciation on right of use assets of £1.6m and an increase in interest on lease liabilities of £0.4m. These were partially offset by lease rental payments of £1.9m no longer being recognised in the income statement.

There was no initial deferred tax effect on adoption of IFRS16. Timing differences arising on IFRS16 in the year ended 30 September 2020 gave rise to a deferred tax asset of £0.4m.

In applying IFRS16 for the first time, the Group has used the following practical expedients permitted by the standard:
- accounting for operating leases with a remaining term of less than 12 months as at 1 October 2019 as short-term leases; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- application of the exemption for leases of low value assets.

Measurement of lease liabilities

	£'000
Operating lease commitments disclosed as at 30 September 2019	5,657
Add: adjustments as a result of different treatment of extension and termination options	5,366
(Less): discounted using the lessee's incremental borrowing rate at the date of initial application	(1,359)
Add: finance lease liabilities recognised as at 30 September 2019	18
(Less): short term leases not recognised as a liability	(245)
(Less): low value leases not recognised as a liability	(8)
Lease liability recognised as at 1 October 2019	**9,429**
Of which are:	
Current lease liabilities	1,482
Non-current lease liabilities	7,947

New Standards and Interpretations not yet adopted
The following standard and amendments will apply to the Group for the first time in the year ending 30 September 2021. None are expected to have a material effect on the financial statements.
- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS3
- Interest Rate Benchmark Reform – amendments to IFRS9, IAS 39 and IFRS7
- Revised Conceptual Framework for Financial Reporting
- Annual Improvements to IFRS Standards 2018 – 2020 Cycle

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,

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

the difference is recognised directly in the income statement. Should the fair value of contingent or deferred consideration vary from the actual value on settlement date, the difference is recognised directly in the income statement.

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

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 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

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.

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.

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 for expected credit losses.

The group applies the IFRS9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months prior to the reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

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.

Derivatives and hedging activities
The Group transacts derivative financial instruments to manage the underlying exposure to foreign exchange risk. The Group does not transact derivative financial instruments for trading purposes. 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.

The hedges entered into during FY2020 have been assessed as effective and therefore the Group has applied hedge accounting. Accordingly, movements in the fair value of the hedges have been recorded in reserves.

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 Research and Development Expenditure Credit scheme have been recognised within operating profit.

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

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

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

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

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

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.

Non underlying items
Transactions are classified as non underlying 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
The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease payments included in the measurement of the lease liability comprise:
- fixed lease payments (including in substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other operating expenses" in the Income Statement.

For short-term leases (leases with a term of twelve months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating expenses in the Income Statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

Approach to transition
The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right-of-use assets arising from property leases using the approach set out in IFRS 16.C8(b)(ii), whereby right-of-use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including unamortised lease incentives. The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 October 2019 is 3.33%.

Share capital
Ordinary shares are classified as equity.

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

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

Revenue is recognised to depict the transfer of control over promised goods or services to customers in an amount that reflects the amount of consideration specified in a contract with a customer, to which the Group expects to be entitled in exchange for those goods or services. Revenue represents sales, net of discounts, and excluding value added tax and other sales related taxes. Performance obligations are unbundled in each contractual arrangement if they are distinct from one another. The contract price is allocated to the distinct performance obligations based on the relative standalone selling prices of the goods or services. The way in which the Group satisfies its performance obligations varies by business and may be on shipment, delivery, as services are rendered or on completion of services depending on the nature of the product/service and terms of the contract which govern how control passes to the customer. Revenue is recognised at a point in time or over time as appropriate. For revenue recognised over time the Group recognises revenue on a basis that depicts the Group's performance in transferring control of the goods and services to the customer, having assessed the nature of the promised goods or service.

A contract asset is recognised when the Group's right to consideration is conditional on something other than the passage of time, for example the completion of future performance obligations under the terms of the contract with the customer. In some instances, the Group receives payments from customers based on a billing schedule, as established in the contract, which may not match the pattern of performance under the contract. In this instance, a contract asset or contract liability is recognised depending on the phasing of payment in relation to the performance.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

5. Financial Risk Management

Capital risk management

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

The Group's objectives when managing capital are to safeguard the Group's ability
- to continue as a going concern,
- to provide returns for shareholders and benefits for other stakeholders and
- to maintain an optimal capital structure to reduce the cost of capital.

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

In order to maintain or adjust the capital structure, the Group may
- adjust the amount of dividends paid to shareholders,
- return capital to shareholders,
- issue new shares,
- sell assets to reduce debt and
- vary the level of debt financing.

While the Group's debt to equity ratio is consistently monitored, changes in the Group's need for capital and the selection of the source and funding of capital are assessed against a number of criteria which may have a direct effect on the Group debt to equity ratio. The Group's capital needs include, but are not solely limited to, its
- investment in non-current assets;
- investment in working capital; and
- acquisition of businesses, technologies and other intangible assets.

The criteria against which the Group's capital needs are assessed include, but are not limited to,
- availability of and cost of debt financing;
- ability to raise equity financing at an acceptable share price; and
- ratio of debt to equity.

Financial risks

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

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Where considered appropriate, the Company will use derivative financial instruments to hedge risk exposures. During the year ended 30 September 2020, the company has entered into contracts to sell US Dollars and buy UK Sterling at fixed rates at specific dates in the future. At 30 September 2020, the Company had contracts to sell $7m in the period to 30 September 2021. The fair value of these contracts, of £0.3m, has been included within receivables on the balance sheet. No such arrangements were in place during the year ended 30 September 2019.

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.

During the year the Group has entered into contracts to hedge foreign exchange risk as disclosed above.

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.

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 2019, with all other variables constant, post tax profits for the year would have been £105,000 higher (2019: £145,000 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 £3,751,000 lower (2019: £2,747,000 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 £4,584,000 higher (2019: £2,747,000 higher).

b. Cash flow interest rate risk

The Group has cash balances of £19.7m 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 £337,000 (2019: £306,000).

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. During 2019 and 2020, the Group's borrowings at variable interest rates were denominated in Pound Sterling and US Dollars as detailed in Note 24.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

The Group is exposed to concentration of credit risk. The Group's top ten customers in 2020 accounted for 29% of the Group's revenue (2019: 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 21.

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 $50m (£38.7m) of which $34m (£26.3m) is drawn and an uncommitted flexible acquisition facility of $20m (£15.5m) which is undrawn. Both are available until 16 April 2023. These are analysed in Notes 24 and 30.

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

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

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

Critical accounting estimates
Carrying value 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 19.

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.

The provision for inventory obsolescence amounts to 19.1% of the gross inventory value (2019: 15.8%). The Directors are satisfied that this provision is appropriate. An increase in the provision amounting to 1% of the gross inventory value would increase the provision by £0.4m.

Long term contract accounting
Some of the Group's sites are engaged in long term development contracts. These contracts must be traded based upon an estimate of the contracts' outturn profitability which requires estimation and judgement. These estimates are based on regularly updated forecasts, but do have a degree of estimation uncertainty.

Revenue recognised under long term contracts in the year ended 30 September 2020 amounted to £5.5m. Accordingly a difference in the percentage of completion estimates of 1% would have an impact of £0.1m on revenue.

Critical accounting judgements
Non-underlying items
Transactions are classified as non-underlying where in the opinion of the Directors 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

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 A&D, 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, telecommunications and scientific research.

For the year ended 30 September 2020	Aerospace & Defence £'000	Life Sciences/ Biophotonics £'000	Industrial £'000	Corporate £'000	Total £'000
Revenue					
Total revenue	41,390	27,578	60,280	–	129,248
Inter and intra-division	–	(1,684)	(5,469)	–	(7,153)
External revenue	41,390	25,894	54,811	–	122,095
Divisional expenses	(37,295)	(20,543)	(48,004)	642	(105,200)
EBITDA[1]	4,095	5,351	6,807	642	16,895
EBITDA%	9.9%	20.7%	12.4%	–	13.8%
Depreciation and amortisation	(2,554)	(964)	(3,636)	(731)	(7,885)
Operating profit before amortisation of acquired intangible assets and goodwill impairment	1,541	4,387	3,171	(89)	9,010
Amortisation of acquired intangible assets	–	–	–	(2,676)	(2,676)
Operating profit	1,541	4,387	3,171	(2,765)	6,334
Operating profit margin %	3.7%	16.9%	5.8%	–	5.2%
Add back non-underlying items and amortisation of acquired intangibles	1,258	263	935	2,419	4,875
Adjusted operating profit	2,799	4,650	4,106	(346)	11,209
Adjusted profit margin %	6.8%	18.0%	7.5%	–	9.2%
Finance costs	(128)	(32)	(189)	(593)	(942)
Profit before income tax expense	1,413	4,355	2,982	(3,358)	5,392

For the year ended 30 September 2019	Aerospace & Defence £'000	Life Sciences/ Biophotonics £'000	Industrial £'000	Corporate £'000	Total £'000
Revenue					
Total revenue	44,222	25,130	67,931	–	137,283
Inter and intra-division	(19)	(1,054)	(7,077)	–	(8,150)
External revenue	44,203	24,076	60,854	–	129,133
Divisional expenses	(40,505)	(18,538)	(49,905)	3,391	(105,557)
EBITDA[1]	3,698	5,538	10,949	3,391	23,576
EBITDA%	8.4%	23.0%	18.0%	–	18.3%
Depreciation and amortisation	(1,076)	(649)	(2,517)	(978)	(5,220)
Operating profit before amortisation of acquired intangible assets and goodwill impairment	2,622	4,889	8,432	2,413	18,356
Amortisation of acquired intangible assets and goodwill impairment	–	–	–	(9,948)	(9,948)
Operating profit	2,622	4,889	8,432	(7,535)	8,408
Operating profit margin %	5.9%	20.3%	13.9%	–	6.5%
Add back non-underlying items, amortisation of acquired intangible assets and goodwill impairment	902	194	540	6,210	7,846
Adjusted operating profit	3,524	5,083	8,972	(1,325)	16,254
Adjusted profit margin %	8.0%	21,1%	14.7%	–	12.6%
Finance costs	–	–	–	(2,456)	(2,456)
Profit before income tax expense	2,622	4,889	8,432	(9,991)	5,592

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

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

Management have added back the amortisation of intangibles, impairment of goodwill, restructuring costs, site closure costs, charge / release in respect of contingent consideration, amounts received in respect of litigation associated with a property lease 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-underlying expenses.

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

Analysis of revenue by type:

	2020 £'000	2019 £'000
Revenue from long term contracts	5,512	5,888
Revenue from sale of products	116,583	123,245
Total revenue	122,095	129,133

Analysis of net assets by location:

	2020 Assets £'000	2020 Liabilities £'000	2020 Net Assets £'000	2019 Assets £'000	2019 Liabilities £'000	2019 Net Assets £'000
United Kingdom	89,807	(41,676)	48,131	98,624	(57,859)	40,765
USA	86,824	(22,999)	63,825	84,196	(12,933)	71,263
Continental Europe	738	(52)	686	260	(37)	223
Asia Pacific	782	(71)	711	693	(101)	592
	178,151	(64,798)	113,353	183,773	(70,930)	112,843

For the year to 30 September 2020 non-current asset additions were £5.1m (2019: £5.8m) for the UK and USA £3.1m (2019: £1.7m). There were no additions to non-current assets in respect of Europe (2019: £nil) or the Asia Pacific region (2019: £nil). The value of non-current assets in the USA was £44.7m (2019: £58.3m) and in the United Kingdom £39.3m (2019: £41.4m). There were no non-current assets in Europe or the Asia-Pacific region.

Analysis of revenue by destination:

	2020 £'000	2019 £'000
United Kingdom	33,994	32,054
North America	45,554	50,097
Continental Europe	24,101	25,816
Asia Pacific and Other	18,446	21,166
	122,095	129,133

8. Expenses by Nature

	Note	2020 £'000	2019 £'000
Raw materials and consumables		47,387	45,294
Changes in inventory		2,042	(6,646)
Employee costs	10	52,885	58,707
Other operating charges		3,968	11,928
Depreciation		6,901	4,548
Amortisation of acquired intangible assets		2,676	3,690
Amortisation of other intangible assets		984	672
Impairment of goodwill		–	6,258
Adjustment to accrued contingent consideration		–	(3,075)
Other income and expenses	9	(1,082)	(651)
		115,761	120,725

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

9. Other Income and Expenses

	2020 £'000	2019 £'000
Grants receivable	561	622
Amounts claimed under the RDEC	315	350
Other income / (expense)	206	(321)
	1,082	651

Other income relates to sales of certain materials used in production which need to be reprocessed periodically. The other expense in 2019 largely relates to the costs of closing our facility in Madison, Wisconsin.

10. Employee Benefit Expense

	2020 £'000	2019 £'000
Wages and salaries	42,912	48,950
Social security costs	3,725	4,077
Share based payment charge	303	191
Medical and other insurance	3,328	3,314
Pension costs	2,617	2,175
	52,885	58,707

The employee benefit expense shown above for FY2020 is shown net of UK Government Job Retention Scheme income of £0.4m and similar income in the US of £1.1m.

The average number of employees during the year was:

	2020 Number	2019 Number
Manufacturing	668	696
Sales, finance and administration	279	268
	947	964

Key management compensation

	2020 £'000	2019 £'000
Salaries and other short-term benefits	5,408	6,880
Share based payments	303	191
Other pension costs	331	313
	6,042	7,384

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

Directors' remuneration, including the highest paid Director, has been included on page 45 of the Remuneration Committee Report. These disclosures have been audited.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

11. Operating Profit
Operating profit is stated after charging/(crediting):

	2020 £'000	2019 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	48	46
Fees payable to the Company's auditors and its associates for other services:		
– audit of the Company's subsidiaries pursuant to legislation	137	128
– taxation compliance services	131	130
– taxation advisory services	5	7
Net losses / (gains) on foreign exchange	496	(322)
Operating lease rentals	74	2,479
Impairment of goodwill	–	6,258
Credit in relation to accrued contingent consideration on acquisitions	–	(3,075)

12. Finance Income and Costs

	2020 £'000	2019 £'000
Finance income comprises:		
– Settlement of legal dispute	818	–
– Bank interest	16	21
	834	21
Finance costs comprise:		
– Bank interest	(1,114)	(1,258)
– Lease interest	(359)	(1)
– Interest on discounted deferred consideration	(303)	(1,218)
	(1,776)	(2,477)

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

13. Income Tax Expense
Analysis of tax charge in the year

	2020 £'000	2019 £'000
Current taxation		
UK Corporation tax	1,089	1,756
Overseas tax	631	653
Adjustments in respect of prior year tax charge	(199)	–
Total current tax	1,521	2,409
Deferred tax		
Origination and reversal of temporary differences	(255)	(218)
Adjustments in respect of prior years	199	–
Change to UK tax rate	145	–
Total deferred tax	89	(218)
Income tax expense per income statement	1,610	2,191

The taxation expense for the year is higher (2019: higher) than the standard rate of corporation tax in the UK. An explanation of the differences is detailed below:

	2020 £'000	2019 £'000
Profit before income tax expense	5,392	5,952
Profit at the effective standard rate of tax of 19.0% for the year (2019: 19.0%)	1,024	1,131
Utilisation of losses	(194)	(106)
Permanent differences	369	721
Adjustments in respect of foreign tax rates	331	376
Effect of UK rate change on deferred tax balances	145	–
Other timing differences	(65)	69
Total tax expense	1,610	2,191

Factors affecting the future tax charge
Overseas tax losses of £9.6m (2019: £10.5m) and UK tax losses of £0.8m (2019: £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.

A reduction to the UK corporation tax rate (reducing the rate to 17%) was planned to come into effect from 1 April 2020, as per legislation enacted in 2016. During the year, a reversal of these plans and maintenance of the current UK 19% rate was announced in the UK Budget 2020, and this change was substantively enacted on 17 March 2020. Following these change, UK deferred tax balances in the closing position have been measured at 19%, resulting in a £0.1m charge to the Group income statement.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

14. Non-underlying items

	2020 £'000	2019 £'000
Included within administration expenses		
Amortisation of acquired intangible assets	2,676	3,690
Restructuring costs	2,609	1,355
Property litigation settlement	(410)	-
Goodwill impairment	-	6,258
Adjustment to deferred consideration	-	(3,075)
	4,875	8,228
Included within other income and expense		
Site closure costs	-	(382)
	-	(382)
Included within net finance costs		
Interest awarded in property litigation settlement	(818)	-
Unwind of discount on deferred consideration	303	1,218
	(515)	1,218

The restructuring costs incurred in the year related to expenses arising from the project to establish the Ilminster facility as our UK Precision Optics Centre of Excellence and the resultant closure of our Glenrothes facility. The costs recorded in the period principally comprised redundancy costs and the write downs of both property, plant and equipment and inventories of products which will be discontinued at the completion of the project.

Restructuring costs incurred in the year ended 30 September 2019 related to expenses arising from the re- organisation of the manufacturing centres, and the Group's commercial and business development teams into a single integrated function.

In the year ended 30 September 2019, the Board took the decision to impair the goodwill relating to the Boston and Baltimore cash generating units by £2.6m and £3.6m respectively. See note 19 for further details.

Site closure costs in FY19 related to the profit generated on sale of the Group's Orlando facility (£0.8m), partially offset by the costs associated with the closure of the Madison office (£0.4m).

In March 2020 long running litigation with the landlord of our Fremont facility was finally concluded. G&H was awarded a total of $3.6m (£2.8m) comprising damages, reimbursement of our costs and interest arising from the landlord's non-performance in respect of the lease and this amount was received in June 2020. The reimbursement of costs and interest received of £1.2m were treated as a non-underlying credit in the income statement whilst the damages element of the award were credited against the right of use asset held on the balance sheet.

The credit in respect of accrued contingent consideration recorded in FY2019 related to StingRay (£0.5m). The final tranche of the earn out was paid in FY19 but the maximum potential was not achieved. In addition in FY2019, the full amount of the deferred consideration in respect of Gould Fiber Optics was written back (£2.6m).

15. Dividends

	2020 £'000	2019 £'000
Final 2019 dividend paid in 2020: 7.2p per share (Final 2018 dividend paid in 2019: 7.1p per share)	1,803	1,772
2020 Interim dividend nil (2019: 4.3p)	-	1,077
	1,803	2,849

The Directors have not proposed a final dividend making the total dividend paid and proposed in respect of the 2020 financial year nil (2019: 11.5p).

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

16. 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:

	2020 Number	2019 Number
Number of shares used for basic earnings per share	25,039,519	24,936,438
Dilutive shares	174,664	141,696
Number of shares used for dilutive earnings per share	25,214,183	25,078,134

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

	2020		2019	
	£'000	pence per share	£'000	pence per share
Basic earnings per share	3,782	15.1p	3,761	15.1p
Amortisation of acquired intangible assets (net of tax)	2,279	9.1p	3,014	12.1p
Goodwill impairment (net of tax)	–	–	5,337	21.4p
Release of accrued contingent consideration (net of tax)	–	–	(2,413)	(9.7p)
Site closure costs (net of tax)	–	–	(317)	(1.3p)
Restructuring costs (net of tax)	2,218	8.9p	1,084	4.3p
Interest on deferred consideration	303	1.2p	1,218	4.9p
Property litigation settlement (net of tax)	(958)	(3.8p)	–	–
Total adjustments net of income tax expense	3,842	15.4p	7,923	31.7p
Adjusted basic earnings per share	7,624	30.5p	11,684	46.8p
Basic diluted earnings per share	3,782	15.0p	3,761	15.0p
Adjusted diluted earnings per share	7,624	30.2p	11,684	46.7p

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

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

17. 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 2018	2,704	10,676	15,743	35,243	3,948	51	68,365
Additions	1,232	25	609	3,350	656	-	5,872
Disposals	-	(1,064)	(214)	(1,464)	(813)	(8)	(3,563)
Reclassification	(375)	-	17	299	59	-	-
Exchange rate differences	27	5	885	903	61	1	1,882
At 30 September 2019	3,588	9,642	17,040	38,331	3,911	44	72,556
Additions	919	45	137	4,064	241	28	5,434
Disposals	-	(444)	-	(8)	(109)	-	(561)
Reclassification	(3,076)	-	1,776	1,300	-	-	-
Exchange rate differences	24	(4)	(749)	(767)	(83)	(1)	(1,580)
At 30 September 2020	1,455	9,239	18,204	42,920	3,960	71	75,849
Accumulated depreciation							
At 1 October 2018	-	1,993	3,492	21,864	2,663	33	30,045
Charge for the year	-	202	1,020	2,858	463	5	4,548
Disposals	-	(348)	(16)	(1,449)	(588)	(8)	(2,409)
Exchange rate differences	-	5	216	482	47	1	751
At 30 September 2019	-	1,852	4,712	23,755	2,585	31	32,935
Charge for the year	-	459	1,098	3,206	489	1	5,253
Disposals	-	(292)	-	(6)	(108)	-	(406)
Exchange rate differences	-	(4)	(229)	(405)	(36)	-	(674)
At 30 September 2020	-	2,015	5,581	26,550	2,930	32	37,108
Net book value							
At 1 October2018	2,704	8,683	12,251	13,379	1,285	18	38,320
At 30 September 2019	3,588	7,790	12,328	14,576	1,326	13	39,621
At 30 September 2020	1,455	7,224	12,623	16,370	1,030	39	38,741

At 30 September 2019, plant and machinery purchased under a hire purchase or finance lease agreement had a cost of £77,000 and net book value of £16,000.

No interest was capitalised in the year (2019: £Nil).

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

18. Right of Use Assets

	Fixtures and fittings £'000	Motor vehicles £'000	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost					
On transition to IFRS16 – At 1 October 2019	34	36	9,438	84	9,592
Additions	–	9	800	–	809
Adjustments	–	–	(1,609)	–	(1,609)
Exchange rate differences	(1)	–	(416)	(4)	(421)
At 30 September 2020	33	45	8,213	80	8,371
Accumulated depreciation					
On transition to IFRS16 – At 1 October 2019	–	–	–	–	–
Charge for the year	10	18	1,591	29	1,648
Exchange rate differences	–	–	(19)	–	(19)
At 30 September 2020	10	18	1,572	29	1,629
Net book value					
At 30 September 2019	–	–	–	–	–
At 30 September 2020	23	27	6,641	51	6,742

The adjustment to land and buildings right of use assets of £1.6m relates to the damages received following the resolution of our legal dispute with the landlord of our Fremont, CA facility.

19. Intangible Assets

	Goodwill £'000	Acquired customer relationships and order books £'000	Acquired brands £'000	Capitalised R&D, Patents and licences £'000	Software and other intangibles £'000	Total £'000
Cost or valuation						
At 1 October 2018	53,315	30,450	4,174	4,146	2,748	94,833
Additions	–	–	–	776	844	1,620
Disposals	–	–	–	(276)	(136)	(412)
Exchange rate differences	1,641	983	85	29	10	2,748
At 30 September 2019	54,956	31,433	4,259	4,675	3,466	98,789
Additions	–	–	–	664	659	1,323
Disposals	–	–	–	(363)	–	(363)
Transfers	–	–	–	18	30	48
Exchange rate differences	(1,362)	(788)	(72)	(19)	(9)	(2,250)
At 30 September 2020	53,594	30,645	4,187	4,975	4,146	97,547
Accumulated amortisation and impairment						
At 1 October 2018	9,748	15,481	551	1,647	1,672	29,099
Charge for the year	6,258	3,252	438	562	110	10,620
Disposals	–	–	–	–	(136)	(136)
Exchange rate differences	–	582	18	1	7	608
At 30 September 2019	16,006	19,316	1,006	2,210	1,653	40,191
Charge for the year	–	2,238	438	539	445	3,660
Disposals	–	–	–	(259)	–	(259)
Exchange rate differences	(153)	(527)	(20)	36	(5)	(669)
At 30 September 2020	15,853	21,027	1,424	2,526	2,093	42,923
Net book value						
At 1 October 2018	43,567	14,969	3,263	2,499	1,076	65,734
At 30 September 2019	38,950	12,117	3,253	2,465	1,813	58,598
At 30 September 2020	37,741	9,618	2,763	2,449	2,053	54,624

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

During the year, management have revised the cash generating units (CGUs) to better align them with the way the group is organised following the recent restructuring of the sites into manufacturing centres. Our Ashford site, acquired in 2018, has not yet been included in a manufacturing centre and therefore continues to constitute a separate cash generating unit.

Goodwill is allocated to the manufacturing centres as follows: Acousto-Optics £3.9m, Precision Optics & Systems £14.2m and Fibre-Optics £9.4m. The goodwill relating to the Ashford site is £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 strategic plan projections approved by the Board. For the purposes of the impairment review, the following key assumptions were made in respect of the cash flows beyond the duration of the strategic plan:

Cash Generating Unit	Average annual growth in revenue from FY2021 to FY2030	Pre Tax Discount Rate
Acousto-Optics	4.3%	11.8%
Precision Optics & Systems	3.3%	11.8%
Fibre Optics	7.4%	11.8%
Ashford ITL	1.0%	11.8%

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

Management have performed various sensitivities on the value in use calculations which underpin the goodwill valuations. These include increases to the discount rates and reductions to the planned growth rates, the effect of which is summarised below:

Cash Generating Unit	Present value of CGU	Effect on value in use of an increase of 1% in the discount rate	Effect of a 1% reduction in growth per annum from FY2020 to FY2023	Effect on value in use of a reduction in growth from 2024 onwards from 3% to 1%
Acousto-Optics	£74.5m	(£10.0m)	(£2.3m)	(£10.0m)
Precision Optics & Systems	£60.0m	(£7.8m)	(£2.5m)	(£9.6m)
Fibre Optics	£77.7m	(£10.5m)	(£2.6m)	(£12.8m)
Ashford ITL	£28.5m	(£3.5m)	(£1.3m)	(£5.8m)

Neither of the above sensitivities give rise to an impairment, and therefore the directors are satisfied that the carrying values remain appropriate.

The Directors also performed the goodwill impairment analysis using the old basis with the sites as the CGUs. This did not indicate any impairment had arisen.

In the year ended 30 September 2019, the Board took the decision to impair the goodwill relating to the Boston and Baltimore cash generating units by £2.6m and £3.6m respectively. The rationale for those impairments is set out below:

The Boston goodwill arose on the acquisition of EM4, now referred to as G&H Boston, in January 2011 for consideration of $11.6 million and, prior to the impairment in FY2019, the carrying value of the associated goodwill was £5.1m. This acquisition has played a vital role in G&H's diversification strategy, by providing the systems and critical mass needed for the Company to become a credible player in the A&D market. The duplication of Boston's technology in our Torquay facility has also been a key factor in allowing G&H to address the European space market. However, on a stand-alone basis, in FY2019 Boston struggled to grow its engineering services business. Whilst recent contract awards for this business were encouraging, the Board, nevertheless, felt it appropriate to make an impairment of £2.6m to the carrying value of Boston in FY2019.

The Baltimore business was acquired in September 2018 for a consideration of $16.4m including a contingent element of $3.4m and, prior to the impairment in FY2019, the carrying value of the associated goodwill was £9.2m. Whilst the acquisition helped provide the Group with further access to the US A&D market the business did not generate the profitable growth required to support the payment of the contingent consideration. The lower than expected performance in FY2019 also meant that an impairment charge of £3.6m was recognised in relation to the carrying value of that site's goodwill in FY2019.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

20. Inventories

	2020 £'000	2019 £'000
Raw materials	13,350	12,271
Work in progress	11,810	13,204
Finished goods	5,420	7,838
	30,580	33,313

The cost of inventories recognised as an expense and included in cost of revenue amounted to £82.8m (2019: £84.2m).

The movement in the inventories provision is as follows:

	2020 £'000	2019 £'000
At 1 October	6,236	5,730
Increase in in provision	1,132	375
Exchange rate movement	(142)	131
At 30 September	7,226	6,236

21. Trade and Other Receivables

	2020 £'000	2019 £'000
Trade receivables	23,106	29,107
Other receivables	801	928
Contract assets	938	1,982
Derivative financial instruments	333	-
Grant funding held in trust account	87	1
Prepayments	1,033	1,172
	26,298	33,190

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

	2020 £'000	2019 £'000
Pound Sterling	9,257	12,324
US Dollar	15,525	19,227
Euro	1,355	1,460
Other	161	179
	26,298	33,190

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

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

	2020 £'000	2019 £'000
Current	17,240	20,756
1 to 3 months	6,059	7,334
Over 3 months	1,135	3,471
	24,434	31,561
Less provision for impairment	(390)	(472)
Net trade receivables and contract assets	24,044	31,089

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:

	2020 £'000	2019 £'000
At 1 October	472	392
Release of provision	(99)	-
Increase in provision	22	66
Exchange rate movement	(5)	14
At 30 September	390	472

The provision for expected credit loss amounts to 1% of current balances, 2% of balances in the 1 – 3 month category, and 25% of balances greater than 3 months old.

22. Cash and Cash Equivalents

	2020 £'000	2019 £'000
Cash at bank and on hand	19,734	17,512

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

23. Trade and Other Payables

	2020 £'000	2019 £'000
Trade payables	5,476	10,045
Contract liabilities	121	-
Other taxation and social security	1,242	1,040
Grant funding held in trust account	420	1
Accruals	10,712	11,582
	17,971	22,668

24. Borrowings

	2020 £'000	2019 £'000
Current:		
Bank borrowings	64	62
Leases	1,832	15
	1,896	77
Non-current:		
Bank borrowings	26,211	31,719
Leases	6,364	3
	32,575	31,722
Total borrowings	34,471	31,799

The carrying values of the bank borrowings andleases are not materially different from their fair values and are included as part of the fair value disclosure for all financial instruments in Note 30.

G&H's primary lending bank is NatWest Bank. The Group's facilities comprise a $50m (£38.7m) dollar revolving credit facility and a $20m (£15.5m) flexible acquisition facility. At 30 September 2020, the balance drawn on the revolving credit facility was $34m (£26.3m) (2019: $39m (£31.7m)) and on the flexible acquisition facility nil (2019: nil).

The facilities above are committed until 6 April 2023 and attract an interest rate of between 1.4% and 1.9% above US LIBOR dependent upon the Company's leverage ratio, payable on rollover dates, typically quarterly.

The Group's banking facilities are secured on certain of its assets including land and buildings, property plant and equipment and inventory.

Maturity Profile of Bank and Other Borrowings

	2020 £'000	2019 £'000
Within one year	64	62
Between one and five years	26,211	31,719
	26,275	31,781

Maturity Profile of Lease Liabilities

	2020 £'000	2019 £'000
Within one year	1,832	15
Between one and five years	4,467	3
After five years	1,897	-
	8,196	18

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

25. Provision for Other Liabilities and Charges
The movements in the Group provision for other liabilities and charges during the year are as follows:

	2020 £'000	2019 £'000
At 1 October	1,243	988
Utilised during year	(72)	(135)
Increase in year	83	383
Reclassified from other creditors	444	-
Exchange movements	(6)	7
At 30 September	1,692	1,243

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. The Company offers warranty periods ranging up to 10 years on some of its products.

26. Deferred Tax Assets and Liabilities
The movements in the Group's deferred tax assets and liabilities during the year are as follows:

	2020 £'000	2019 £'000
At 1 October	(4,870)	(4,378)
(Charged) / credited to the income statement	(89)	218
Debited directly to equity	-	(453)
Exchange movements	97	(257)
Net liability at 30 September	(4,862)	(4,870)

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

	2020 £'000	2019 £'000
Deferred income tax assets		
Intangible assets	139	548
IFRS16 Leases	406	-
Provisions	887	991
	1,432	1,539
Deferred income tax liabilities		
Property, plant and equipment	(4,151)	(4,116)
Intangible assets	(2,133)	(2,265)
Other timing differences	(10)	(28)
	(6,294)	(6,409)
Deferred tax balance at 30 September	(4,862)	(4,870)

Overseas tax losses of £9.6m (2019: £10.5m) and UK tax losses of £0.8m (2019: £0.8m) are available to offset against future profits of the Group. The Group has not recognised a deferred income tax asset of £2.2m (2019: £2.4m) in respect of these losses due to uncertainty as to whether they will 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 GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

27. Called Up Share Capital

	2020 Number	2019 Number	2020 £'000	2019 £'000
Issued and fully paid ordinary shares of 20p each				
At 1 October	25,039,072	24,907,831	5,008	4,982
Shares issued and fully paid	1,847	131,241	–	26
At 30 September	25,040,919	25,039,072	5,008	5,008

During the year 1,847 shares (2019: 98,486 shares) were allotted under share option schemes. In 2019, 32,755 shares were issued as part of the deferred consideration for the Kent Periscopes business.

28. Reserves

	Share premium account £'000	Merger reserve £'000	Cumulative translation reserve £'000	Hedging reserve £'000	Retained earnings £'000
At 1 October 2019	16,000	7,262	9,780	–	74,793
Profit for the financial year	–	–	–	–	3,782
Dividends paid	–	–	–	–	(1,803)
Fair value of share options	–	–	–	–	303
Tax debit relating to share options	–	–	–	–	–
Currency hedge fair value	–	–	–	333	–
Currency translation differences	–	–	(2,105)	–	–
At 30 September 2020	16,000	7,262	7,675	333	77,075

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

29. 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 Total Shareholder Return performance criteria and Earnings Per Share financial performance, these grants will vest upon publication of the results of the Company three years after the grant date.

There have been 8 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 2020 are summarised below:

	Grant date		
	13 Jan 2020	8 Jan 2019	21 Dec 2017
No. of options granted	133,159	99,228	96,123
Expected volatility	30%	30%	29%
Risk free rate	0.76%	0.76%	0.56%
Fair value (£)	569,331	1,010,655	914,164

A reconciliation of total share option movements is shown below:

	2020		2019	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	251,911	-	342,267	-
Awarded	133,159	-	99,228	-
Exercised	-	-	(98,486)	-
Lapsed	(137,801)	-	(91,098)	-
Outstanding at 30 September	247,269	-	251,911	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 742.0p per option (2019: 786.0p per option). For the options exercised in the year ended 30 September 2019, the average market price was 1,254p 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	
		2020	2019
2013 LTIP	0.0p	247,269	251,911

The total charge for the year relating to share options was £303,000 (2019: £191,000), all of which related to equity-settled share based payment transactions.

NOTES TO THE GROUP FINANCIAL STATEMENTS
For the year ended 30 September 2020

30. 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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Pound Sterling	9,675	8,274	515	281
US Dollars	8,720	8,650	33,956	31,518
Euro	1,466	500	-	-
Yen	206	88	-	-
	20,067	17,512	34,471	31,799

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 24. The financial assets include cash at bank and derivative financial instruments but exclude short-term receivables, prepayments and other receivables. The financial liabilities includes bank borrowings and leases. Other short-term payables are excluded from this disclosure.

Cash and bank borrowings are stated at amortised cost. Derivative financial instruments, being currency contracts, are valued at level 2 fair values based on the present value of future cash flows based on the forward exchange rates at the balance sheet date. Lease liabilities are held at fair value based on discounted cash flows using a current borrowing rate.

31. Commitments

	2020 £'000	2019 £'000
Capital commitments - authorised and contracted but not provided for	256	1,715

All capital commitments relate to property, plant and equipment.

The future aggregate minimum lease payments under non-cancellable operating leases as at 30 September 2019 were as follows:

	2020 £'000	2019 £'000
Within one year	-	1,891
Between one to five years	-	3,766
	-	5,657

32. 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.

COMPANY BALANCE SHEET
As at 30 September 2020

		2020		2019	
	Note	£'000	£'000	£'000	£'000
Non-current assets					
Investments	5		51,411		51,411
Property, plant and equipment	6		4,589		5,491
Intangible assets	7		1,842		1,598
Deferred income tax assets	9		205		153
			58,047		58,653
Current assets					
Other receivables	8	8,047		3,812	
Cash and cash equivalents		1,986		3,116	
		10,033		6,928	
Current liabilities					
Trade and other payables	10	(5,722)		(12,365)	
Net current assets / (liabilities)			4,311		(5,437)
Non-current liabilities					
Deferred income tax liabilities	9		(204)		–
Deferred consideration			–		(2,947)
Net assets			62,154		50,269
Shareholders' equity					
Called up share capital	11		5,008		5,008
Share premium account			16,000		16,000
Merger reserve			4,591		4,591
Hedging reserve			333		–
Retained earnings					
At 1 October			24,670		23,999
Profit for the year			13,052		3,663
Other changes in retained earnings			(1,500)		(2,992)
			36,222		24,670
Total equity			62,154		50,269

The financial statements on pages 85 to 96, were approved by the Board of Directors on 1 December 2020 and signed on its behalf by:

Mark Webster
Director

Chris Jewell
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2020

	Note	Called up Share capital £'000	Share premium account £'000	Merger Reserve £'000	Hedging Reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 2018		4,982	15,530	4,591	–	23,999	49,102
Profit for the financial year		–	–	–	–	3,663	3,663
Total comprehensive income for the year		–	–	–	–	3,663	3,663
Dividends	4	–	–	–	–	(2,849)	(2,849)
Proceeds from shares issued		26	470	–	–	(19)	477
Fair value of employee services		–	–	–	–	191	191
Tax credit relating to share option schemes		–	–	–	–	(315)	(315)
Total contributions by and distributions to owners of the parent recognised directly in equity		26	470	–	–	(2,992)	(2,496)
At 30 September 2019		5,008	16,000	4,591	–	24,670	50,269
At 1 October 2019		5,008	16,000	4,591	–	24,670	50,269
Profit for the financial year		–	–	–	–	13,052	13,052
Total comprehensive income for the year		–	–	–	–	13,052	13,052
Dividends	4	–	–	–	–	(1,803)	(1,803)
Fair value of employee services		–	–	–	–	303	303
Gain on cash flow hedge		–	–	–	333	–	333
Total contributions by and distributions to owners of the parent recognised directly in equity		–	–	–	333	(1,500)	(1,167)
At 30 September 2020		5,008	16,000	4,591	333	36,222	62,154

COMPANY CASH FLOW STATEMENT
For the year ended 30 September 2020

	2020 £'000	2019 £'000
Cash flows from operating activities		
Cash (used in) / generated from operations	(8,465)	1,433
Income tax paid	(85)	-
Net cash (used in) / generated from operating activities	(8,550)	1,433
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(4,750)	(2,086)
Purchase of property, plant and equipment	(15)	(178)
Proceeds on disposal of property, plant and equipment	350	1,477
Purchase of intangible assets	-	(617)
Interest received	184	6
Net cash used in investing activities	(4,231)	(1,398)
Cash flows from financing activities		
Dividends received from subsidiary companies	13,454	3,325
Dividends paid to ordinary shareholders	(1,803)	(2,849)
Net cash generated from financing activities	11,651	476
Net (decrease) / increase in cash	(1,130)	511
Cash at beginning of the year	3,116	2,605
Cash at the end of the year	1,986	3,116

NOTES TO THE COMPANY CASH FLOW STATEMENT
For the year ended 30 September 2020

Reconciliation of cash generated from operations

	2020 £'000	2019 £'000
Profit before income tax	12,881	3,980
Adjustments for:		
- Dividends received from subsidiaries	(13,454)	(3,325)
- Amortisation of other intangible assets	336	29
- Depreciation	508	495
- Share based payment charge	303	191
- Loss / (profit) on disposal of property, plant and equipment	124	(761)
- Finance income	(184)	(6)
- Finance expense	303	719
Total	(12,064)	(2,658)
Changes in working capital		
- Trade and other receivables	94	1,318
- Trade and other payables	(9,376)	(1,207)
Total	(9,282)	111
Cash (used in) / generated from operating activities	(8,465)	1,433

Analysis of net cash

	At 1 Oct 2019 £'000	Cash flow £'000	At 30 Sep 2020 £'000
Cash at bank and in hand	3,116	(1,130)	1,986
Net cash	3,116	(1,130)	1,986

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2020

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 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 2020, 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.

Adoption of new standards
The accounting policies have been consistently applied over the period reported.

There have been no new standards, amendments or interpretations issued and made effective for the financial year ended 30 September 2020 that have had a material impact on the financial statements of the Company.

The Company does not have any leases so there was no effect of adopting IFRS16 in the year ending 30 September 2020.

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.

Derivatives and hedging activities
The Company transacts derivative financial instruments to manage the underlying exposure to foreign exchange risk. The Company does not transact derivative financial instruments for trading purposes.

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 Company documents the relationship between the hedging instrument and the hedged item and, on a periodic basis, assesses whether the hedge is effective.

The hedges entered into during FY2020 have been assessed as effective and therefore the Company has applied hedge accounting. Accordingly, movements in the fair value of the hedges have been recorded in reserves.

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 2020

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

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

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

Dividend distribution
Dividend distributions to the Company's shareholders are recognised as a liability in the Company'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.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2020

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 £13,052,000 (2019: £3,663,000 profit).

Fees payable to the Company auditors for the statutory audit for the year amounted to £16,000 (2019: £16,000).

3. Employee Benefit Expense

	2020 £'000	2019 £'000
Wages and salaries	2,151	2,713
Social security costs	180	304
Medical and other insurances	37	35
Share based payments	303	191
Other pension costs	57	70
	2,728	3,313

The average number of employees during the year was 12 (2019: 12), all of whom were administrative.

Directors' remuneration

	2020 £'000	2019 £'000
Directors' remuneration	850	977
Medical and other insurances	19	32
Directors' pension scheme contributions	12	19
	881	1,028

The aggregate emoluments of the highest paid Director including gain on exercise of share options were £364,000 (2019: £709,000). Further information is included in the Remuneration Committee report on page 45.

The aggregate gain on Directors' share option exercises in the year was nil (2019: £834,000).

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 1 (2019: 1).

4. Dividends

	2020 £'000	2019 £'000
Final 2019 dividend paid in 2020: 7.2p per share. (Final 2018 dividend paid in 2019: 7.1p per share)	1,803	1,772
2020 Interim dividend paid: nil per share (2019: 4.3p)	–	1,077
	1,803	2,849

The Directors have not proposed a final dividend for the financial year ended 30 September 2020, making the dividend for the full year nil (2019: 11.5p).

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2020

5. Investments

	2020 £'000	2019 £'000
Cost and net book value at 1 October	51,411	51,045
Additions	-	366
Cost and net book value at 30 September	51,411	51,411

The subsidiary companies at 30 September 2020, 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
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
Optronic Laboratories LLC	100%	4632 36th St, Orlando, FL32811,USA	Non-trading
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	Holding 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.

*these investments are held directly by Gooch & Housego PLC

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2020

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 2018	6,197	3,987	1,392	630	12,206
Additions	–	–	–	61	61
Disposals	(1,064)	–	–	(381)	(1,445)
At 30 September 2019	5,133	3,987	1,392	310	10,822
Additions	–	–	–	15	15
Disposals	(701)	–	–	(95)	(796)
At 30 September 2020	4,432	3,987	1,392	230	10,041
Accumulated depreciation					
At 1 October 2018	1,464	2,585	983	533	5,565
Charge for the year	98	265	93	39	495
Disposals	(348)	–	–	(381)	(729)
At 30 September 2019	1,214	2,850	1,076	191	5,331
Charge for the year	89	266	93	60	508
Disposals	(292)	–	–	(95)	(387)
At 30 September 2020	1,011	3,116	1,169	156	5,452
Net book value					
At 1 October 2018	4,733	1,402	409	97	6,641
At 30 September 2019	3,919	1,137	316	119	5,491
At 30 September 2020	3,421	871	223	74	4,589

7. Intangible Assets

	Systems £'000	Computer software £'000	Other £'000	Total £'000
Cost or valuation				
At 1 October 2018	842	1,216	519	2,577
Additions	630	94	11	735
Disposals	–	–	(207)	(207)
At 30 September 2019	1,472	1,310	323	3,105
Additions	580	–	–	580
Disposals	–	–	(259)	(259)
At 30 September 2020	2,052	1,310	64	3,426
Accumulated amortisation				
At 1 October 2018	–	1,216	469	1,685
Charge for the year	–	9	20	29
Disposals	–	–	(207)	(207)
At 30 September 2019	–	1,225	282	1,507
Charge for the year	294	20	22	336
Disposals	–	–	(259)	(259)
At 30 September 2020	294	1,245	45	1,584
Net book value				
At 1 October 2018	842	–	50	892
At 30 September 2019	1,472	85	41	1,598
At 30 September 2020	1,758	65	19	1,842

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2020

8. Other Receivables

	2020 £'000	2019 £'000
Prepayments and accrued income	32	125
Derivative financial instruments	333	-
Intercompany receivables	7,682	3,687
	8,047	3,812

9. Deferred Tax

The movement in the deferred tax assets and liabilities during the year was as follows:

	2020 £'000	2019 £'000
At 1 October	153	655
Credited to the income statement	(152)	(187)
Credited directly to reserves	-	(315)
At 30 September	1	153

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

	2020 £'000	2019 £'000
Property, plant and equipment	90	55
Intangible assets	(154)	-
Other timing differences	65	98
	1	153

Factors affecting the future tax charge

UK tax losses of £0.8m (2019: £0.8m) are available against future profits of the Company. The utilisation of these losses is not sufficiently certain to recognise a deferred tax asset.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2020

10. Trade and Other Payables

	2020 £'000	2019 £'000
Trade payables	93	377
Amounts owed to Group undertakings	1,269	5,506
Taxation and Social Security	320	1,045
Accruals and deferred income	790	687
Deferred consideration payable	3,250	4,750
	5,722	12,365

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

	2020 Number	2019 Number	2020 £'000	2019 £'000
Allotted, issued and fully paid				
At 1 October	25,039,072	24,907,831	5,008	4,982
Shares issued and fully paid	1,847	131,241	–	26
At 30 September	25,040,919	25,039,072	5,008	5,008

During the year 1,847 shares (2019: 98,486 shares) were allotted under share option schemes. In 2019, 32,755 shares were issued as part of the deferred consideration for the Kent Periscopes business.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 30 September 2020

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 eight 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 2020 are summarised below:

	Grant date		
	13 Jan 2020	8 Jan 2019	21 Dec 2017
No. of options granted	133,159	99,228	96,123
Expected volatility	30%	30%	29%
Risk free rate	0.76%	0.76%	0.56%
Fair value (£)	569,331	1,010,655	914,164

A reconciliation of total share option movements is shown below:

	2020		2019	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	251,911	-	342,267	-
Awarded	133,159	-	99,228	-
Exercised	-	-	(98,486)	-
Lapsed	(137,801)	-	(91,098)	-
Outstanding at 30 September	247,269	-	251,911	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 742.0p (2019: 786.0p). For the options exercised in the year ended 30 September 2019, the average market price was 1,254.0p 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	
		2020	2019
2013 LTIP	0.0p	247,269	251,911

The total charge for the year relating to share options was £303,000 (2019: £191,000), 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	24 February 2021
Interim Results announcement	June 2021
Financial Year End	30 September 2021
Preliminary announcement of results for the year ending 30 September 2021	December 2021

For further information please contact:

Gooch & Housego PLC	Mark Webster/Chris Jewell	01460 256440
Investec Bank plc (Nomad & Broker)	Christopher Baird/Patrick Robb/David Anderson	020 7597 5970
Buchanan	Mark Court/Sophie Wills/Charlotte Slater	020 7466 5000

NOTICE OF ANNUAL GENERAL MEETING

COVID-19 UPDATE

In light of the ongoing COVID-19 pandemic and the current legislation and guidance issued by the UK Government, the AGM will run as a closed meeting and shareholders will not be permitted to attend in person. This change is a matter of regret for the Board, who value the interaction with shareholders at AGMs.

Shareholders are invited to submit in advance any questions on either (i) the formal business of the meeting or (ii) matters they would have asked at the Company's usual post-meeting Q&A. Questions should be sent to AGM@gandh.com. Responses will be published on the Company's website as soon as practicable after the AGM.

You will not receive a form of proxy for the 2021 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. Should you require assistance please contact our registrar Link Asset Services on 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. 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 24 February 2021 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 2020 together with the Directors' Report and Auditors' Report thereon.

2 To receive and approve the Remuneration Committee Report set out on pages 43 to 48 (excluding page 44) of the Annual Report and Financial Statements for the financial year ended 30 September 2020.

3 To re-elect Gary Bullard as a Director.

4 To re-elect Mark Webster as a Director.

5 To re-elect Chris Jewell as a Director.

6 To re-elect Brian Phillipson as a Director.

7 To elect Louise Evans as a Director.

8 To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors.

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

10 THAT the rules of Gooch & Housego Sharesave Plan ("UK Plan"), the principal terms of which are summarised in the Appendix to this Notice of Annual General Meeting, be approved and the Directors of the Company be authorised to do all such acts and things they consider necessary or expedient to implement and give effect to the UK Plan.

11 THAT the rules of Gooch & Housego Employee Stock Purchase Plan ("US Plan"), the principal terms of which are summarised in the Appendix to this Notice of Annual General Meeting, be approved and the Directors of the Company be authorised to do all such acts and things they consider necessary or expedient to implement and give effect to the US Plan.

12 THAT the Directors of the Company be, and they are hereby, generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company on, and subject to, such terms as the Directors may determine. The authority hereby conferred shall, subject to section 551 of the Act, be for a period commencing on the date of the passing of this Resolution and expiring at the conclusion of the next Annual General Meeting of the Company or 24 May 2022 (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 £1,669,395 (representing approximately one third of the total ordinary share capital of the Company in issue at 1 December 2020). 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.

NOTICE OF ANNUAL GENERAL MEETING

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

13 (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 12 above as if section 561 of the Act did not apply to such allotment, provided that the power hereby conferred shall be limited to:

(i) the allotment of equity securities in connection with an offer of securities, open for acceptance for a period fixed by the Directors, by way of rights to the holders of ordinary shares in proportion (as nearly as may be) to the respective numbers of ordinary shares held by them on a record date fixed by the Directors and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional elements or otherwise howsoever; and

(ii) otherwise than pursuant to sub-paragraph (i) above, the allotment of equity securities up to an aggregate nominal amount of £250,409 (representing approximately 5 per cent. of the total ordinary share capital of the Company in issue at 1 December 2020); and

(b) THAT the Directors of the Company be authorised in addition to any authority granted under Resolution 13(a) to allot equity securities (as defined in section 560 of the Act) for cash under the authority conferred by Resolution 12 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 £250,409 (representing approximately 5 per cent. of the total ordinary share capital of the Company in issue at 1 December 2020); 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 Resolution 13 shall expire at the conclusion of the next Annual General Meeting of the Company or 24 May 2022 (whichever is the earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities in the Company to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

14 THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the "Act") to make one or more market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of £0.20 each in the capital of the Company on such terms and in such manner as the Directors may determine, provided that:

(a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 2,504,092 (representing approximately 10 per cent. of the total ordinary share capital of the Company in issue at 1 December 2020);

(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 24 May 2022 (whichever is the earlier); and

(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
1 December 2020

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

NOTES

1 A member 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. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. If a member appoints more than one proxy to attend the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by the member. However, shareholders are reminded that no physical meeting is being held and, as such, we urge shareholders to appoint the Chair of the meeting as their proxy in order to ensure that their vote is cast.

2 Resolution 2 is an advisory vote only. The Remuneration Committee Report is set out on pages 43 to 48 of the Annual Report and Financial Statements for the financial year ended 30 September 2020. Pages 43, 45, 46, 47 and 48 of the Remuneration Committee Report set out the pay and benefits received by each of the directors for the year ended 30 September 2020. The Company's policy on remuneration and potential pay outs to directors in the future, which is set out on page 44 of the Annual Report and Financial Statements for the financial year ended 30 September 2020, is specifically excluded from this Resolution.

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

4 Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company. However, please see Note 1 above.

5 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).

6 A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

7 You can vote either:
- by logging on to www.signalshares.com and following the instructions;
- in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.
- You may also request a hard copy form of proxy directly from the registrars, Link Asset Services.

If you need help with voting online, please contact our Registrars, Link Asset Services, on 0371 664 0300 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate) or email Link at enquiries@linkgroup.co.uk

8 For an electronic proxy appointment to be valid, the appointment must be received by the Company's Registrar, Link Asset Services, no later than 11.00am on 22 February 2021.

9 Only those members registered on the register of members of the Company at close of business on 22 February 2021 (or, if the meeting is adjourned, 48 hours before the time of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting. However, please see Note 1 above.

10 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

11 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy, or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in Notes 2 and 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

NOTES

12 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings (www.euroclear.com/CREST).

13 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

14 Any electronic address provided either in this Notice or in any related documents may not be used to communicate with the Company for any purposes other than those expressly stated.

APPENDIX TO NOTICE OF ANNUAL GENERAL MEETING

Gooch & Housego employee share plans

Shareholders are asked to approve the adoption of two new employee share plans:

(i) the UK Sharesave Plan ("UK Plan"); and

(ii) the US Employee Stock Purchase Plan ("US Plan"), (each a "Plan" and together, the "Plans").

Terms applying to both Plans

Overall Plan limits

Options granted under the Plans may be satisfied with new issue shares, a transfer of treasury shares or shares purchased in the market. The aggregate number of shares issued or issuable under the Plans and any other all-employees' share plan adopted by the company, cannot exceed 10% of the issued share capital of the company in any 10-year rolling period.

These limits do not include rights to shares which have been released, lapsed or that have otherwise become incapable of exercise or vesting. Treasury shares will count as new issue shares while required by institutional investor guidelines.

Grant of options

The Board may grant options at any time provided that neither the date on which the option price is determined nor the date of grant is in a closed dealing period.

Adjustments

If there is a variation in the company's share capital (such as a rights issue), the Board may make an adjustment to the number, type and nominal value of shares over which options are granted or the option price, so that the underlying economic value of the options remains unchanged.

Amendments

The Board may amend the rules of the Plans as it considers appropriate, subject to any relevant legislation and provided the amendment does not materially disadvantage participants.

Other option features

Options cannot be granted more than ten years after the date the Plans are approved by shareholders. Options are not transferable except on death. Options are not pensionable.

The UK Plan

General

The UK Plan is an all-employee share option plan under which eligible employees may apply for options (whenever invitations are issued) to acquire ordinary shares in the company in the future at a price determined shortly before an invitation is issued. The option price may be set at a discount to the market value of a share at that time. Employees are required to save monthly through a contractual savings arrangement over a period of either three or five years. At the end of the savings period, the employee may exercise their options using the savings contributions or have the savings repaid.

Eligibility

All UK resident employees and executive directors of all group companies who have been employed for a minimum period (which may not exceed five years) are entitled to participate in the UK Plan.

Employee contributions

Participants must enter into a savings contract with a nominated savings carrier under which they agree to make monthly savings contributions of a fixed amount within statutory limits (currently of up to a maximum of £500 per month). The maximum number of shares over which a participant is granted an option will be the number of shares that can be acquired, at the option price, with the monthly savings made plus any bonus payable on maturity of the savings contract.

Option price

The exercise price of options may not be less than 80% of the market value of a share on the dealing day(s) immediately prior to the date of invitation, in accordance with accepted HMRC practice.

Exercise

Provided a participant has remained in employment, options may normally only be exercised during the six-month period following the maturity of the related savings contract, after which the option will normally lapse. The company will arrange for delivery of the shares to a participant within 30 days following the exercise of the option.

Leavers

A participant who ceases to be an employee in certain circumstances (for example death, injury, disability, redundancy, retirement, a sale of the company in which they work or a takeover of that company), may exercise their options within six months after leaving (12 months in the case of death). If a participant leaves for any other reason, their options will lapse on the leaving date.

Corporate events

If there is a change of control of the company or other significant corporate event, options may be exercised during the period starting up to 20 days before and ending six months after the relevant event.

APPENDIX TO NOTICE OF ANNUAL GENERAL MEETING

The US Plan

The US Plan will be operated for employees employed and resident in the USA and the rules are intended to qualify the US Plan under the US Internal Revenue Code of 1986, section 423 – a tax favourable US stock purchase regime. Any new shares issued under the US Plan will count towards the individual and overall Plan limits outlined above.

The US Plan will operate in a similar manner to the UK Plan but with the following main differences:

- the exercise price must not be less than the lower of 85% of the market value of a share at the start of the savings period and 85% of the market value of a share at the end of the savings period;

- in order to comply with the requirements under the Code section 423, options may not be exercised more than 27 months from the date of grant and so it is envisaged that employees will be offered savings arrangements with shorter-term saving arrangements (e.g. two years) with options becoming exercisable at the end of the savings arrangements; and

- in addition to the individual limits outlined above, no participant in US Plan may purchase more than $25,000 of shares in any calendar year (based upon the fair market value of the shares on the grant date and purchase dates).

David Bauernfeind
1968-2019

Gooch & Housego PLC

Dowlish Ford, Ilminster
TA19 0PF, United Kingdom

T: +44 (0)1460 256440
E: info@gandh.com

gandh.com