



# Annual Report

September 2021





# About Us

Gooch & Housego is a leading photonics technology business headquartered in the UK with state of the art production facilities in the UK, USA and China.

A world leader in its field, the company researches, designs, engineers and manufactures advanced photonic systems, components and instrumentation for applications in the Aerospace & Defence, Industrial, Life Sciences and Scientific Research sectors.

Our purpose is to use our photonic engineering and manufacturing expertise to deliver new innovative products and services that will help to change the world with photonics.

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# Investment Case

## Leading products and technology

Gooch & Housego's products and capabilities are recognised as market leading. By pushing the boundaries of photonics innovation in wavelength, speed, power and intensity, we are making today's limits tomorrow's baseline.

## State of the art facilities and a cost-effective supply chain

We have invested in our production facilities so that we can supply high levels of quality and precision that few of our competitors can match. Our in house production is supported by a cost-effective supply chain with which we work closely to help drive continuous improvement.

## Diversified revenues

Our products and capabilities are supplied to the industrial, aerospace and defence and life sciences/ biophotonics markets providing natural protection against individual market cyclicality. The nature of the quality and compliance hurdles inherent in a large proportion of our markets makes them highly defensible.

## Financial strength

We are profitable, cash generative and growing, with significant financial resources meaning we can invest to further strengthen our competitive advantage.

## Attractive markets

In each of our chosen markets the use of photonic technologies is increasingly used to provide faster, more precise and reliable solutions. Our ability to present photonic solutions as part of a system or module gives us an advantage in many of our target markets. We are well placed in markets that have attractive long-term growth characteristics.

## Well established customer positions

Our engineers work closely with our customers as trusted partners for the development of their next generation systems, securing us long term programme positions and recurring revenues.





**£124.1m**  
REVENUE

**£2.6m**  
NET DEBT  
EXCLUDING LEASES

**£12.6m**  
ADJUSTED PROFIT  
BEFORE TAX

**£97.8m**  
ORDER BOOK

**48**  
NEW PRODUCTS  
LAUNCHED

# Our 2021 Highlights

## Strategic

- Trading reflected strong and improving end markets and initial benefits from our manufacturing streamlining programme, more than offsetting currency headwinds and some supply chain issues.
- Industrial laser demand continues to be strong, driven by 5G rollout, use of new more flexible materials in microelectronic manufacturing and high worldwide demand for semiconductors.
- Medical lasers continue to grow as elective surgery recovers. Medical Diagnostics remain at previous high levels.
- Ambitious manufacturing streamlining programme is largely complete, reducing manufacturing sites from 12 to 9.
- Previously announced annual profit benefit of £1.75m is on track starting FY2022.
- Continued investment in R&D delivering strong returns with a record new product revenue contribution.
- G&H remains committed to long term goals of further diversification into A&D and life sciences and moving up the value chain. We intend to pursue these policies vigorously through internal investment and where appropriate, acquisitions.

## Financial

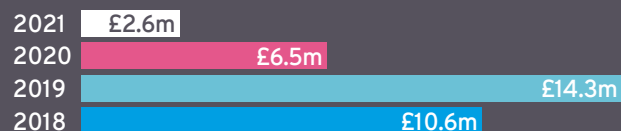
- Revenue of £124.1m, up by 1.6% or 6.4% excluding foreign exchange.
- New products contributed a record £18.1m of revenue in FY2021 (FY2020: £16.9m).
- Adjusted profit before tax of £12.6m, up 29.4%. Reported PBT £4.7m, down 13.2%.
- Strong cash flow over the year leading to further debt reduction. Net debt, excluding IFRS16, of £2.6m places G&H in a strong position to pursue strategic goals.
- Return of progressive dividend policy with a proposed full year dividend of 12.2p.
- Year end order book of £97.8m, up 5.6%, or 8.6% excluding foreign exchange. Industrial and medical lasers are demonstrating a sustained recovery, while telecommunications and medical diagnostics continue to perform at a high level.



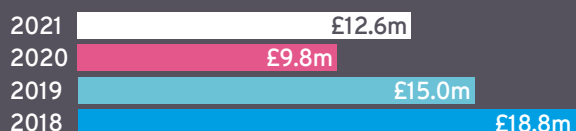
## REVENUE (£M)

**£124.1m**

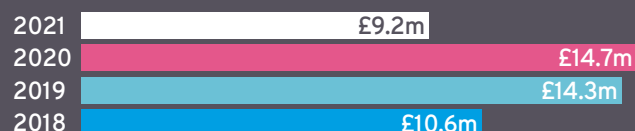
## NET DEBT EXCLUDING LEASES (£M)

**£2.6m**

## ADJUSTED PROFIT BEFORE TAX (£M)

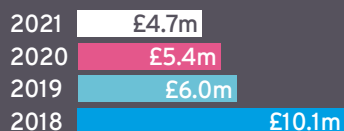
**£12.6m**

## NET DEBT (£M)

**£9.2m**

Includes lease liabilities from FY2020

## STATUTORY PROFIT BEFORE TAX (£M)

**£4.7m**

## ORDER BOOK (£M)

**£97.8m**

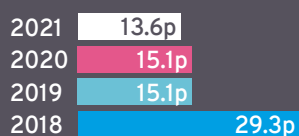
## ADJUSTED BASIC EARNINGS PER SHARE (PENCE)

**41.0p**

## TOTAL DIVIDEND PER SHARE (PENCE)

**12.2p**

## BASIC EARNINGS PER SHARE (PENCE)

**13.6p**

\* Adjusted figures exclude the amortisation of acquired intangible assets, 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.

# Our 2021 Highlights

Mark Webster, Chief Executive Officer, commented:

“

Trading during the year reflected a sustained recovery in the industrial and medical laser markets and a robust performance from telecommunications and medical diagnostics. An increasingly productive R&D group delivered record levels of new product revenue during the year.

There was some drag on the Group's overall performance due to currency headwinds, self-isolation requirements and supply chain issues in parts of the business as we emerge from the pandemic. It was, however, a far better business environment than last year and we expect further improvement in the future.

Our restructuring programme is enhancing the Group's margins and enabling us to better respond to our customers' needs. We are committed to vigorously pursuing our long term strategic goals and will continue to invest in R&D and where appropriate, acquisitions.

The Board remains confident that G&H is well positioned to deliver further progress in FY2022 and substantial long-term growth.”

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# Our Markets

Changing the world with photonics

Photonics is the study and design of systems that depend on the transmission, modulation or amplification of streams of photons, the basic unit of light.

Thanks to significant size, weight and power advantages photonics is increasingly substituting electronics only packages and is transforming the fields of manufacturing, aerospace, communications and medicine.

We enable leading organisations all over the world to deliver tailored, innovative solutions to meet precise requirements.

With our leading edge photonic applications G&H is helping to change the world with photonics.

## Regional revenues

**£45.9m**

**NORTH AMERICA**

**£54.7m**

**EUROPE**

**£23.5m**

**REST OF WORLD**

## INDUSTRIAL

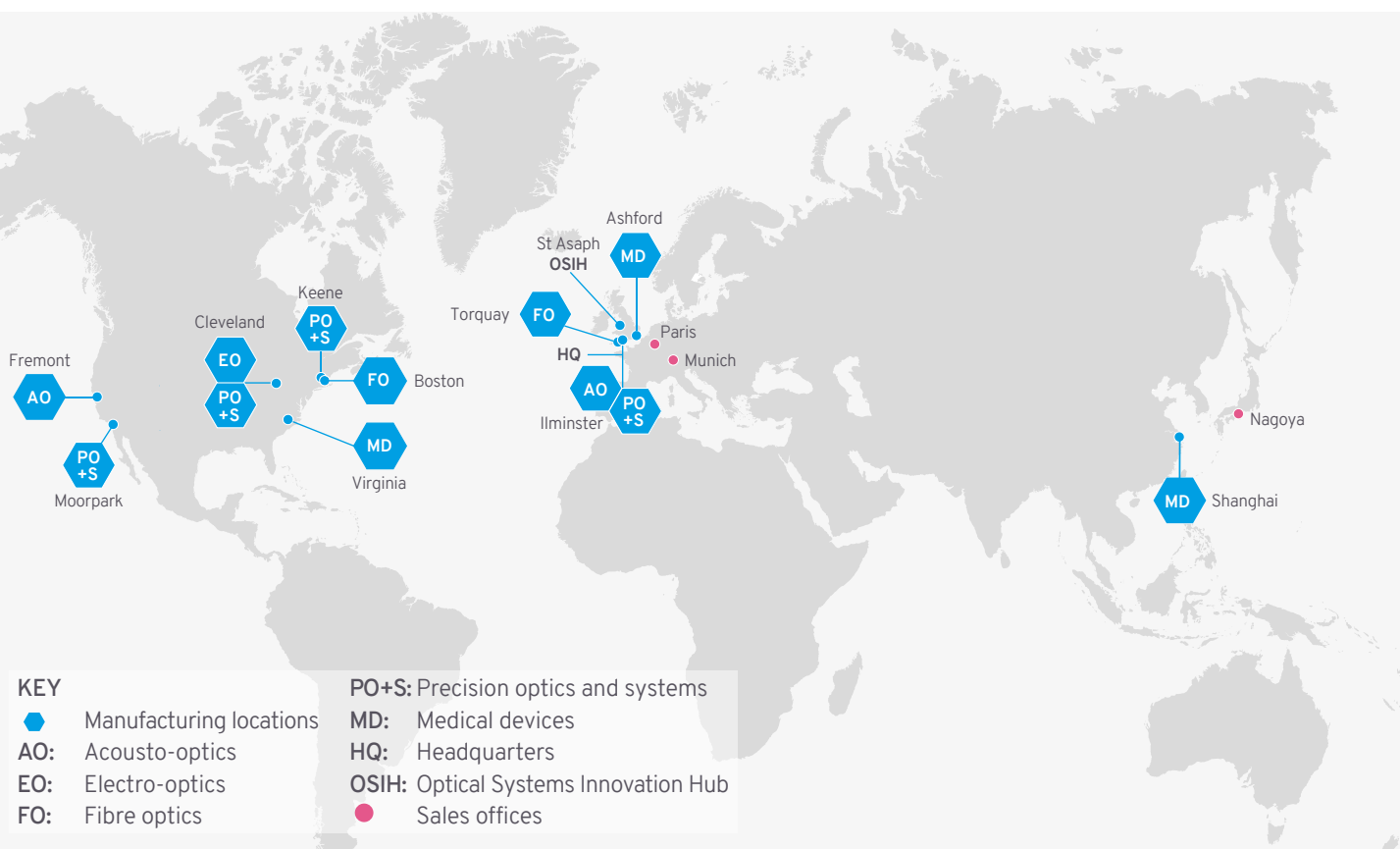
G&H is recognised as a leading provider of advanced optics, fibre optics, acousto-optics, and electro-optics for demanding applications in industrial lasers, semiconductor equipment, fibre-optic subsea networks, and optical sensing and metrology.

G&H's industrial optics were an enabling technology when lasers first appeared in electronics micro processing applications, and we have helped lasers become the near universal tool they are today for cutting, drilling, trimming, and surface treatment of any kind. Our acousto-optic modulators, Q-switches, electro-optic Pockels cells, RF drivers, and precision optics continue to set the standard for accuracy, size, and power.

G&H is supporting industrial laser OEMs as they target opportunities in new applications, such as the processing of composites and nanomaterials, UV and ultra-short-pulse lasing, and additive manufacturing. In the field of semiconductor manufacturing and electronics assembly, G&H's products allow tighter control, faster production speed, and improve precision.

G&H's industrial fibre-optic products are the preferred solution for the ever-growing global demand for bandwidth. As electronic commerce and communications expand around the world, G&H optical expertise will continue to optimise the footprint, reliability, and bandwidth density of the fibre-optic components on which subsea networks rely.

G&H is helping drive the rapid adoption of lidar across multiple industrial and energy sectors ranging from proximity sensing along oil and gas pipelines to profiling air currents around wind turbines. With an industry-leading portfolio of fibre-coupled modulators, pump lasers, and sensing modules, G&H is a recognised leader in the field.



## AEROSPACE & DEFENCE

In harsh aerospace and defence environments there are no second chances. Mission-critical technology demands uncompromising precision and absolute reliability. G&H delivers proven optical solutions for aerospace, space, and defence platforms, including ruggedised commercial photonic components, build-to-print products, and full-scale development of customised solutions. G&H's precision optical components and advanced lens assemblies enable optimal field of view and resolution for short, mid and longwave infrared imagers, making them critical elements in aerospace and defence platforms used for intelligence, surveillance, and reconnaissance missions.

G&H is at the forefront of satellite to satellite and satellite to ground fibre optic and signal processing communication. Space-qualified optical components, lens assemblies, and subsystems from G&H deliver consistently excellent connectivity and bandwidth for intra-satellite and satellite-to-ground communications. Our expertise in fibre optics and photonic signal processing is also increasingly used to enhance the sensing capabilities for systems monitoring earth and space environmental conditions.

G&H is a leading designer and manufacturer of precision optical components, pump lasers, and fibre-optic couplers for inertial navigation systems used in avionics and defence. Whether the application calls for a ring laser gyroscope for airborne or maritime navigation or a fibre-optic gyro to guide the flight of a missile or UAV, G&H offers proven expertise in the development of both legacy and emerging inertial platforms.

## LIFE SCIENCES

For seven decades, G&H's innovative approach to optical component design has been key in advancing the performance and reliability of life science instrumentation for medical microscopy, diagnostic imaging, and laser surgery. We are recognized as a leading provider of advanced optics, fibre optics, acousto-optics, and Pockels cells, targeting medical research, diagnostic imaging, and laser surgery applications worldwide. Today our products are enabling new advances on the cutting edge of medical optics such as digital pathology and the imaging of active neurons with laser-scanning confocal microscopes.

We supplement our life science product offerings by providing end to end design and manufacturing services for medical devices, in-vitro diagnostics and laboratory instruments. Together with our customers we create and deliver breakthrough technologies for the healthcare and life science industries.



# Our Products and Capabilities

Wide-reaching applications

## GOOCH & HOUSEGO IS AT THE FOREFRONT OF PHOTONICS TECHNOLOGY

Our expertise in optical systems, subsystems and components extends from research through the development of prototypes to volume manufacturing and is a catalyst for innovation and effective manufacturing in the aerospace and defence, industrial and telecom, and life sciences/biophotonics sectors.

### Acousto-Optics



G&H has been a leader in acousto-optic (AO) device design and manufacturing for over 35 years, bringing together some of the best minds and technologies in the field to create a comprehensive suite of high-quality products backed by premier service and reliability.

We hold our manufacturing sites to exacting standards, from the in-house growth of our own specialist crystals, such as tellurium dioxide ( $\text{TeO}_2$ ), to polishing, antireflection coating, fabrication and testing of devices. G&H's acousto-optic devices are found at the heart of multiple laser systems used across a broad range of industrial applications allowing those lasers to be controlled with unmatched optical power handling, performance delivered consistently over time and in volume.

### Electro-Optics



Utilising proprietary crystal growth, fabrication, and polishing techniques, G&H produces a wide range of electro-optic devices including Pockels cells which are used extensively in medical lasers for skin and other treatments leading to effective procedures for patients with less discomfort and faster recovery times.

France's Centre Commissariat à l'Énergie Atomique and the National Ignition Facility in the US both selected G&H as their primary supplier of large aperture Pockels cells for their high fluence lasers in their inertial confinement fusion programs. These laser systems are effectively the most powerful in existence as they seek to generate energy from nuclear fusion.





**We enable leading organisations all over the world to deliver tailored, innovative solutions to meet precise requirements.”**

## Fibre Optics



G&H's line of active and passive fibre optic components and modules offer the performance and reliability required for some of the most demanding and challenging applications in the world. Our designs have been qualified and deployed in space applications and are widely used in terrestrial and submarine telecommunications systems.

We support customers through all aspects of system development, lending our expertise in integration of end-to-end fibre optic systems and design for harsh environments. G&H's products support the transmission between continents of terabits of data through subsea data cables as well as allowing wind turbines to operate safely and efficiently by using our fibre based sensing products to detect the direction and speed of the wind. G&H products are flying in space allowing satellite to satellite and satellite to ground communication as well as on board optical sensing.

## Precision Optics



G&H manufactures precision optical components and assemblies for applications in research, industry and defence. Our custom lenses and housed subassemblies find application in transmission and imaging. We create high quality, custom optics for volume OEM applications and unique optics for research. Our ring laser gyro mirrors are used by every commercial airline in the world.

G&H has supplied super-polished optics to NASA's Mars Curiosity mission and to international synchrotron experiments. From multiple chambers in both the UK and the US we offer a full range of thin film optical coating capabilities. Our expertise in coating has been supported by investment in custom built, ultra-clean, high repeatability chambers to meet customers' evolving needs for environmentally-stable optical coatings. Our engineers are continuously researching the performance characteristics of new coating materials and integrating the results into our modelling software to optimise the designs for customers' applications.

# Chairman's Statement

Changing the world with photonics

A year of  
development  
and growth



“

Across all of the markets that we serve we are well positioned to benefit from the increasing use of photonic technologies to solve our customers' most complex needs.”

## GROUP OVERVIEW

I have been delighted with the trading performance of the Group in the year. Nearly all of our markets have now returned to growth as economies emerge from the pandemic confirming the long-term strong growth prospects of the Group. Across all of the markets that we serve we are well positioned to benefit from the increasing use of our photonic technologies and systems capabilities to solve our customers' most technically challenging needs.

The consistent pursuit of our strategic objectives has been a key enabler of the Group's performance in 2021. Our focus on markets with strong growth drivers as well as our proven track record of supporting our customers with the development of their most sophisticated products has underpinned the Group's return to growth.

Our programme to streamline our manufacturing facilities is progressing well. The significant investment in our Ilminster precision optics centre of excellence is now substantially complete allowing that site to absorb production activities from our Glenrothes, Scotland and St Asaph, Wales sites. This project, together with the consolidation of our Baltimore, MD and Boston, MA facilities is helping us deliver margin enhancement, but also means we are able to offer a broader, more compelling range of products and capabilities. Our customers are increasingly looking to us to provide them with more advanced, integrated designs consistent with our strategic objectives.

## THE ENVIRONMENT AND OUR COMMUNITIES

The Board recognises how important the environment is to all of our stakeholders. We firmly believe that photonic technologies are a key enabler in the migration to a more sustainable world. But we are also focused on our own impact on the environment. We now track carbon emissions as one of our key performance indicators and have a programme in place to achieve year-on-year reductions. As part of that programme we installed solar panels at our Ilminster facility which, along with the existing solar panels fitted at our Torquay facility, means that we are now generating approximately 600 kWp of electricity from solar sources. We will extend that capability in the current financial year by installing solar panels at our Ashford facility.

We also recognise the importance of supporting the communities in which we operate. As well as providing high quality, skilled jobs we encourage our employees to support local charities often matching with Company monies the amounts they raise.

# 29.4%

UNDERLYING PROFIT GROWTH

# 8.6%

ORDER BOOK GROWTH

## Governance highlights

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 52 to 57.



### THE BOARD

Peter Bordui left the Board in February 2021 after nine years of service. We are extremely grateful for the direction and insights he provided through what was a period of great strategic and operational progress for G&H.

We were very pleased to be able to welcome Jim Haynes to the Board. Jim brings to the Group extensive experience from his distinguished executive career in the photonics industry where he held a range of senior leadership roles in engineering and operations, most recently Executive Vice President, Operations, at Oclaro/Lumentum.

As a Board we take our governance responsibilities very seriously. Our approach to our wide range of responsibilities is set out in the Corporate Governance section of this report on pages 52 to 57.

### DIVIDEND

Given the strength of the business recovery in the year and the positive outlook for the coming trading period, the Board is proposing a final dividend of 7.7 pence per share for approval at the Company's Annual General Meeting on 23 February 2022, giving a total of 12.2 pence for the year. Payment of the dividend will be made on 25 February 2022, to shareholders on the register as at 21 January 2022.

### PEOPLE

Our people are our most important asset. Their skills and experience are key to ensuring the long-term sustainability of our business. Our employees have shown great commitment to the business not only by adapting over the last 18 months to the new working practices required by COVID-19 but also in delivering the manufacturing facility streamlining projects. Their positive attitude has impressed the Board and we offer our appreciation and thanks for our employees' hard work and dedication through the year.

### OUTLOOK

Looking forward, the Board is very optimistic for G&H. We are well positioned in our growth markets. Our restructuring programmes are enhancing the Group's margins and making it better able to respond to our customers' needs. Whilst the business is facing some near term challenges in recruiting to support our growth, and there are some constraints in our supply chains, we have no doubt we can build on the strong foundations of our technical expertise, our longstanding customer relationships and the skills and dedication of our people to deliver substantial future growth.

**Gary Bullard**  
Chairman

30 November 2021

# Our Business Model

With our world class photonics components and systems capabilities we provide our customers with more precise, reliable and cost effective solutions for their most demanding needs.

We work with our customers to understand their needs, design products and systems that meet those needs and then supply those products and services to them either from our own facilities or from our supply chain.

Our purpose is to use photonic technologies to develop products that support a cleaner, healthier and more sustainable world.

## Attractive growth markets

Further deployment of laser-based manufacturing driven by new 5G technologies.

Increasing needs to share data globally and instantaneously fuels demand for our hi-reliability fibre optic telecoms products used to transmit data between continents.

Growing demand for improved healthcare, especially for early-stage diagnostics.

A focus on defence spending on precise, targeted systems that depend upon our precision optics and fibre sub-systems.

Increasing global demand for clean, wind generated energy drives demand for our fibre optic sensing modules.

## Unique range of skills and resources

State of the art manufacturing facilities supported by a high quality cost effective supply chain.

We are pioneers in crystal growth techniques and the supply of specialist crystalline materials.

We offer a complete design, engineering and manufacturing service.

Our engineering teams working in partnership with our customers design and produce some of the most complex photonic subassemblies and systems.

## Underpinned by:

### Governance

The Board is accountable to our shareholders and is committed to the highest standards of corporate governance. To this end, the company has adopted the UK Corporate Governance Code (2018).

See our Corporate Governance Report on page 52.

### Risk management

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.

See our Risk Management Report on page 46.



We supply the three markets – Industrial, Aerospace & Defence and Life Sciences from our three capability areas – Acousto/Electro Optics, Fibre Optics and Precision Optics and Systems.

We operate from nine manufacturing locations in UK, USA and China.

We are building a long term sustainable business by positioning ourselves in attractive growth markets and deploying our unique range of skills and resources.

## Competitive advantage

Industry wide reputation for innovation and continuous improvement in the field of photonics.

Certified manufacturing facilities and a cost-effective supply chain.

Demonstrated ability to work in high product quality and compliance markets such as A&D and life sciences.

Close customer relationships.

Sustained investment in R&D, enabling us to bring new products and applications to the market.

Effective and prioritised deployment of capital.

## Stakeholder value creation

Our customers – we work closely with our customers to solve their mostly technically challenging system requirements.

Our suppliers – we are investing our resources and expertise to help our consolidated group of suppliers to produce as efficiently as possible with consistent and repeatable product quality.

Our employees – we invest in our employees to ensure they have the skills and capabilities needed to operate in our industry leading operations.

Our communities – we bring high quality jobs to the communities in which we operate. We work closely with schools and universities to inspire the next generation of engineers and to push forward the boundary of photonics.

Our shareholders – through our progressive dividend policy and long term share price progression we aim to offer an attractive investment proposition for our shareholders.

## Sustainability

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.

See our ESG Report on page 34.

## Financial position

We are profitable, cash generative and operate across a range of markets providing natural protection against individual market cyclicality. At September 2021, we had \$35m of undrawn committed facilities and \$20m of undrawn uncommitted funding facilities meaning that we are able to invest to support the further profitable growth of the business.

See our Financial Statements from page 73

# Our Key Performance Indicators (KPIs)

KPI and Description	Performance	
<b>Organic revenue growth (%)</b> The percentage change in revenue in the current year compared to the prior year, excluding the effects of foreign exchange.	2021:	6.4%
	2020:	(5.4%)
	2019:	(8.0%)
<b>Adjusted operating margin (%)</b> Adjusted operating profit as a percentage of revenue.	2021:	10.8%
	2020:	9.2%
	2019:	12.6%
<b>R&amp;D investment as a % of revenue</b> R&D investment as a % of revenue.	2021:	6.4%
	2020:	6.5%
	2019:	6.0%
<b>Adjusted operating cash flow</b> Cash flow from operating activities adjusted for non-underlying cash flows.	2021:	£21.9m
	2020:	£22.5m
	2019:	£13.1m
<b>Safety performance</b> Any accident resulting in time off work.	2021:	8
	2020:	11
	2019:	16
<b>Carbon dioxide equivalent (tonnes)</b> The total amount emitted in tonnes for Scope 1 and Scope 2 (carbon dioxide equivalent), with further details on the calculation method out in the ESG Report.	2021:	5,414
	2020:	5,852

Why this is important	2021 Performance
We are focussed on long-term organic revenue growth as a means to create value. This metric reflects both the health of our target markets and our success in gaining an increasing market share with our customers.	Organic revenue was 6.4% higher, excluding foreign exchange, reflecting good recovery in our markets with only our commercial aerospace markets still affected by the pandemic.
Adjusted operating profit margin measures our ability over time to generate value from our products and capabilities. It is impacted by our actions to both increase revenue and optimise our cost base.	The adjusted operating margin was higher at 10.8% reflecting recovering volumes and the initial benefits of our site restructuring programme.
Our R&D investment enables us to introduce new products to the market supporting our objective of increasing revenue and keeping us ahead of our competitors. This measure is directly related to our strategic priority of focussed R&D investment.	We continue to invest in line with historical levels. In the year we released another 48 products to the market and revenues from products contributed £18.1m of revenue in the year.
The KPI measures the cash generated by the Group's trading activities. It measures the cash generated to fund investment in the business either through new assets or to acquire other businesses.	Working capital levels were tightly controlled despite the 6.4% growth in business volumes in the year. £6.2m was reinvested in new equipment and business systems in the year.
We are committed to the wellbeing of our employees. This KPI measures our performance in raising the safety standards in our facilities and also underpins our operational performance.	We were pleased with the further reduction achieved compared to the prior year. Our objective is to achieve year on year reductions ultimately achieving no lost time incidents.
This metric measures our achievement against our objective to reduce our carbon emission over time and reduce the impact we have on the environment.	During the year we have installed solar panels on our Ilminster facility and will be installing them on our Ashford facility in the coming financial year. G&H is now generating approximately 600 kWp of electricity from clean solar sources every year.

# Chief Executive Officer's Statement

Strong and improving end market demand



## FY2021 PERFORMANCE

During the financial year 2021 G&H achieved revenue of £124.1m, representing an increase of 1.6% over previous year (FY2020: £122.1m), or excluding the impact of foreign exchange an increase of 6.4%. Adjusted profit before tax was £12.6m, an increase of 29.4% over last year (FY2020: £9.8m).

This reflected a strong and improving end market demand and initial benefits from our manufacturing streamlining programme, more than offsetting currency headwinds and some supply chain constraints. Overall, it was a far better business environment than last year, and we expect further improvement in the future.

Industrial laser demand continues to be strong, especially the semiconductor market, where there are a range of exciting growth opportunities for G&H technologies. Hi-reliability fibre couplers delivered a good performance, with greater usage in space satellites complementing the undersea cable business.

We completed a number of significant deliveries to our aerospace and defence customers. Life sciences performed well across the board. Medical diagnostics remained at previous high levels, with a product designed to improve respiratory function and oxygen uptake, as part of a ventilator system, performing particularly well. Orders for our specialist medical laser products have been strong as the market recovers from the low levels of elective surgery during the pandemic.

Our ambitious manufacturing streamlining programme has continued throughout FY2021, with further site consolidation and outsourcing of established products. The previously announced profit benefit of this programme is on track to be delivered in FY2022.

We have continued to invest in an active R&D portfolio and are working closely with many of our customers on their next generation products. New products contributed a record £18.1m of revenue in FY2021 (FY2020: £16.9m).

The Group delivered strong cash flow over the year and has further reduced its level of borrowings. Net debt, excluding lease liabilities, was £2.6m at the year end, which places G&H in a strong position to pursue our strategic goals.



**Our ambitious manufacturing streamlining programme is on track to deliver its expected profit benefits.”**



G&H has a robust order book. As at 30 September 2021 it stood at £97.8m (30 September 2020: £92.4m), 5.6% higher than the same period previous year or 8.6% excluding foreign exchange. The strength of the order book provides the Group with good momentum as it enters the new financial year. Industrial and medical lasers are demonstrating a sustained recovery, while telecommunications and medical diagnostics continue to perform at a high level.

### STRATEGIC GOALS

Our long-term strategic goals of diversification and moving up the value chain have stood us in good stead during a challenging period. As the business environment is now showing significant improvement, we intend to pursue them with renewed vigour through internal investment and where appropriate, acquisitions.

Aerospace and defence (A&D) and life sciences provide a counterbalance to the exposure of the industrial laser business to the economic cycle. These sectors both have high product quality and compliance barriers to entry and tend to value systems over components. As they move towards greater use of photonics, G&H is increasingly well placed to serve these customers with our photonic technologies and enhanced systems capabilities.

Our aim is to provide a broadly equal split between the three sectors, industrials, A&D and life sciences. In FY2021 A&D represented 33.1% of our revenue and life sciences 22.1%. This represents considerable progress over the last few years, in particular with life sciences, which has benefited from organic growth in the traditional G&H areas of optical coherence tomography (OCT) and medical lasers and the acquisition of ITL.

Systems, subsystems and modules represent 33.2% of revenue. We have substantially improved our software, firmware, electronic and mechanical engineering capability, in large part through the acquisition of ITL. Its facility in Ashford, Kent has provided a platform for the creation of a systems engineering hub.



**Trading reflected a strong and improving end market and initial benefits of our manufacturing streamlining, more than offsetting currency headwinds and some supply chain issues. We continue to invest in leading edge R&D and new products delivered record revenue. There remains substantial long term growth potential for our photonic technologies and system capabilities in all our target sectors."**





**The strength of the order book provides the Group with good momentum as it enters the new financial year.”**

### STREAMLINING OF G&H'S MANUFACTURING BASE

Our streamlining programme has progressed well during FY2021. At the beginning of the financial year, we had 12 manufacturing sites and now have nine. We moved our Baltimore, MD production to our Boston, MA site creating a single US fibre facility. In the UK we have moved our Glenrothes, Scotland and St Asaph, Wales manufacturing to Ilminster, Somerset, creating a UK precision optics (PO) hub. Our world leading optical systems engineering team has been relocated to an innovation hub in St Asaph and they remain focused on target development projects. Outsourcing of our Ilminster AO production to a South-East Asian contract manufacturer is well advanced and the final product transfers are expected to be completed soon.

This has been achieved at a time when travel, especially to Asia, has been challenging and the results are a tribute to the tenacity of the G&H teams involved in delivering these projects. The previously announced FY2022 profit benefit of £1.75m is on track to be delivered.

We will continue to assess future opportunities for consolidation of our operations.

### RESEARCH AND DEVELOPMENT (R&D)

Our global R&D team has reaped considerable benefit from concentrating our resources on fewer, higher return projects that the Group has identified as offering the best growth potential for our photonic technologies and system capabilities. During FY2021 we introduced 48 new products and delivered record new product revenue.

G&H continues to work closely with our industrial laser partners to develop their next generation products. There is especially strong activity with lasers that are used to manufacture semiconductors. Our industrial laser development activity ranges from 'state of the art' extreme ultra-violet (EUV) lithography lasers used for nanoelectronics, redesigned market leading germanium AO modulators and specialist AO deflectors, through to providing critical components for the next generation designs of established products.

G&H's 'laser engine' technology is gaining real traction in directional sensing for wind turbines and security and defence applications. Our partner company is now selling their directional sensing unit for wind turbines into the large Chinese market.

Unmanned aerial vehicles (UAVs) represent significant growth potential for G&H. We have expertise in the design, engineering and manufacturing of bespoke complex optical arrays in the IR spectrum for UAV imaging and communication systems. This area has been a source of multiple new products and systems in FY2021. We are currently working on 'thermal overlay' of our traditional optical sighting systems for armoured vehicles. This will be the first new product to come out of our innovation hub in St Asaph.

In November 2020, in collaboration with NEC Corporation and JAXA (Japan Aerospace Exploration Agency), G&H fibre optic photonics and systems were at the heart of the successful launch of a satellite laser communication system. To our knowledge this is the first system of its type, and the aim is to demonstrate that laser communications can be a viable solution for future high speed and scalable space communications. This success has raised the profile of the teams based in Torquay and Boston, MA that developed the system and has led to further contracts in this area.

OCT is a non-invasive laser-based technology that delivers cross sectional diagnostic images. G&H is the market leader in supplying the technology for retinal scanning, which our customers deploy in opticians' offices. We are working with our partners on developing the next generation systems. The same technology is being applied to cancer and cardiovascular disease diagnosis. Our most recent cardiovascular diagnostic collaboration is now undertaking medical registration trials in the USA.

The acquisition of ITL brought a burgeoning medical diagnostics business and enhanced system capability. In addition to developing the next generation of existing products the R&D team at ITL are working on a range of novel medical diagnostics systems and the Group has expanded to meet the demands of our customers. We have three collaborations with Chinese medical diagnostics companies through our facility in Shanghai. We believe this has the potential to be a source of substantial growth as the Chinese Government is backing the development of a 'home grown' medical diagnostics industry.



**The Board remains confident that G&H is well positioned to deliver further progress in FY2022 and substantial long-term growth.”**

### CORPORATE RESPONSIBILITY

We are proud of the way the organisation has responded to the challenges of the pandemic and have worked hard to ensure all our sites are fully COVID compliant. The health and safety of our staff, customers and suppliers remains our priority.

The Board is accountable to its shareholders and is committed to the highest standards of corporate governance. To this end the Company has adopted the UK Corporate Governance Code (2018). In order to ensure the Company is meeting the most up to date standards, regular reviews of policy are held by the relevant committees of the Board of Directors.

G&H is committed to providing equal employment opportunities for all and aims to improve diversity at all levels of the organisation. Our recruitment partners have been instructed to ensure that they include women in all shortlist applications and we are actively engaged with encouraging women in engineering.

G&H is committed to conducting our business in an environmentally responsible and sustainable manner. We are consolidating our manufacturing facilities, and introducing other initiatives aimed at reducing our environmental footprint, such as the introduction of solar power at our three UK sites. The Executive Directors have specific environmental management and carbon reduction goals in their remuneration metrics.

### OUTLOOK

The business environment improved markedly over the pandemic-affected 2020. We believe there will be further improvement in the next financial year and over the longer term.

FY2021 saw strong demand for industrial and medical lasers, telecommunications and medical diagnostics. The drivers of a sustained recovery in industrial lasers remain in place, as new technologies such as 5G roll out, along with greater use of new more flexible materials in microelectronic manufacturing and strong worldwide demand for semiconductors. We expect this demand led growth to continue in these sectors. Our year end order book is robust and 8.6% higher than the same time last year, excluding the impact of foreign exchange.

A&D sub-sectors of space satellite communications, optical arrays for gimbals on UAVs, and targeting and sighting systems all performed well in the last financial year. G&H supplies laser based navigational products for commercial and military aircraft. Our internal forecasts expect that the commercial aspect of this business will start to return to growth in 2023.



In FY2021 there was some drag on performance due to currency headwinds, self-isolation and supply chain issues in parts of our business. It is possible that we may still see these factors affect performance in the near term. Mitigating actions have been taken by management in each of these areas.

G&H's plans to streamline our manufacturing operations have been largely completed during FY2021 and we are on track to deliver the previously announced FY2022 profit improvements. The benefits of having our US fibre optic capability housed on a single site and our UK precision optics (PO) production on one site should start to positively impact performance. Ilminster has throughout its history been a mixed AO and PO site and the efficiency and capacity improvements we envisage as the exclusively PO site embraces its new role should enable an enhanced offering to its predominately A&D customers.

New products are becoming an increasingly important part of our portfolio, as we continue to deliver record new product sales from an increasingly productive R&D group. We remain committed to invest in those areas identified as having the greatest potential. There continues to be substantial long term growth potential for our photonic technologies and system capabilities in all our target sectors.

G&H remains committed to our long-term strategic goals of further diversification and moving up the value chain. We intend to vigorously pursue these goals through internal investment and where appropriate, acquisitions. The Board remains confident that G&H is well positioned to deliver further progress in FY2022 and substantial long-term growth.

**Mark Webster**  
Chief Executive Officer  
30 November 2021

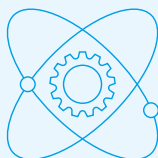
# Our Strategy

At Gooch & Housego, we create sustainable value by leveraging our products and capabilities to diversify into new markets. We are focussed on moving up the value chain, generating a greater proportion of the Group's revenues from subassemblies and systems. We are delivering this strategy by focussing on three strategic priorities:

- Focussed R&D investment
- Operational excellence
- Value enhancing acquisitions

## Priorities

### Focussed R&D investment



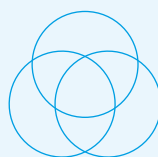
- Our R&D teams have market leading skills in photonic technologies and system capabilities.
- Our customers recognise this and we have important collaborative relationships with many OEM customers. We work with them to help them design their next generation systems.
- This close working relationship allows us to identify opportunities to support our customers in new adjacent markets.
- We have developed clear technology roadmaps in each of our three market sectors.
- These road maps focus on areas where we see clear customer demand enabling us to optimise returns from our R&D investment.

### 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.
- Our capital allocation policy ensures we invest to equip our facilities with the latest capabilities to secure new business and enhance our margins.

### 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 subassemblies and systems.
- We create value by realising synergies in the areas of complementary technologies, customer access, operational and supply chain leverage and the application of best practice business processes.



**Our strategy is transforming G&H in to a high value, sustainable business."**



Progress	Link to KPIs (Page 16)	Future priorities
<ul style="list-style-type: none"> <li>• Spend on R&amp;D totalled £7.9m.</li> <li>• Revenue from new products totalled £18.1M and there were 48 new products released to the market.</li> <li>• Acousto-optic: New materials and designs (<math>\alpha</math>-BBO, GaAs, sapphire, Ge AOM) for micro/macro-machining.</li> <li>• Electro-optic: New materials to access more wavelengths (e.g. MIR) and apps (heat signature tracking, autonomous bots).</li> <li>• Fibre optic: Co-integration of photonics/electronics, miniaturising fibre optics for A&amp;D, new devices for high-spec OCT.</li> <li>• Precision optic systems: Multi-band and single aperture systems for turrets and vehicles, low SWAP, more complex designs.</li> <li>• Precision optics: Continue expanding our capabilities: large windows, new materials and coatings.</li> <li>• Life sciences: More point of care, user interface and apps development, AI, machine learning, cyber security of patient data.</li> </ul>	<ul style="list-style-type: none"> <li>• Adjusted operating profit margin</li> <li>• R&amp;D investment</li> <li>• Revenue from new products</li> </ul>	<ul style="list-style-type: none"> <li>• We will continue to invest in delivering a pipeline of new products and capabilities for high growth segments in the Industrial, Aerospace &amp; Defense and Life Science markets.</li> <li>• Our key R&amp;D projects will result in new products in the following areas being released to the market in the coming two years: <ul style="list-style-type: none"> <li>o “State of the art” extreme ultra-violet (EUV) lithography lasers used for nano electronics.</li> <li>o Market leading Germanium AO modulators for use in semiconductor manufacturing.</li> <li>o Laser engine technology used in directional sensing for wind turbines and infrastructure asset protection.</li> <li>o IR optical arrays for UAV imaging and communication systems.</li> <li>o Thermal overlay of our traditional optical sighting systems for armoured vehicles.</li> <li>o Laser-based satellite communication.</li> <li>o OCT technologies used in cancer and cardiovascular disease detection.</li> </ul> </li> <li>• We are expanding our medical diagnostic R&amp;D group to work on a range of novel diagnostic systems.</li> </ul>
<ul style="list-style-type: none"> <li>• We are making good progress on our site consolidation programme which are reducing our footprint and our fixed cost base.</li> <li>• Production has now been transferred from our Glenrothes and Baltimore facilities and those two sites have closed.</li> <li>• We have also completed the transfer of production from our St Asaph site to Ilminster enabling us to relocate our R&amp;D team there to a newly equipped facility.</li> <li>• We have substantially completed the transfer of the production of acousto-optic products from Ilminster to our Asian contract manufacturing partner.</li> <li>• Our real time operations dashboard has been fully developed and deployed to our site operations managers.</li> </ul>	<ul style="list-style-type: none"> <li>• Organic revenue growth</li> <li>• Adjusted operating profit margin</li> <li>• Adjusted operating cash flow</li> <li>• Safety performance</li> <li>• CO2 equivalent (tonnes)</li> </ul>	<ul style="list-style-type: none"> <li>• We will complete our site consolidation programme and bring it to a successful conclusion in FY2022.</li> <li>• We will develop a new low cost Asian supply source for our high reliability fibre couplers in FY2022.</li> <li>• We will further build upon the strong relationship we have established with our Asian contract manufacturing partner and deploy our supply chain processes designed to reduce risk and develop more collaborative working relationships with a smaller number of key suppliers.</li> <li>• With additional G&amp;H supplier quality engineers we will complete an expanded programme of improvement reviews with our higher value and higher risk suppliers in FY2022.</li> </ul>
<ul style="list-style-type: none"> <li>• Following the conclusion of the earn-out associated with our acquisition of the ITL business we have accelerated the integration of the business with the rest of the G&amp;H Group.</li> <li>• This includes the integration of products from across the Group to provide high value offerings to our customers.</li> <li>• The ITL business has continued to grow its order book which now stands at a record level.</li> <li>• We are continuing to look for further acquisition opportunities which could extend the Group's technology and market reach. The financial strength of the Group means that it is well placed to quickly execute on these opportunities as they arise.</li> </ul>	<ul style="list-style-type: none"> <li>• Adjusted operating profit margin</li> <li>• Adjusted operating cash flow</li> </ul>	<ul style="list-style-type: none"> <li>• We will look to generate value creation opportunities, both from revenue and operational cost base synergies.</li> <li>• We will continue the further development and execution of our acquisition pipeline.</li> <li>• We are establishing new contacts with sell-side advisors to ensure we are kept informed of acquisition opportunities that may be a match to our acquisition criteria.</li> </ul>

# Operations Review

## Industrial

### REVENUE

**£55.6m**



### ORGANIC, CONSTANT CURRENCY REVENUE GROWTH

**7.2%**



### ADJUSTED OPERATING PROFIT

**£7.1m**



### OPERATING PROFIT

**£4.5m**



### ADJUSTED OPERATING PROFIT MARGIN

**12.7%**



### PERCENTAGE OF REVENUE

**44.8%**



### MARKET DRIVERS

- Post pandemic recovery in the industrial laser market.
- Roll out of 5G, new more flexible materials in microelectronic manufacturing and greater worldwide demand for semiconductors.
- Next generation products such as EUV lithography lasers for nanoelectronics and new design germanium modulators.
- Increasing investment in continental connectivity of data centres.
- Greater use of our hi-reliability fibre optic technology in space satellites.
- Increased investment in wind farms and border and infrastructure asset protection, both using a version of our 'laser engine' sensing technology.

### PERFORMANCE

Overall, sales of products into our industrial markets grew by 1.4% (7.2% excluding foreign exchange) compared to the prior year. We saw strong and sustained growth in our industrial laser and semiconductor revenues thanks to the recovery of the global economy from the effects of the pandemic. Our Asian markets led the recovery from the beginning of the calendar year but this was then supported in the second half of the trading period by demand from our US and European markets. The roll out of new technologies such as 5G, along with greater use of new materials in microelectronic manufacturing, are fuelling demand. We secured important new programme positions for our recently developed germanium acousto-optic modulator product, which will lead to recurring revenues for many years to come. This product is integrated in to the heart of the most advanced and efficient laser systems currently being developed by our OEM customers for use in semiconductor manufacturing. The movement of our Ilminster AO Q-switch production to a South East Asian manufacturer will enable us to more effectively compete in the increasingly price sensitive China market.

Our sensing modules generally form part of large infrastructure projects and there were some end customer programme delays that impacted on our revenues in this subsector during the period. Nevertheless, the underlying trend remains in our favour with photonics sensing products increasingly seen as the way to protect and improve the efficiency of infrastructure assets. For example, G&H products are used extensively to improve the performance of wind turbines used for clean energy generation and the focus on switching to energy created from renewable sources provides G&H with sustainable underpinning demand for its products in this area.

Volumes for our hi-reliability fibre couplers used in undersea cable networks remained at the raised level seen in FY2020. There is strong demand thanks to a sustained market drive for the transmission of more and more data for both business and personal consumption and the greater use of the same technology in space satellites.

## APPLICATIONS

**Industrial lasers** for materials processing applications. G&H supplies Q-switches and other acousto-optic, electro-optic and fibre optic products.

**Semiconductor** for lithography and test and measurement applications.

**Metrology** for laser-based, high-precision, non-contact measurement systems.

**Optical communications** specifically for high reliability and high performance applications.

**Remote sensing** for applications including asset protection, perimeter security, strain, temperature and pressure sensing.

**Scientific research** the largest proportion being nuclear fusion research and energy – laser technology is being used to recreate the conditions found in the core of the sun.

## GROWTH STRATEGY

- To work in collaboration with our customers to invest in R&D and process engineering in order to develop products that meet their most demanding needs.
- To bring to the market new products and to ensure that we remain at the cutting edge of technology in this important area. During FY2021 G&H introduced six new products in industrials generating £5.1m of revenue. We also completed important milestones on 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 technically challenging design and engineering input incorporating a range of our products. Those markets may require 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. During the year we added to our Asian sales team so as to be able to exploit the growing market demand we see in that region.
- To continue to focus our energies and investment on making the transition from a components supplier to a manufacturer of subassemblies, instruments and systems, where appropriate.
- To maintain the strong relationships we have with our customers' development teams to ensure we are their preferred choice for supporting them in developing their next generation products.



# Operations Review

## A&D

### REVENUE

**£41.1m**

2021 **£41.1m**  
2020 **£41.4m**

### ORGANIC, CONSTANT CURRENCY REVENUE GROWTH

**4.3%**

2021 **4.3%**  
2020 (6.1%)

### ADJUSTED OPERATING PROFIT

**£3.1m**

2021 **£3.1m**  
2020 **£2.8m**

### OPERATING PROFIT

**£0.6m**

2021 **£0.6m**  
2020 **£1.5m**

### ADJUSTED OPERATING PROFIT MARGIN

**12.7%**

2021 **7.6%**  
2020 **6.8%**

### Percentage of Revenue

**33.1%**

2021 **33.1%**  
2020 **33.9%**

### MARKET DRIVERS

- A&D markets require high product quality, reliability and high performance in harsh environments, which plays to G&H's strengths.
- A&D is transitioning to photonic components and systems across a broad range of sub-sectors to secure size, weight, power and reliability benefits.
- IR optical arrays deliver targeting, range finding, navigation and surveillance capabilities for the growing UAV market.
- Similar capability combined with photonic sensor suites are now being used across a range of remotely controlled A&D systems for land, sea and air.
- Space satellite systems developed by G&H have the ability to be deployed across a range of standard satellite, constellation satellite and near space UAV systems.
- Optical systems used in armoured vehicles are being developed with additional digital capability.
- Direct energy capability will utilise optical and laser expertise.
- Emerging inertial navigation platforms.

### PERFORMANCE

Our A&D revenues declined by 0.7% during FY2021, compared with the equivalent period last year, but grew 4.3% excluding foreign exchange. In the UK we completed deliveries of optical sensor systems on several significant vehicles programmes working closely with the overall vehicle manufacturers. Future UK and European vehicle sustainment programmes which include the upgrade of the vehicles' optical sensor suite provide G&H with the prospect of significant future programme business in this area. We believe the investment we have made in prototyping vehicle based multi-wave band sensor systems positions G&H well to be selected on these programmes.

The launch of a G&H enabled satellite laser-based communication system was completed in November 2020. To the best of our knowledge this is the first of its type and this 'proof of principle' should provide the basis for further business in standard and constellation satellites and near space UAVs.

In the US our deliveries of gimballed optical systems for a multi-year unmanned air vehicle contract came to an end and although new programme positions were agreed for secure communication systems using photonics technologies, these will only move in to volume production in the coming financial years.

In the US we secured further business for our IR optical arrays used in the gimbals on UAVs for targeting, range finding and surveillance. They will come on stream with volume production in the near term.

Our Boston, MA facility transitioned two significant programmes from development to the volume production phase and we expect orders for further production volumes to be secured in the coming financial year.

G&H has a market leading position in supplying laser based navigational systems for military and commercial aircraft. Our internal forecasts do not expect the commercial aspect of this business to return to growth until FY2023. This business improved across FY2021 and we are maintaining this important capability at our Moorpark, CA facility.





## APPLICATIONS

**Target designation and range finding** used on both land-based and airborne systems.

**Guidance and navigation** components for ring laser gyroscope and fibre optic gyroscope inertial navigation systems.

**Countermeasures** for ground-based systems and airborne platforms.

**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.

**Periscopes and sighting systems** for land based armoured fighting vehicles.

**Opto-mechanical subsystems** for unmanned aerial vehicles.

## GROWTH STRATEGY

- To continue to invest to move up the value chain from being a components supplier to a subsystems 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.
- Further upgrading of our 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 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 FY2021 G&H introduced 33 new products and generated £9.4m of revenue from new products that addressed the A&D market including space satellite laser based communication systems, new sighting systems and IR lens assemblies for UAVs.



# Operations Review

## Life Sciences

### REVENUE

**£27.4m**

2021 **£27.4m**

2020 **£25.9m**

### ORGANIC, CONSTANT CURRENCY REVENUE GROWTH

**8.1%**

2021 **8.1%**

2020 **7.7%**

### ADJUSTED OPERATING PROFIT

**£4.2m**

2021 **£4.2m**

2020 **£4.7m**

### OPERATING PROFIT

**£3.5m**

2021 **£3.5m**

2020 **£4.4m**

### ADJUSTED OPERATING PROFIT MARGIN

**15.5%**

2021 **15.5%**

2020 **18.0%**

### PERCENTAGE OF REVENUE

**22.1%**

2021 **22.1%**

2020 **21.2%**

### MARKET DRIVERS

- Strong post pandemic recovery in laser enabled aesthetic procedures to tackle the pent-up demand caused by the COVID-19 response.
- A larger, more affluent worldwide middle class influenced by social media and eager to access cosmetic and aesthetic procedures.
- A strong, government driven programme within China to develop an indigenous life sciences sector, reducing its dependency upon Western equipment and technologies.
- A growing aging population demanding a shift towards early diagnosis supports demand for our capabilities.
- More point of care and personalised medicine drives demand for volume diagnostic products.
- New applications for optical coherence technologies.

### FINANCIAL PERFORMANCE

Our life sciences/biophotonics revenue grew by 5.9% in the year to 30 September 2021, compared with the prior year. When measured at constant currency this represents growth of 8.1%. Medical diagnostic demand remained at the high levels seen in the second half of FY2020. The continued strong performance of a product designed to improve respiratory function as part of a ventilator system has been a key factor.

In the financial year our ITL business secured important new programme positions with customers seeking our expertise to productionise medical diagnostic product concepts. In line with our established business model, we expect to secure recurring production revenues from these programmes once the initial work to develop producible product has been completed. We have expanded the medical diagnostics R&D group to meet the demand. The enhanced software, firmware, electronic and mechanical engineering capability enables further systems business within and outside G&H's life science business sector.

OCT systems and components delivered growth during the period. Demand for our specialist medical laser products, which was adversely affected by the pandemic induced reduction in elective procedures during FY 2020, has started to demonstrate a marked improvement in performance. Medical lasers using our components are able to provide new cosmetic procedures to patients, for example to significantly clear acne scarring. Overall these two sub-sectors were up 27% in the year, excluding foreign exchange.



## APPLICATIONS

**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.

**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.

**Microscopy:** Modern, laser-based techniques are revolutionising the field of microscopy.

**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.

## 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 FY2021 G&H introduced nine new products and generated £3.6m of revenue from 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 our systems capability 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 and has the financial resources to execute on that strategy as it develops.



# Financial Review

Good recovery in volumes and benefits from the site consolidation programme starting to be secured.

## REVENUE

**£124.1m**

2020: £122.1m

## ADJUSTED PROFIT BEFORE TAX

**£12.6m**

2020: £9.8m

## PROFIT BEFORE TAX

**£5.4m**

2020: £6.3m

## ADJUSTED EARNINGS PER SHARE

**41.0 pence**

2020: 30.5 pence

## BASIC EARNINGS PER SHARE

**13.6 pence**

2020: 15.1 pence

## ADJUSTED OPERATING CASHFLOW

**£21.9m**

2020: £22.5m

## NET DEBT

**£9.2m**

2020: £14.7m

## NET DEBT EXCLUDING LEASE LIABILITIES

**£2.6m**

2020: £6.5m

## DIVIDEND

**12.2 pence**

2020: nil

## OVERVIEW OF THE YEAR

Having demonstrated its resilience during the pandemic the Group's trading recovered well in FY2021. Group revenue for the year totalled £124.1m. This represents growth of 1.6% over the previous year, or 6.4% excluding foreign exchange.

We have seen sustained growth from our Industrial markets and revenues from our life sciences products and services remained at the high levels seen in the previous financial year. In our A&D sector deliveries to a number of important defence programmes grew, more than offsetting reduced demand from our commercial aerospace customers.

Our order book stood at £97.8m at the end of the financial year and intake exceeded revenue by 9% in the second half of the year providing good visibility for future revenue growth.

The Group's adjusted profit before tax increased to £12.6m (2020: £9.8m) representing a margin of 10.2% (2020: 8.0%). After the impact of adjusting items, including restructuring costs and amortisation charges for acquired intangible assets the Group's full year statutory profit before tax was £4.7m compared with £5.4m 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.

We were pleased with the Group cash performance in the year with working capital levels reducing by £0.5m despite the increase in volumes of 6.4% compared to the prior year. At the same time investment in our production facilities continued with total capital investments of £6.2m made in the year. Our net debt excluding lease liabilities fell from £6.5m at the end of the prior year to £2.6m representing leverage of just 0.1x meaning we are well placed to execute on our acquisition strategy.





**Revenue from our semiconductor and industrial laser recovered strongly.”**

## REVENUE

Year ended 30 September	2021		2020	
	£'000	%	£'000	%
Industrial	55,552	44.8%	54,811	44.9%
A&D	41,089	33.1%	41,390	33.9%
Life Sciences/ Biophotonics	27,433	22.1%	25,894	21.2%
<b>Group Revenue</b>	<b>124,074</b>	<b>100.0%</b>	<b>122,095</b>	<b>100.0%</b>

Revenue for the year totalled £124.1m. Revenues from our semiconductor and industrial laser markets recovered strongly from the end of the first financial quarter. Demand for hi-reliability fibre couplers also grew albeit more slowly from the higher prior year comparative. These were partly offset by reductions in revenues to sensing markets where customer programme slowdowns impacted revenues.

In A&D significant optical system deliveries for armoured vehicles were completed on a number of customer programmes more than offsetting low levels of demand from our commercial aerospace customers.

Our life sciences/biophotonics business delivered year-on-year growth of 5.9% (8.1% at constant currency). Our medical diagnostics business grew further despite strong prior year comparators and there was a pleasing return of demand for our component used in skin medical laser treatments which had been impacted by the pandemic slowdown in the previous year.

## OPERATING PROFIT

The Group's statutory operating profit was £5.4m (2020: £6.3m) after a charge for items excluded from adjusted operating profit of £7.9m (2020: £4.4m) including £5.9m (2020: £2.6m) in respect of the Group's manufacturing footprint consolidation programme and £2.1m in respect of the amortisation of intangible assets arising on business combinations (2020: £2.7m). Adjusted operating profit was £13.3m (2020: £11.2m) with the increase the result of improving volumes and the initial financial benefits of the Group's restructuring programme. A reconciliation between adjusted profit and statutory profit is shown below.

## 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.

## RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

Year ended 30 September	Operating profit		Net finance costs		Profit before Tax		Taxation		Earnings per share		Operating cash flow	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 pence	2020 pence	2021 £'000	2020 £'000
Reported	5,401	6,334	(721)	(942)	4,680	5,392	(1,276)	(1,610)	13.6p	15.1p	16,822	21,561
Amortisation of acquired intangible assets	2,081	2,676	-	-	2,081	2,676	(460)	(397)	6.5p	9.1p	-	-
Restructuring and site closure	5,860	2,609	-	-	5,860	2,609	(1,151)	(392)	18.8p	8.9p	5,102	1,360
Settlement of lease dispute	-	(410)	-	(818)	-	(1,228)	-	271	-	(3.8p)	-	(410)
Interest on deferred consideration	-	-	-	303	-	303	-	-	-	1.2p	-	-
Tax charge arising from restatement of UK Deferred tax at 25%	-	-	-	-	-	-	519	-	2.1p	-	-	-
<b>Adjustment</b>	<b>13,342</b>	<b>11,209</b>	<b>(721)</b>	<b>(1,457)</b>	<b>12,621</b>	<b>9,752</b>	<b>(2,368)</b>	<b>(2,128)</b>	<b>41.0p</b>	<b>30.5p</b>	<b>21,924</b>	<b>22,511</b>



**Our disciplined approach to working capital management meant that we were able to deliver a strong cash performance in the year.”**

### NET FINANCE COSTS

The net underlying interest expense of £0.7m (2020: £1.5m) reduced by £0.8m. The reduction was the result of repayments made during the year by the Group against its credit facilities, detailed further below.

### TAX

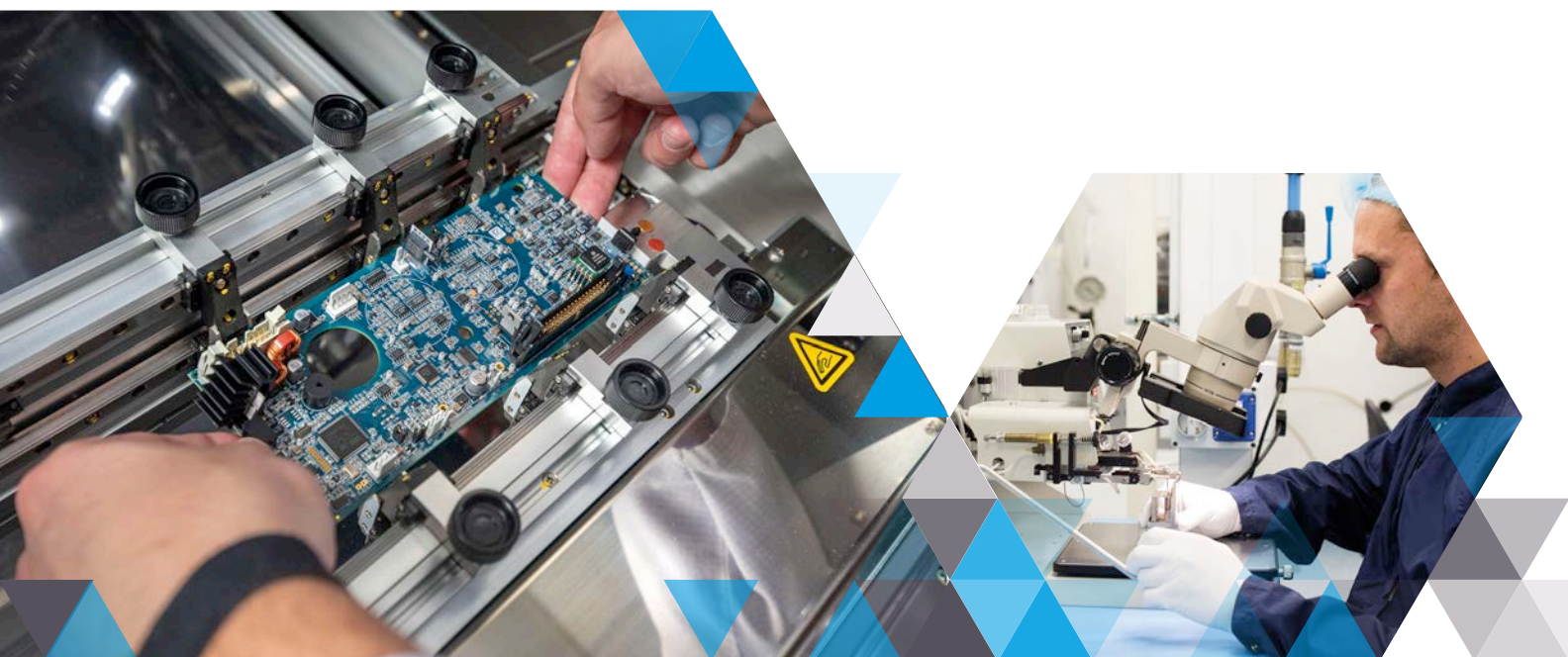
The tax charge for the year was £1.3m (2020: £1.6m) with an underlying tax charge of £2.4m (2020: £2.1m) after excluding a credit on non-underlying items of £1.1m. This resulted in an underlying effective tax rate of 18.8% (2020: 21.8%). The reduction in the rate was largely due to adjustments in respect of prior year balances arising from enhanced capital allowances. 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.

### EARNINGS PER SHARE

Basic adjusted earnings per share increased by 34.4% to 41.0p (2020: 30.5p), reflecting the increased profitability in the year. Basic earnings per share reduced 9.9% to 13.6p (2020: 15.1p). This reduction was due to the non-recurring items incurred in the year in relation to the Group's site rationalisation programme.

### CASH GENERATION

Cash flow generated from operating activities was £16.8m, down from £21.6m in the prior year. This reduction was due to the non-underlying costs incurred in relation to the site rationalisation programme in the year amounting to £5.1m. Adjusted cashflow generated from operating activities, which excluded these non-underlying costs, was £21.9m (2020: £22.5m). This was the result of improved profitability, supported by disciplined working capital management. In total working capital reduced by £0.5m in the year despite the 6.4% increase in business volumes compared to the prior year. Cashflows for tangible and intangible fixed asset additions totalled £6.2m (2020: £6.4m). The final earn out payment for the Group's acquisition of the ITL business was made in the period. The payment of £3.25m represented that business achieving at its maximum level. The payment of an interim dividend in the year totalled £1.1m. The Group's strong cash generation allowed the repayment of \$19.2m (£14.1m) of borrowings and the Group closed the year with net debt of £9.2m (2020: £14.7m) or £2.6m (2020: £6.5m) when lease liabilities are excluded.





**The Group's leverage stands at just 0.1x. We have access to \$55m of funding facilities to support the further growth of the business."**

## BALANCE SHEET

The Group's total equity at the end of the year was £114.3m, an increase of £0.9m over the prior year. This comprised an increase of £2.3m from retained earnings, a £0.7m increase to reserves in relation to share schemes and a net reduction of £2.1m arising from foreign exchange and hedging movements.

During the year, additions to property, plant and equipment amounted to £5.4m (2020: £5.4m) and to intangible assets £0.8m (2020: £1.3m).

## DIVIDEND POLICY

The Board has a progressive dividend policy. In determining the level of dividend the Board considers not only the adjusted earnings cover, but also looks to the future expected underlying growth of the business and its capital and other investment requirements. The Group's balance sheet position and its expected future cash generation are also considered. The Board also takes in to consideration the Group's Principal Risks, which are set out on pages 46 to 49. The Group's ability to pay a dividend is impacted by the distributable reserves available in the parent Company, which operates as a holding company, primarily deriving its net income from dividends paid by its subsidiary companies. At 30 September 2021, Gooch & Housego PLC had sufficient distributable reserves to pay dividends for the foreseeable future. The parent Company Balance Sheet is set out on page 114.

Given the strength of the business recovery in the year and the positive outlook for the coming trading period the Board is proposing a final dividend of 7.7 pence per share, giving a total of 12.2 pence per share for the year when combined with the 4.5 pence per share paid as an interim dividend in July 2021.

## FUNDING AND LIQUIDITY

The Group's operations are funded through a combination of retained profits, equity and borrowings. Borrowings are raised at Group-level from the Group's banking partner and lent to the subsidiaries. At 30 September 2021 the Group had available undrawn committed and uncommitted facilities of \$55.2 m. The Group's borrowings are in the form of a US\$ denominated Revolving Credit Facility (RCF). The RCF matures in April 2023. A further summary of the Group's borrowings and maturities are set out in note 24 of the Group Financial Statements.

The Group's leverage is expressed in terms of its net debt/adjusted EBITDA ratio. Under the Group's credit facility the figure for net debt used in this ratio excludes IFRS 16 lease liabilities and other IFRS 16 impacts. The Group's main financial covenants in its bank facilities states that net debt must be below 2.5 times adjusted EBITDA, and adjusted EBITDA is required to cover interest charges, excluding interest on pension schemes, by at least 4.5 times. At 30 September 2021 net debt/adjusted EBITDA was 0.1 times (30 September 2020: 0.4 times). Interest cover at 30 September 2021 was 34.2 times (30 September 2020: 10.8 times).

The Group maintains sufficient available committed borrowings to meet any forecast funding requirements.

## FINANCIAL RISK MANAGEMENT

The Group's main financial risks relate to funding and liquidity, interest rate fluctuations and currency exposures. The Group uses financial instruments to manage financial risks arising from underlying business activities.

## FOREIGN CURRENCY

The Group's policy is to reduce or eliminate, whenever practical foreign currency transaction risk. The Group hedges expected foreign currency cash flows wherever possible. Further details of the Group's foreign exchange risk management is set out in note 5 of the Group Financial Statements.

The following are the average and closing rates of the foreign currencies that have the most impact on the translation of the Group's Income Statement and Balance Sheet into GBP.

Income Statement	Average rate	
	2021	2020
USD/GBP	1.37	1.28
Euro/GBP	1.15	1.14

Balance Sheet	Closing rate	
	2021	2020
USD/GBP	1.35	1.29
Euro/GBP	1.16	1.10



# ESG Report

At G&H the Board is 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.

## Environment

Reducing energy consumption

Sourcing from cleaner,  
more sustainable sources

## Social

Engaging with our people

Developing our people

Ensuring the well-being of our people

Promoting equality and diversity

Supporting our communities

## Governance

Corporate governance framework

Business integrity

Managing our supply chain







**G&H is proud that many of our products are supporting the cleaner, more efficient generation and use of energy.”**

## ENVIRONMENT

It is clear sustained action is required to address climate change and manufacturing businesses have a responsibility to mitigate their impacts.

G&H take this seriously and is proud that many of our products are supporting the cleaner, more efficient generation and use of energy across a range of applications. We are also working to ensure the environmental impact of our own sites and manufacturing processes are reduced as much as possible. Our investments in solar panels and voltage optimisation systems are already lowering our greenhouse gas emissions. Our Executive management team have developed a plan with the objective of delivering annual reductions in the energy used by the Group and therefore its carbon equivalent emissions.

During the year we took the opportunity to visit other companies within our sector to see how they were approaching this. These visits confirmed the approach we were taking of using the structure of ISO 50001 – energy management systems - to help us identify where the greatest reductions in energy use could be achieved was the right one.

We have integrated the reporting of our impact on the environment within our Health and Safety function. This enables an already established infrastructure and management system to be used. This includes monthly data analysis and reporting, quarterly reviews with the Group's senior executives and by All Hands briefing sessions. Environmental matters also represent a standing topic area in our quarterly internal newsletter – G&H Informed.

G&H aims whenever practically possible, across our locations to:

- Minimise the use of natural resources.
- Improve our energy efficiency.
- Minimise the generation of waste whilst implementing and promoting recycling.
- Consider the environmental impact relevant to our business decisions.
- Minimise pollution and promote greener transport options.
- Inform and encourage our employees to act in an environmentally responsible manner.

Specifically we are investing to reduce our emissions as follows:

- Our Torquay facility has a 297 kWp solar PV system installed which provides ~25% of the site's electricity needs along with a Voltage Optimisation System.
- Ilminster facility has just installed a 302 kWp solar PV system and Voltage Optimisation System.
- Our facility in Ashford will be fitting a 150 kWp solar PV system in late 2021.

As a result of these investments, we will have the capacity to generate approximately 750 kWp of electricity from solar sources.



Solar panels being installed  
on our Ilminster facility



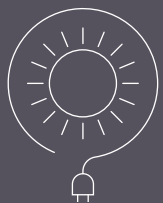
# 9%

REDUCTION IN  
OUR CARBON  
INTENSITY MEASURE



# 43%

OF GROUP ENERGY  
PURCHASED FROM  
RENEWABLE SOURCES



# 600kWp

ANNUAL ENERGY  
PRODUCTION CAPACITY  
FROM SOLAR ENERGY

We are also reducing our impact on the environment through our recycling programmes including:

- Use of waste electrical and electronic equipment (WEEE) containers to promote electronic waste recycling.
- Removing plastic vending machine cups and replacing them with alternative reusable materials.
- Recycling of packaging materials where practicable for product shipments.
- Provision of recycle bins, signage and campaigns.
- Minimising the use of paper wherever possible, through electronic data transfer.
- Where printing is used, reusing any single sided sheets.
- Ensuring that all green and natural waste is disposed of according to industry standards using approved contractors.
- Keeping energy usage low, by using low energy lighting and ensuring computers are shut down after work.
- Avoiding unnecessary travel by making use of digital platforms.
- Purchasing products made with recycled materials where possible.
- Working with suppliers who promote sound environmental practices where possible.
- Recycling equipment that is no longer of use to the company by donating items such as computers and printers to the local community.

## ENERGY USE AND CARBON DIOXIDE EMISSIONS

In reporting our carbon dioxide emissions, we have followed the 2021 HM Government Environmental Reporting Guidelines. We have also followed the Greenhouse Gas (GHG) Reporting Protocol and the Streamlined Energy and Carbon Reporting (SECR) guidelines. 2020 Conversion factors have been used for October 2020 to May 2021 inclusively, and 2021 Conversion factors used for June 2021 to September 2021 inclusively. In the US eGrid 2018 Conversion factors have been used for October 2020 to February 2021 inclusively, and eGrid 2019 Conversion factors used for March 2021 to September 2021 inclusively.

We have selected as our primary intensity measure carbon dioxide emissions per £1m of revenue for our global scope 1 and scope 2 GHG emissions (expressed in tonnes of carbon dioxide equivalent). We are using an operational control boundary for direct GHG emissions. For scope 1 emissions we include our total owned and leased vehicles' direct emissions impact. By far the largest element of our energy usage is our scope 2 purchased electricity. Our reported data is collected from metered sources.

	Current reporting year FY 2021			Comparison reporting year FY 2020		
	United Kingdom	Rest of World	Total	United Kingdom	Rest of World	Total
Emissions from activities which the company own or control including combustion of fuel and operation of facilities (Scope 1)/tCO <sub>2</sub> e	254	362	616	656	258	914
Emissions from electricity, heat, steam and cooling purchase for own use (Scope 2)/tCO <sub>2</sub> e	1,090	3,708	4,798	1,152	3,786	4,938
Total gross Scope 1 and Scope 2 emissions/tCO <sub>2</sub> e	1,344	4,070	5,414	1,808	4,044	5,852
Energy consumption used to calculate above emissions/MWh	5,468	10,977	16,445	5,760	10,826	16,586
Tonnes of carbon dioxide equivalent per £1 million of revenue	20.4	70.0	43.6	28.00	70.2	47.9

### Scope

### Reported

## Scope 1 – direct GHG emissions

Includes emissions from activities owned or controlled by G&H that release emissions into the atmosphere. Examples include emissions from combustion in owned or controlled boilers, vehicles.

Report 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.

Report includes:

- Emissions from purchased electricity.

The Group achieved a 9.0% reduction in its intensity measure of tCO<sub>2</sub> emissions per £1m of revenue. The closure of our Glenrothes facility in December 2020 and improvements made to some of our sites' heating, ventilation and cooling meant that we were able to reduce the volume of refrigerants used.

Whilst it is not fully reflected in the emissions data shown above we have also made significant progress in increasing the proportion of the Group's electricity that is purchased from renewable sources. At the beginning of the financial year 18% of our purchased electricity came from renewable sources but by the end of the financial year that had increased to 43%.

## Unity Customer focus Passion Precision



### SOCIAL

#### ENGAGING WITH OUR PEOPLE

Our people are critical to ensuring the long-term sustainability of our business and to achieving the Group's strategic objectives.

We believe it is important for our employees to feel connected to and engaged with the over-arching vision of the Group which is that we are "Changing the World with Photonics".

We provide our employees with a clear roadmap of how we intend to deliver our vision through our world class engineering and manufacturing solutions.

Through participative workshops our employees discuss the Values we have set that guide everyone in G&H in the way we perform our respective roles. These are:

- **Unity** – working ever-more together between project teams, sites and functions from across the Group. This is essential to winning new business and servicing our customers with increasingly complex, higher value products which integrate a range of technologies and require expertise drawn from across G&H.
- **Customer Focus** – prioritising our actions to continually improve our offering and service to our external customers. We also focus on supporting and respecting our 'internal customers'.
- **Passion** – this is about all our employees recognising and believing that 'my job can make a difference' and acting on this on a daily basis.
- **Precision** – which recognises the value of quality and a 'right first time' approach and which underpins the Group's commitment to excellence and continuous improvement.

From these Values, we have developed a suite of **Behaviours** which provide a further framework for our employees on how they can put the Values in to practice in their daily work.

Through participative workshops employees are encouraged to discuss our Vision, Mission and Values and the underpinning Behaviours so that they can have a real connection to them in their day to day work and understand how they can contribute to the achievement of the Group's objectives.

We also survey all employees each year to provide feedback on levels of engagement and to get their feedback on what they think could be done better. We use this feedback to build a rolling set of improvement actions.

In response to employee feedback, we were delighted to be able to launch two new all employee share schemes during the year. These were a Sharesave Scheme for UK staff and an Employee Stock Purchase Plan in the US which will help to build further employee engagement with the Group.



We recognise it is essential to keep our people informed on business developments and on the factors affecting the Group. We do this through regular briefings, including recorded video updates from the CEO, “all-hands” site meetings as well as internal announcements. Works councils or employee consultation groups, comprised of management and elected employee representatives operate at the majority of G&H UK sites where the management can listen to representatives’ views and take them into account when making decisions.

This year, we also launched a global employee newsletter – “G&H Informed” – which is published quarterly in electronic form or available in hard copy to ensure the widest possible readership. This aims to share stories and business updates across the Group and we encourage colleagues to contribute to future editions.

Finally, 2021 saw the launch of a new series of thought leadership articles – “G&H Insight” - which offer insight and opinion on emerging trends, our markets and the future of the photonics industry and showing how we are truly changing the world with photonics. These are published on the company’s website and are also made available to our people to help them feel proud to be part of G&H.

#### DEVELOPING OUR PEOPLE

The Group recognises that it is essential to develop the skills and capabilities of its employees, and to attract and retain the best talent available in the regions in which it operates.

The Group operates an online performance management and appraisal system which provides opportunity for individual discussions on training needs and career planning. The Group also operates a talent management and succession planning process from which the Executive Management Team formulate action plans, and review progress. The Board also reviews this process annually ensuring that effective plans are in place.

Given the geographic spread of the Group we recognise the challenge of delivering training content to our employees in a consistent and timely manner. To address this we have launched an online learning platform through which a series of training programmes cover the areas of cyber security, Export legislation awareness and Global Data Protection Regulations.

#### ENSURING THE WELL-BEING OF OUR PEOPLE

The health, safety and wellbeing of our employees across the Group is of paramount importance, and we work hard to ensure all our people are safe, whether they are working from home, working in our premises or working with our customers.

We have a range of well-developed operating policies and procedures in place. These include executive leadership on quarterly reviews in the US and UK, which incorporate key performance indicators and mitigating action plans where necessary. This data which we benchmark with other firms in our industry sectors confirms improving trends and best in class performance levels. This is further supported by the Group’s work towards achieving ISO45001 – Health and Safety Management - accreditation which includes a regular internal assessment process.

Throughout the pandemic we have continued to ensure that our facilities are safe through regular audits. We offered flu vaccinations to all employees before the Covid-19 vaccinations were made available. A Group policy on coronavirus vaccinations helps to educate and support employees. We have provided paid time off to receive the vaccinations during working time if required. The Group also established paid leave arrangements above statutory requirements to encourage employees to follow self-isolation and quarantine rules in order to protect the general safety and well-being of work-colleagues.

The Board recognises the continuing commitment of the Group’s employees through the coronavirus pandemic as they responded with great dedication to the challenges. The Group did not participate in the UK’s Coronavirus Job Retention scheme during FY2021 and there were no job losses as a direct consequence of the pandemic.

We understand the value of supporting employees through mental health challenges. We have trained in house mental health first aiders, partnering with the charity MIND.

This was followed up by training sessions for our managers to help them identify and manage mental health issues in their teams. The Group also makes available to our employees external employee assistance programs (EAP) through which employees can access third party advice on good practice health and well-being.



We recognise the pandemic has changed the employment landscape significantly and that many of our employees and potential new hires now have different expectations on how and where they carry out their jobs. Consequently, the company has implemented for many of our business support roles a hybrid work from home/office policy where employees can choose how they do their jobs in a way that works best for them. Within that more flexible framework we do however believe in the importance of employees continuing to have regular on-site attendance in order to enable effective team-working and develop working relationships.

We value long term employment with the company and have operated a long-service recognition scheme across the Group for several years.

The average length of service across the Group is 7.9 years, compared to 9.3 last year.

The loss of key personnel is identified by the Board as a risk within its ongoing Business Risk Assessment process. Voluntary labour turnover was 12% across the Group in FY2021, compared to 11% in prior year.

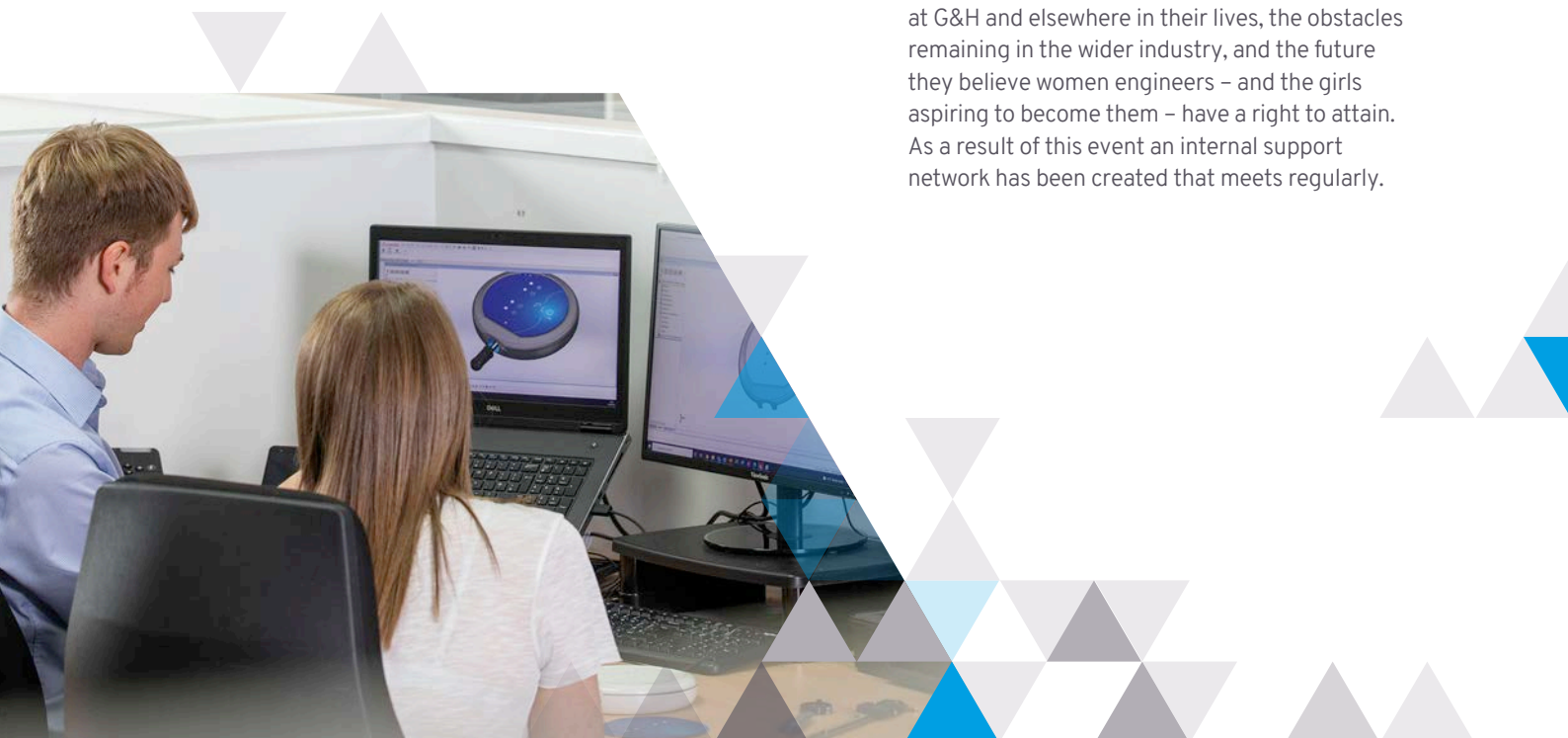
## PROMOTING EQUALITY AND DIVERSITY

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

Diversity is embraced at G&H. We seek to recruit, hire, develop and retain the best talent. Our employees have diverse backgrounds, skills, and ideas that collectively contribute to our success. The Company operates to national standards of diversity in employment, including an Affirmative Action Program (AAP) in the United States which is designed to attract, retain and develop a diverse pool of talent.

As part of our talent and succession planning process, the Board and Executive management team monitor the representation of women and ethnic minorities at different levels and across different functions within our “talent pools”. In support of this objective, recruitment partners have now been instructed to include female candidates in all shortlist submissions. This will 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 recognition of International Women in Engineering Day in June 2021, G&H hosted a virtual round table with women in engineering and related disciplines from across the Group. They spoke openly and engagingly about the challenges they have faced and how they have overcome them, the support they have found both at G&H and elsewhere in their lives, the obstacles remaining in the wider industry, and the future they believe women engineers – and the girls aspiring to become them – have a right to attain. As a result of this event an internal support network has been created that meets regularly.



### Supporting our Communities

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

The Group supports and develops students and apprentices, especially in the field of engineering and technology. Support for young students by providing work experience and undergraduates and interns with summer placements has been restricted this year due to the coronavirus pandemic.

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.

We actively support local charities in the communities in which we operate.

That includes encouraging and supporting our people to take part in giving their time or raising money for charitable and community activities where they live and work. To support this each of our site leads has been allocated company money to use to donate to local charities preferably in the form of a “match” for amounts raised by our employees. As a result, we know we are supporting those causes that are important to our people.

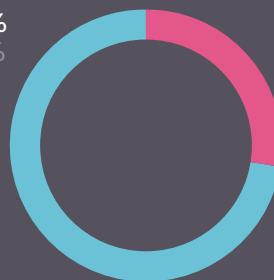
## UK

### WORKFORCE

(AS AT 30 SEPTEMBER 2021)

#### GENDER DISTRIBUTION

2021: 72.4%  
2020: 72.3%



2021: 27.6%  
2020: 27.7%



#### AVERAGE SERVICE (YEARS)



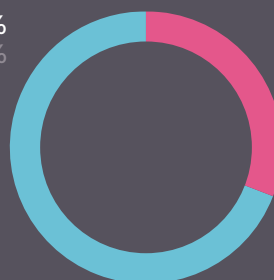
## USA

### WORKFORCE

(AS AT 30 SEPTEMBER 2021)

#### GENDER DISTRIBUTION

2021: 68.9%  
2020: 66.4%



2021: 31.1%  
2020: 33.6%



#### AVERAGE SERVICE (YEARS)



## GOVERNANCE

### CORPORATE GOVERNANCE

The Board is committing to maintaining the highest standards of Corporate Governance. We conduct our business activities honestly and with integrity. For more information on the Group Corporate Governance Framework see page 52.

### 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.

### HUMAN RIGHTS

97% 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 have in place 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, regardless of where in the world they are located.

### MODERN SLAVERY

We make sure 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 Company-wide Modern Slavery Policy and a statement on the steps taken to prevent slavery, which is available on the Company's website. We review the policy, risk assessments and actions arising on an annual basis. The Group is also continuing to strengthen its supplier quality engineering resources which will enable more field-based audits which will include "on the ground" audit of suppliers' procedures in this matter.

### COMPLIANCE WITH REGULATIONS AND STANDARDS

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. We support this with online training tools through which we make sure our employees know what is expected of them.

### MANAGING OUR SUPPLY CHAIN

We expect high standards from our suppliers. We achieve this through clear contractual commitments placed upon them covering areas such as Modern Slavery, Safe working practices, Conflict Minerals and Anti Bribery. We then back this up with a programme of supplier site visits to audit our suppliers' compliance. For much of the year we were forced to substitute physical site audits with virtual reviews. However for the coming year we expect to be able to attend at our suppliers facilities and have recently recruited additional resource in this important area to ensure we can achieve a good level of coverage of our suppliers. We undertake annual risk assessments of our suppliers and the outcome of that process determines the supplier audit undertaken.

In return we believe in paying our suppliers promptly in accordance with the terms agreed with them. This helps ensure we build a robust and sustainable supply chain able to benefit from our continued growth.





# S172 Statement

Our stakeholders are key to the long term sustainability of our business. The importance of open and meaningful engagement with all our stakeholders is fully embraced by our Board members and is encouraged through all levels of the Group. The Board has identified its key stakeholders to determine its engagement activities during the year and to review the information flow to and from the Board within the organisation.

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.

## LONG TERM CONSEQUENCES OF BOARD DECISIONS

G&H has a strategy that is designed to deliver profitable growth on a multi-year basis. For example, our approach to partnering with customers on their next generation product development allows us to build long term and mutually beneficial relationships which will live for many years. Our technology road maps will deliver benefits potentially many years in the future meaning that we are investing now for the future benefit of the Group. Consequently, long-term decision making is a natural part of the Board’s approach.

The Group maintains a risk register, which the senior leadership team keep updated along with a series of associated action plans. These are presented to the board on an annual basis.

## STANDARDS OF BUSINESS CONDUCT

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 page 52.

The Group has in place specific policies to ensure all Group employees operate in an honest and ethical way. Details of these can be found on page 38.

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.

## MANAGING OUR STAKEHOLDER ENGAGEMENTS

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. Some of those engagements are undertaken directly by the Board and some by the Group’s senior managers and reported back to the Board. Our key stakeholders and examples of our engagements with them during the year and actions which arose, are set out below:

## ENGAGEMENT 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.

The Board is regularly updated on the work of our engineering teams on our technology roadmaps in which we are frequently working very closely with our customers' teams. We invested £7.9m in R&D focussing on those areas where we see the opportunity to support our customers' next generation product development.

The Board is regularly updated on the timeliness and quality of product deliveries to our customers. This has been particularly the case as we complete a series of complex product transfers from our closing manufacturing sites and establish those product lines either at other G&H facilities or with our contract manufacturing partners. The Board has considered the effect of these transfers on customers during these regular updates. As a result of those engagements we made changes to the timing at which we transferred particular product lines so as to minimise any disruption to our customers' programmes. We also changed the destination of where certain products were transferred.

Our technology roadmap is regularly updated so as to best reflect the latest feedback we are getting from our customers about their emerging product needs. For example, we are accelerating the development of certain prototype armoured vehicle sighting systems to match emerging programme requirements.

## 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. During the year we have started to publish a new quarterly newsletter for our teams – G&H Informed and the CEO has provided a number of video updates for employees to compensate for the fact that site visits have not been possible due to the pandemic. The Board monitors the Group's response to feedback received from employee surveys.

As a result of these interactions, we have received valuable feedback from our employees about how they believe we should respond to the evolving COVID-19 situation especially as it relates to customers and suppliers visiting our sites.

During the year we took the opportunity to get feedback from our employees on the personal behaviours they thought would be appropriate to underpin the Group's Mission and Values. As a result of those engagements we have been able to build a series of behaviours tailored for each site that are built in to our employee appraisal and development systems.

The Board took the decision to appoint Jim Haynes as the non-executive director with responsibility for workforce engagement during the year. This will be an important step in strengthening the linkage between the Board and the wider workforce.

More details of our engagement with our employees and the results of those engagements are set out in the ESG 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.

Based upon feedback from shareholders at our 2021 Annual General Meeting Brian Phillipson, Chair of the Remuneration Committee together with the Chairman consulted on the remuneration structures that shareholders felt were appropriate for the Executive Directors and the Senior Management Team. As a result the Group remuneration strategy was adjusted (see more details in the Remuneration Committee Report).

Our shareholders have also made it clear how important Environmental, Social and Governance issues are to them. As a result of this feedback, the Annual Bonus structure for the Executive Directors has been changed such that half of their personal annual objectives will now be dependent upon continued development of the Group's policies in this area. Furthermore, we have established our carbon emissions as a KPI for the Group.

During the year, feedback from shareholders was taken into account when the Board proposed its dividends.



## 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 FY2021 we operated a supplier risk assessment process which has assisted the Group in prioritising which suppliers require further support to improve their performance. Additional roles were recruited in our supply chain team to accelerate our work in this area.

During the year we continued to work hard with our Asian contract manufacturer. The risk in this area increased during the year and is reflected in our Principal Risks section accordingly. We undertook training of their employees so that they were ready to start building some of the product lines that we had built in house for a number of years. We also invested in new IT systems that allow us to share delivery and product quality information with this supplier. Thanks to this investment our supplier has already been qualified by a number of our customers to supply product to them and production deliveries have commenced. We also now have two G&H employees based at our contract manufacturing partner's premises in Thailand to help them ramp up their production processes.

The Group has also 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. G&H offer a range of employment opportunities for apprentices and we work closely with educational establishments. During the year we established a new scheme whereby our site general managers were each allocated funding to support local charities. We asked them to focus on those charities that their site employees care about and so they frequently spend these funds in the form of a match for amounts raised by our employees themselves. We were particularly pleased to be able to support MIND, the mental health charity. More detail on our activities in these areas is given in our ESG Report.

## Where to find out more

Employees – Pages 38 to 41

Investors – Page 52

Environment – Pages 35 to 37

Society – Page 41

Long Term Success – Pages 22 to 23



# Risk Management

The Group has a process for the identification and management of risk as part of the governance structure implemented by the Board. Management of risk and maintenance of systems and processes to manage those risks is the responsibility of the Board of Directors. In managing and mitigating risk, a comprehensive and robust system of controls and risk management processes has been implemented. The Board's role in the risk management process comprises:

- Promoting a culture of integrity throughout the business;
- Making risk management a core part of the business;
- Setting the appetite for risk;
- Identifying the key risks and ensuring they are effectively communicated and managed; and
- Establishing overall policies for risk management and control.

The Group maintains a comprehensive risk register which is approved annually by the Board. The group functional heads and leadership team all have input into the risk identification process. The register clearly identifies who in the organisation has responsibility for the day-to-day management of the identified risks, and has a timeline for any required mitigating actions.

The risks are ranked according to their likelihood of affecting the business and the estimated impact they may have. Risks are identified across four key areas: strategic risk, operational risk, commercial risk and financial risk.

This year, the risk register was presented to, and approved by, the Board in September 2021. As part of the risk register approval, the Board also considered emerging risks which may not yet qualify as principal risks. Climate change risk was identified as one such risk. While the Board does not currently consider climate change to present a significant risk to the Group's operations in the medium term, we remain cognisant of developments in this area. The Group's work during the year to reduce its carbon emissions is set out in our ESG Report.

The assessment of key risks during the year has identified that while there have been some significant changes in the external environment, the Group has remained robust and resilient with mitigating activities undertaken. This is reflected in the table of principal risks. The Board has long been conscious of our ESG agenda and is cognisant of the increasing risk that a negative perception of our ESG profile could affect our ability to attract new talent to the business, build relationships with our customers, positively impact the communities in which we operate, and attract investment from potential shareholders. In response we have added a new risk in relation to this, and further detail of our activity in this area can be found in our ESG Report.


The Audit Committee has responsibility for reviewing the effectiveness of the risk management framework and internal controls and ensures that the Group is in compliance with relevant regulations and laws. Although the Group does not have an internal audit function, the function of internal control is carried out by the Group Finance team. Its responsibility is to monitor compliance and conduct or, where appropriate, commission specific reviews. The Audit Committee has reviewed the work undertaken by Group Finance in relation to the roll-out of a new control framework during the year.

The significant risks identified in the Group's risk register are set out in the following table:





## PRINCIPAL RISKS AND UNCERTAINTIES

Change from FY20	Risk	Mitigation
	<h3>Competition</h3> <p>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/or profitability.</p>	<p>This is a key area of focus for the G&amp;H management team. Fundamental to mitigating the threat from our competitors is the maintenance of 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.</p> <p>Our significant investment in R&amp;D enabled us to launch 48 new products during FY2021.</p> <p>The Group also has a series of cost reduction projects in place. During FY2021 we closed our production facilities in Glenrothes, Scotland, St Asaph, Wales and Baltimore, Maryland. We are establishing Ilminster as our Precisions Optics hub in the UK and utilising a contract manufacturer for our AO products previously manufactured in Ilminster. These actions are significantly reducing our fixed overhead base and enabling more agile manufacturing going forward, thereby helping to sustain our cost competitiveness in the market.</p> <p>Our business development teams maintain a strong presence in the marketplace and attend key trade shows which enables them to monitor competitor activity and respond accordingly.</p>
	<h3>Retention of key personnel</h3> <p>The Group recognises the importance of retaining and developing its highly skilled management team and workforce in order to achieve its strategic objectives.</p> <p>This is particularly important when travel is restricted due to the pandemic, and when we are implementing an ambitious restructuring programme.</p>	<p>Our people are at the heart of our business. We have put in place development and reward schemes to encourage individuals to play a long term role in the future development of the Group.</p> <p>During FY2021, we implemented all-employee share schemes in both the UK and the US. These schemes were introduced in response to employee feedback and will help to ensure staff feel invested in the business.</p> <p>Regular employee surveys are conducted and action plans are developed to address any identified improvement areas.</p> <p>Our HR teams review local market conditions on an ongoing basis and take appropriate action where necessary.</p> <p>Succession planning is reviewed by the senior management team on a regular basis.</p>
	<h3>Global economic trends</h3> <p>Adverse changes in the major markets in which the Group operates can have a significant impact on the Group's performance.</p>	<p>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 a robust order book going into FY2022.</p>
	<p>Global trade tariffs levied by the US and China could affect our sales and margins into certain markets.</p>	<p>Our US/China tariff steering group continually monitors progress and takes mitigating action where necessary. Our supply chain strategy in which we seek to make greater use of lower cost Asian contract manufacturers is reducing the Group's exposure to US/China tariffs.</p>

Change  
from FY20

Risk

Mitigation

## Outsourcing to contract manufacturer



We are currently transferring manufacture of a number of our AO products to an Asian contract manufacturing partner. This is a significant undertaking, particularly at a time when travel between the UK and Asia has been restricted due to the pandemic.

A delay in the transfer, or a failure by the contract manufacturer to deliver as expected, could have an adverse effect on G&H.

From the outset, we have had a robust transfer plan in place. We have a Steering Committee who are responsible for the transfer, and they have regular meetings to monitor progress and take corrective action where necessary. We now have staff located at our contract manufacturing partner's facility working with them to embed processes and transfer knowledge.

Our newly appointed Asian Supply Chain Director will Chair monthly meetings with the contract manufacturer, with detailed action plans to support improved quality, delivery and cost effectiveness.

Our Executive Leadership team are regularly reviewing progress.

## Supply chain



Current global shortages in certain commodities such as electronic components could have an effect on our ability to manufacture products.

We utilise a number of sole source suppliers in the business, and certain of our suppliers are based in higher risk regions. An interruption in supply could have an adverse effect on our manufacturing operations.

Our supply chain team are regularly monitoring the availability of key components, and seek to put in place long term agreements with critical suppliers to ensure continuity of supply. Buffer stocks are held where necessary, although these would not be sufficient in the event of a protracted delay in supply.

Our engineering teams work to identify and qualify alternative sources of supply to mitigate risk where this is possible.

We have a supplier audit programme in place to identify risk, and we work with our suppliers to mitigate those risks identified.

## Sustainability, climate change and the environment



Our operations may not be judged by our stakeholders as sustainable. Failure to appropriately manage the environmental impact of our operations and products and/or reputational damage on our relationship with stakeholders would have a significant adverse effect on the business.

Our ESG agenda is closely monitored by the Board.

Key actions have been identified and individuals in the Group have clear responsibility for managing and progressing those actions.

Engagement with our stakeholders to obtain feedback on their concerns in this area, and on their views on our progress.



## Acquisition and integration strategy



Growth by acquisition is a key aspect of our strategy to augment our organic growth. The business faces a number of risks associated with its acquisition strategy. There is a risk that the expected benefits of an acquisition or the post-acquisition performance of the acquired business are below expectation at the time terms were agreed.

Thorough financial, legal and commercial due diligence would be completed prior to finalising any proposed acquisition. This would be expected to identify any key risks inherent in the deals so that appropriate valuation adjustments could be made.

Integration planning is reviewed as part of each acquisition and project managed post transaction.

Change from FY20	Risk	Mitigation
	<h3>Pandemic</h3> <p>During FY2021, the business continued to respond well to the challenges presented by the pandemic. All of our sites were able to remain fully open during the year and continued to comply with all relevant health and safety regulations. We did, however, have a number of staff self-isolating during the second half of the year, affecting production in our Ilminster and Torquay facilities.</p> <p>Despite the success of the vaccine roll-out, further waves of the virus and any associated restrictions could affect the business in the future.</p> <p>There is also a risk that new strains of the virus may require different types of measures to be put in place.</p>	<p>Policies and procedures implemented across all our sites in the US, UK and China remain in place where appropriate to ensure our business can continue to operate effectively whilst rigorously complying with all relevant regulation and guidelines.</p> <p>Our factories in the US are all classified as fully or significantly exempt from stay at home orders due to their products being essential or vital for national security.</p> <p>Infrastructure and process changes have been made to our facilities to support enhanced social distancing and other health and safety requirements.</p> <p>The approach the Group has applied to responding to changing government requirements and assessing industry best practice provides a template for responding to different measures that may be necessary for new strains in the future.</p> <p>The above measures will support the Group in mitigating the impact of further waves of the current and future pandemics, should they occur.</p>
	<h3>Information and cyber security</h3> <p>There is a risk of loss of digital intellectual property/data or our ability to operate systems due to internal failure or external attack.</p>	<p>Clear ownership of cyber risk and IT controls.</p> <p>Data is appropriately stored and backed up with IT system recovery plans in place. These plans are regularly tested.</p> <p>Employee training programmes and regular communication have been put in place to warn employees of the risk of cyber-crime.</p>

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

**Mark Webster**  
**Chief Executive Officer**  
 30 November 2021



# 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 of Abcam PLC

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

### Relevant skills and experience

- Strategy/Growth
- Leadership and Management
- Operational Excellence
- Supply Chain
- International Business
- Restructuring
- Transformation
- Investor relations
- M&A/Integration
- Manufacturing



**Chris Jewell**  
Chief Financial Officer

**Appointed** September 2019

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 master's degrees from Cambridge University and the London School of Economics. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

### Relevant skills and experience

- Strategy/Growth
- Leadership and Management
- Financial Management
- International Business
- Restructuring
- Transformation
- M&A/Financing
- Equity and Debt Capital Markets
- Investor Relations
- Risk Management
- Aerospace & Defence Sector

## 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.

### Current external appointments

- Non-executive director of Spirent Communications PLC
- Non-executive Chair of AFC Energy PLC
- Chairman of Recycling Technologies PLC

### Relevant skills and experience

- Strategy/Growth
- M&A/Financing
- International Business
- Investor Relations
- Manufacturing
- Corporate Governance
- Talent and Succession
- Remuneration Policy Setting
- Technology





**Brian Phillipson**  
Non-Executive Director

**Appointed** 1 September 2015

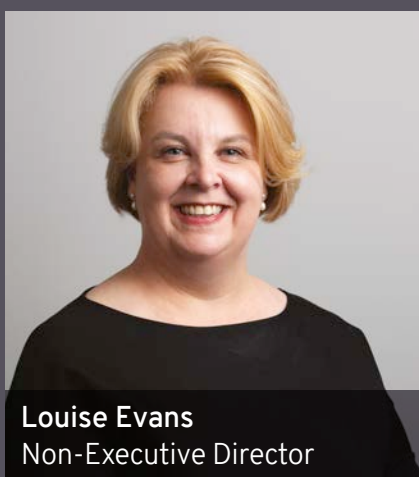
Brian has extensive experience of the A&D industry in both Strategic and Operational roles across a range of locations. Most recently he has been a Board Member and Business Unit MD at Marshall Aerospace and Defence Group. Previously he held a number of senior roles within BAe Systems PLC, including 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.

**Current external appointments**

- Deputy CTO, Lilium GmbH

**Relevant skills and experience**

- Strategy/Growth
- International Business
- Aerospace & Defence Sector
- Manufacturing/Engineering
- Project Management
- Engineering and Technology
- Operations/Supply Chain
- Remuneration Policy Setting



**Louise Evans**  
Non-Executive Director

**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.

**Current external appointments**

- Non-executive director and Audit Committee Chair of AB Dynamics PLC
- Audit Committee Chair of the International Foundation for Aids to Navigation
- Non-executive director of SCB Brokers SA

**Relevant skills and experience**

- Strategy/Growth
- Financial Management
- Risk Management
- Audit and Internal Control
- M&A/Financing
- International Business
- Operations/Supply Chain
- Governance



**Jim Haynes**  
Non-Executive Director

**Appointed** 12 February 2021

Jim has over 35 years' experience in the Optoelectronics industry, where he has held senior management positions in operations, engineering and business.

Jim has worked for Nortel Networks, Agility Communications and Oclaro PLC, where he was COO. He was also a Non-Executive Director at Andor PLC, and is currently an advisor at Rockley Photonics.

**Relevant skills and experience**

- Strategy/Growth
- Engineering
- Manufacturing Excellence
- International Business
- Operations/Supply Chain
- Product Technology
- Inventory Management
- Outsourcing

# Corporate Governance

## Corporate Governance Framework

### Board of Directors

#### Nomination Committee

##### Chair

Gary Bullard

##### Members

Mark Webster  
Brian Phillipson  
Louise Evans  
Jim Haynes

#### Audit Committee

##### Chair

Louise Evans

##### Members

Brian Phillipson  
Jim Haynes

#### Remuneration Committee

##### Chair

Brian Phillipson

##### Members

Gary Bullard  
Louise Evans  
Jim Haynes

#### Workforce Engagement NED

Jim Haynes

### Chief Executive Officer

Executive Leadership Team

Manufacturing Centre Leadership



## OUR GOVERNANCE FRAMEWORK

Description	Roles
<h2>The Board of Directors (the 'Board')</h2>	
<p>The Board is responsible to the Company's shareholders for the long term success of the Company. This includes the business's strategy, performance, investment and standards of conduct, as well as ensuring the Company acts in the best interests of its stakeholders. The Board is also responsible for corporate governance and its activities in this area are explained below.</p>	<ul style="list-style-type: none"> <li>• Set the Group's strategy</li> <li>• Approve the annual budget and monitor performance against it</li> <li>• Promote a culture based on sound ethical values and behaviours</li> <li>• Ensure effective communication with the Group's stakeholders</li> <li>• Approve significant agreements</li> <li>• Undertake risk management activities to ensure identified risks are adequately mitigated. This includes establishing and maintaining an appropriate control environment across the Group</li> <li>• Approve appointments to the Board</li> <li>• Approve Executive remuneration and group-wide remuneration policies</li> </ul>
<h2>Chair</h2>	
<p>The Chair is responsible for leading the Board and ensuring it is operating effectively with the appropriate focus on strategy.</p>	<ul style="list-style-type: none"> <li>• Ensure the Board is operating effectively and has the right balance of skills, diversity and experience</li> <li>• Set the agenda for, and frequency of, board meetings</li> <li>• Lead an annual performance appraisal of the Chief Executive Officer</li> <li>• Lead by example, promoting the highest standards of integrity throughout the business.</li> <li>• Support and coach the other Non-Executive Directors to ensure an effective working relationship</li> </ul>
<h2>Chief Executive</h2>	
<p>Responsible for day to day leadership of the business and the overall strategic direction of the Group.</p>	<ul style="list-style-type: none"> <li>• Overall responsibility to the Board for Business performance in accordance with the agreed strategy</li> <li>• Lead on overall strategic recommendations to the board</li> <li>• Developing an organisation which is effective and efficient in achieving the Group's strategic aims</li> <li>• Oversee the application of the Group's policies and governance procedures</li> <li>• Communicate effectively with the Group's stakeholders</li> </ul>
<h2>Executive Leadership Team</h2>	
<p>Responsible for implementing the strategy and delivering results.</p>	<ul style="list-style-type: none"> <li>• Lead the site teams to deliver the strategy – Monitor performance of the business and propose actions to the Chief Executive Officer</li> <li>• Manage risk</li> <li>• Ensure effective deployment of the Group's resources</li> </ul>

## 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](http://www.frc.org.uk).

The Board of Gooch & Housego PLC reviewed its corporate governance procedures at its July 2021 meeting. Following this meeting, a number of actions were taken and the Board consider the Company to have fully complied with the Code during the year ended 30 September 2021.

## 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 50 to 51 and are also available on our website; [www.gandh.com](http://www.gandh.com). In addition to these Directors, Peter Bordui served as a non-executive director until his retirement on 24 February 2021.

The Executive Directors have rolling service contracts that are subject to either six or 12 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 relationships 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 eight board meetings a year, although an additional meeting was held in FY2021. 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 FY2021, the majority of board meetings were held by video conference due to the pandemic, but we were able to hold face-to-face meetings in Ilminster in July and Ashford in September after the UK restrictions were eased. We expect to hold a meeting at one of our US sites in FY2022 if appropriate given the pandemic induced restrictions.

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.

Brian Phillipson was appointed as the Senior Independent Director following the retirement of Peter Bordui in the year ended 30 September 2021. 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 Brian 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	9/9	
Chris Jewell	9/9	
Non-executive Directors		
Gary Bullard	9/9	
Peter Bordui	4/4	(Retired 24 February 2021)
Brian Phillipson	9/9	
Louise Evans	9/9	
Jim Haynes	5/5	(Appointed 12 February 2021)



## MAINTAINING A DIALOGUE WITH SHAREHOLDERS

The Chairman ensures that the Board maintains an appropriate dialogue with shareholders. During FY2021, the Chairman met with a number of major shareholders in order to receive feedback on their key focus areas and to enable a two-way dialogue on matters of importance to the Board and shareholders. The Chairman and the Chair of the Remuneration Committee also met a number of shareholders during the remuneration consultation exercise undertaken in response to the 2021 AGM voting.

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 considered these options during the year and felt it appropriate to appoint a designated non-executive director. After consideration of the individual skillsets of the non-executive directors, the Board felt that Jim Haynes was the most appropriately qualified individual to take on this role and he was duly appointed as our non-executive director with responsibility for engagement with the workforce. This appointment was made at our July 2021 meeting, following which Jim has worked with our global HR teams to agree the scope of his involvement in connection with this role. This will see him attending a number of employee focus groups in FY2022, as well as attending all-employee presentations where possible. He will act as a conduit between the workforce and the Board. A key first step in this process will be the all-employee survey which we expect to complete early in calendar 2022.

The Board reviews the organisation's culture to ensure it is aligned with the Group's strategy. Following the review in the year, it was agreed to launch the Group's Mission, Vision, Values and Behaviours to further strengthen the Group's culture in support of its strategic aim. Further information on our work in this regard is given in the ESG Report.

Other 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 September 2021, and was led by the Senior Independent Director Brian Phillipson using a formal structured questionnaire. A number of themes came out of this review in relation to which the Chairman has taken specific actions to address in FY2022. The key themes were board succession, stakeholder communications, and the need for more informal time together among the Non-Executive Directors. We will provide an update on these areas in the FY2022 Annual Report.

The Senior Independent Director leads an annual appraisal of the Chairman's performance. This review took place during August and September 2021, using a formal questionnaire. Brian Phillipson collated the feedback received and presented initially to the Chairman and then to the Board. The Chairman summarised the actions arising therefrom at the September 2021 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. This year, the risk register was presented and approved at the September 2021 meeting.

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.

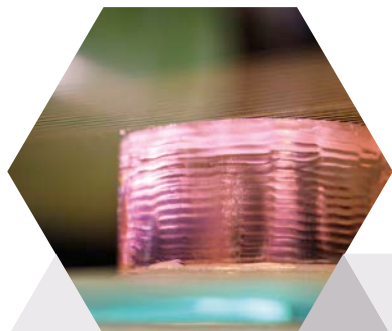
The Group does not have an internal audit department, but senior finance staff visit the sites to perform reviews of controls and processes in place. Due to the pandemic driven travel restrictions, we have not been able to arrange senior finance staff site visits in the year, but we have maintained a remote review of controls. We have also rolled out a new control framework and intend to arrange site visits in FY2022 to ensure the controls are operating in line with this new framework.

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 2021. The Directors who held office during the year are shown on pages 50 and 51. In addition to these Directors, Peter Bordui served as a non-executive director until his retirement on 24 February 2021.

A review of the development and performance of the Group during the year and its future prospects is set out in the Financial Highlights and in the Financial 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 in the Operations Review.

## 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 16.

## DIVIDENDS

During the year ended 30 September 2021 no final dividend was paid for the previous financial year. An interim dividend of 4.5p was paid for the half year ended 31 March 2021 (2020: nil).

For the year ended 30 September 2021, the Directors have proposed a final dividend of 7.7p per share (2020: nil).

## SUBSTANTIAL SHAREHOLDINGS

As at 15 November 2021, 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	3,195,995	12.76%
Invesco	2,895,161	11.56%
Investec Group	1,870,263	7.47%
abdrn plc	1,661,046	6.63%
Canaccord Genuity Group Inc	1,639,263	6.55%
BlackRock Inc	1,447,634	5.78%
Bangarra Group	1,053,497	4.21%
Charles Stanley Group	872,919	3.49%

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 risk 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 and invested £7.9m in R&D in the year ended 30 September 2021 (2020: £8.0m). 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.



## EMPLOYEES

Our employment policies are designed to provide equal opportunities irrespective of race, religion, gender, age, disability or sexual orientation. We give full and fair consideration to applications for employment from people with disabilities, where suitable for the specific vacancy. Employees who become disabled while with the Company are given every opportunity to continue their employment by adjusting their working conditions, or through retraining for other positions. They are also given opportunities to continue training and gain promotion in the same way as any of our employees.

## 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 and company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 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 international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, 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.

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 financial statements, 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 ESG Report.

## GOING CONCERN

The Directors have reviewed the budget for FY2022 and the projections for FY2023 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 33.

At 30 September 2021 the Group has a strong balance sheet with net current assets of £43.4m. The Group's cash and undrawn available facilities totalled £34.5m.

The Directors have reviewed severe but plausible scenarios that estimate the potential impact of the principal risks that the Group faces (see pages 46 to 49 of this report) on the financial forecasts. These include the impact of a possible recession and/or further waves of the 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. They also included the effect of erosion of sales prices due to competition, the potential impact of a cyber-attack and a reduction in forecast revenue to illustrate the potential effect

of a loss of key personnel or inability to hire for a key role. This assessment covered not only the coming 12 month period but also for the period to September 2024 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 2024 taking into account the Group's current position and the potential impact of the principal risk and uncertainties set out on pages 46 to 49 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 2024 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 2024.

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

**Mark Webster**  
Director

30 November 2021



# 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, Brian Phillipson and Jim Haynes 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	3/3	
Dr Peter Bordui	1/1	(Retired 24 February 2021)
Brian Phillipson	3/3	
Jim Haynes	2/2	(Appointed 12 February 2021)

At the invitation of the Committee, representatives of the external auditors, PwC 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 web site and from the Company Secretary on request. The terms of reference are reviewed annually by the Committee.

The principal responsibilities of the Committee are:

- Reviewing the effectiveness of the Company's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- Advising the Board on whether the Committee believes the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- Considering and making recommendations to the Board as to the appointment, reappointment or removal of the external 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; and
- 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 areas of focus considered by the Committee during the year were as follows:



## Area of focus

## Conclusion

## 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 remains satisfied that the manufacturing centres continue to form the most appropriate basis for the CGUs (with the exception of Ashford, which has not yet been aligned to a manufacturing centre).

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.

## 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, Policies and Controls

The Committee has reviewed the financial control framework.

The Committee reviewed the work that is underway to refresh and harmonise the financial policies and controls in place across the Group. Group finance have rolled out a new, detailed, control framework during FY2021. It is our intention, travel restrictions permitting, to commence a programme of internal audit site visits in FY2022 in order to ensure that the new framework is being applied and to determine any further improvements which may need to be made.

## Fair, balanced understandable and comprehensive reporting

The Committee has reviewed the Annual Report.

The Committee has reviewed the Annual Report and is comfortable that it provides a fair, balanced and understandable review of the year ended 30 September 2021.

As part of this review, the Committee has considered the alternative performance measures presented, and the degree of prominence given thereto in relation to statutory measures. The Committee has also considered the ESG disclosures and other reports to ensure that a fair review has been given.



## 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.

As a result of the FRC's Revised Ethical Standard 2019, auditors of AIM listed businesses such as G&H are no longer able to provide, with the exception of a very limited list of activities, non-audit services to those businesses. Accordingly, during FY2021, G&H tendered the provision of taxation advisory services which were previously provided by PwC LLP. After a formal tender process involving four firms, Grant Thornton were appointed to provide our global taxation services.

We believe the independence of the auditors has been enhanced by this change, and the auditors continue to be 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.

The Audit Committee is cognisant of the length of tenure of PwCs LLP as auditors to the Group, and it is therefore our current intention to tender the audit service following the completion of the financial statements for the year ended 30 September 2023.

### Approval

Louise Evans  
Chair of the Audit Committee  
30 November 2021



# 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.
- Considers the gender balance of those in senior management and their direct reports.

## AREAS OF FOCUS FOR THE NOMINATION COMMITTEE DURING FY2021

- Appointment of a new Non-Executive Director following the retirement of Peter Bordui at the AGM in February 2021.
- The Committee held two formal meetings in the year, but there were a number of informal meetings and communications by email during the recruitment process.
- Succession planning for other members of the Board.
- Diversity in the senior management team. Further details in this regard can be found in our Corporate Governance Report.

## ADVISORS

During FY2021, the Committee appointed Korn Ferry, an external search agency, to assist with the identification of suitable candidates for the role of Non-Executive Director.

## APPOINTMENT PROCESS

As part of the appointment process, the Committee determined the selection criteria for the vacant Non-Executive director 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 Jim Haynes who joined the board on 12 February 2021.

## MEMBERSHIP AND ATTENDANCE AT MEETINGS HELD IN FY2021

Non-executive Directors		
Dr Peter Bordui	1/1	(Resigned 24 February 2021)
Gary Bullard	2/2	
Brian Phillipson	2/2	
Louise Evans	2/2	
Jim Haynes	1/1	(Appointed 12 February 2021)
Executive Directors		
Mark Webster	2/2	

## Approval

**Gary Bullard**  
Chairman of the Nomination Committee  
30 November 2021

# Remuneration Committee Report

## INTRODUCTION

The Committee continues to base our remuneration policy on high standards of external regulation and expectations, and the needs of the business. As in previous years, we have reviewed our policy during the year and introduced a number of relatively small changes as detailed below.

The Group's trading recovered well in FY2021, with an increase in adjusted profit before tax of 29.4% and adjusted basic earnings per share of 34.4%. The Group's cash flow was strong leading to a significant reduction in net debt from £14.7m to £9.2m.

This strong performance, combined with excellent progress on the Directors' personal objectives, meant that the bonus award for the Executive Directors was close to the maximum level. Further detail is set out later in this report.

In FY2020, we were faced by concerns over senior staff retention as the COVID pandemic struck and the value of unvested LTIPs very significantly reduced. At that time, we were in the midst of a substantial cost reduction programme including site rationalisations and closures, work and equipment relocations, and significant outsourcing to South East Asia. The pandemic meant we were faced with severe restrictions on travel and on face-to-face meetings, and in progressing this rationalisation programme we were therefore highly reliant on existing management's knowledge of our sites, our people and our businesses. Any new recruitment would have been difficult in itself but it would have been particularly difficult for any new recruit to become familiar with our businesses given the ongoing restrictions to travel. At a critical time for the Group it was very important that our Executive Directors and senior management team were retained and motivated. We therefore proposed a one-time award of LTIP options which had a shorter vesting period (two years) than the normal annual LTIP grants (three years) to enhance the retention incentives for our management team. This decision was taken in response to a unique set of circumstances created by the pandemic and our programme of significant integration and consolidation. Prior to finalising the details of this one-time award we consulted with our major shareholders and sought to reflect the feedback received in the final proposal. We therefore were confident that we had the support of the majority of our shareholders for the exceptional award.

At the Annual General Meeting in February 2021, although most shareholders did support the Board's recommendations, two resolutions were passed with fewer than 80% of votes in favour: Resolution 2 (to receive and approve the Remuneration

Committee Report) and Resolution 6 (to re-elect Brian Phillipson, Chair of the Remuneration Committee). In accordance with the provisions of the 2018 UK Corporate Governance Code, following the AGM, the Board therefore re-engaged with a wider group of major shareholders to better understand shareholders' views in relation to these resolutions. The Committee received limited further feedback as a result of this exercise but was able to confirm to our shareholders the one-off nature of the "exceptional" LTIP award.

The Remuneration Committee also felt it appropriate to undertake a broader review of our Remuneration Framework during FY2021. The consultation exercise referred to above provided a good opportunity for Brian Phillipson, Remuneration Committee Chair, and Gary Bullard, Chairman, to seek feedback from our shareholders on our remuneration policies more broadly. After collating the feedback received, and discussing with our remuneration advisors, we have confirmed the general suitability of our remuneration policies but have also decided to make a number of specific changes which we believe help keep our policies in line with best market practice. These are summarised below:

## EXECUTIVE DIRECTOR COMPANY PENSION CONTRIBUTIONS

Mark Webster has been contractually entitled to employer pension contributions of 10% of basic salary since his appointment. Subsequent to his appointment, the UK Corporate Governance Code changed and now advises that Executive Directors should not be entitled to higher contributions than those available to the wider workforce. Accordingly, we will reduce Mark Webster's pension contributions (which he sacrifices for an increase in salary) from 10% to 6% with effect from 1 October 2022.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) MATTERS

The Board recognises the increasing importance of ESG matters to our employees, shareholders and broader society and is therefore changing the Executive Bonus scheme such that half of the personal objective element is based on ESG targets for FY2022. The remuneration committee discussed whether it would be appropriate to introduce ESG targets to the vesting criteria for the FY2022 LTIP grant, but due to the difficulty in setting meaningful and realistic medium term targets at this stage, decided to defer such a step this year. However, it is our intention in the coming year to develop a longer term ESG plan and in particular specific sustainability/

carbon reduction targets, and to link this with the LTIP programme with effect from FY2023. Since taking this decision, we have noted the proposed Treasury Rules announced at COP26 in this regard, and our planning in the coming year will appropriately recognise this development.

### DIRECTOR SHAREHOLDING REQUIREMENTS

The Remuneration Committee has undertaken a review of market practice with respect to Executive Director shareholding requirements. Following this review, we have implemented an increase in the Chief Executive Officer's holding requirement to 200% of salary. The Chief Executive Officer will be required to increase his holding to this level through shares vested under the LTIP in relation to grants made after 30 September 2021. The new requirement will not be applied retrospectively. The Committee felt it appropriate to leave the shareholding requirement applicable to the Chief Financial Officer unchanged at 100% of salary.

### POST CESSATION HOLDING REQUIREMENT

The Remuneration Committee has introduced a requirement for Executive Directors to hold shares with a value of 100% of salary for a period of one year post cessation of employment at G&H. This requirement will apply to shares vested under the LTIP in respect of awards granted after 30 September 2021. It will not apply to shares already held by Directors, those purchased by Directors or any shares which may vest under extant LTIP awards.

Following the consultation process undertaken in the year, and the changes outlined above, the Board is satisfied that 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. Furthermore, we believe our remuneration framework is effective in driving behaviours that are consistent with our company values and strategy and is fully in line with external governance requirements and expectations.

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 senior management. The Committee is satisfied that this is the case.

The Remuneration Committee has also encouraged the introduction of an all-employee share scheme, and is encouraged by the initial take-up, despite the timing of the launch being against the backdrop of the pandemic.

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

### OPERATION OF THE REMUNERATION COMMITTEE

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 while also fully meeting the expectations of shareholders and governance standards.

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. Due to the shareholder consultation regarding the AGM voting, an additional formal meeting was held in FY2021.

The Committee has been advised by FIT Remuneration Consultants ("FIT") on certain matters during the year. The Committee is satisfied that FIT have no conflicts of interest with G&H or its Directors.

#### Attendance at meetings held in FY2021

Brian Phillipson (Chairman)	4/4	
Gary Bullard	4/4	
Louise Evans	4/4	
Jim Haynes	3/3	(Appointed 12 February 2021)
Dr Peter Bordui	1/1	(Resigned 24 February 2021)



## REMUNERATION POLICY TABLE

The table below summarises our policy for FY2021 and the planned changes for FY2022:

Element of remuneration	Purpose and link to strategy	FY2021 Policy and approach	Opportunity	FY2022 Policy and Approach
<b>Base Salary</b>	<p>Takes into account experience and personal contribution to the company's strategy</p> <p>Attracts and retains executives of the quality required to deliver the company's strategy</p>	<ul style="list-style-type: none"> <li>Reviewed annually with changes effective from 1 January if applicable</li> <li>Consideration given to individual and company performance</li> <li>General pay increases across the wider workforce are also taken into consideration</li> <li>Where the company considers it appropriate and necessary, larger increases may be awarded in exceptional circumstances</li> </ul>	Base salary increases are applied in line with the outcome of the annual review	The Remuneration Committee approved a 2.5% increase to the Executive Directors' salaries effective from 1 January 2022. This is in line with the increase given to the wider workforce.
<b>Annual Bonus</b>	Incentivise achievement of short-term financial targets that the Committee considers to be critical drivers of business growth	<ul style="list-style-type: none"> <li>Awarded annually</li> <li>Based on broad performance measures</li> <li>15% payable for hitting 90% of target EPS, 37.5% for achieving target EPS and 60% for 110% of target EPS.</li> <li>5% payable for 90% of budgeted operating cash flow, 12.5% for achieving target and 20% for 110% of target operating cash flow.</li> <li>0-20% of bonus payable for achievement of personal objectives linked to operational performance and major initiatives.</li> </ul>	Maximum of 100% of base salary	<p>FY2022 proposal:</p> <p>Based on broad performance measures.</p> <p>Up to 60% payable for exceeding target EPS by 10%.</p> <p>20% of bonus payable for achieving target operating cash flow. Nil if not met.</p> <p>0-10% payable for achievement of personal objectives.</p> <p>0-10% for achievement of specific ESG targets.</p>
<b>Pension</b>	Provide employees with market competitive pension scheme	<p>Defined contribution personal pension plan</p> <p>Company contributes 10% of salary for Directors appointed prior to 1 October 2018. For Directors appointed thereafter, the Company contributes 6% of salary.</p>	<p>6 – 10% of base salary</p> <p>The Committee keeps the benefit policy and benefit levels under regular review</p>	No changes proposed for FY22 but in FY23, all Directors will be entitled only to employer contributions equal to 6% of salary.

Element of remuneration	Purpose and link to strategy	FY2021 Policy and approach	Opportunity	FY2022 Policy and Approach
<b>Long Term Incentive Plan (LTIP)</b>	<p>Incentivise executive performance over the longer term.</p> <p>Performance measures linked to the long-term strategy of the business and the creation of shareholder value over the longer term.</p>	<ul style="list-style-type: none"> <li>Awards vest after three years subject to achievement of targets, and are then subject to a two year holding period.</li> <li>Absolute TSR for 60% of awards, with full vesting at 15% TSR per annum.</li> <li>EPS target for remaining 40% of awards. Full vesting at 15% EPS growth per annum.</li> <li>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.</li> <li>Awards may vest pro rata on retirement.</li> </ul>	<p>Award levels are determined by reference to an individual's position and performance.</p> <p>Annual awards of 120% of base salary for the CEO and 110% for the CFO.</p> <p>Maximum award of 300% of base salary were an exceptional case may arise (e.g. on recruitment).</p>	<p>No changes proposed for FY2022. For FY2023, the Committee intends to introduce a new LTIP target linked to a long term ESG strategy to be developed in the coming year.</p>
<b>Exceptional "one-off" LTIP awards for FY2021</b>	<p>Awarded to address the loss of retention incentives arising from loss of value of extant LTIPs.</p>	<ul style="list-style-type: none"> <li>One off award including windfall clawback provisions should recent LTIPs vest.</li> <li>Awards will vest after two years and our normal holding provisions will apply.</li> <li>Awards will vest in full for compound EPS growth of 21% per annum.</li> </ul>	<p>CEO: 80% of basic salary.</p> <p>CFO: 90% of basic salary.</p>	<p>This was a one-off award disclosed in FY2020 and granted in FY2021 which will not be repeated.</p>

**DIRECTORS' REMUNERATION**

2021	Basic pay £000	Performance Related Bonus £000	Benefits in kind £000	Pension contribution £000	Sub-total 2021 £000	LTIP £000	Total 2021 £000
<b>Executive</b>							
M Webster	353	312	14	–	679	–	679
C Jewell	262	239	8	10	519	–	519
<b>Non-executive</b>							
G Bullard	81	–	–	–	81	–	81
B Phillipson	45	–	–	–	45	–	45
L Evans	45	–	–	–	45	–	45
J Haynes <sup>1</sup>	25	–	–	–	25	–	25
Dr P Bordui <sup>2</sup>	21	–	–	–	21	–	21
	832	551	22	10	1,415	–	1,415
<b>2020</b>	<b>Basic pay £000</b>	<b>Performance Related Bonus £000</b>	<b>Benefits in kind £000</b>	<b>Pension contribution £000</b>	<b>Sub-total 2020 £000</b>	<b>LTIP £000</b>	<b>Total 2020 £000</b>
<b>Executive</b>							
M Webster	350	–	14	–	364	–	364
C Jewell	259	–	5	10	274	–	274
A Warnock <sup>3</sup>	41	–	–	2	43	–	43
<b>Non-executive</b>							
G Bullard	80	–	–	–	80	–	80
Dr P Bordui	44	–	–	–	44	–	44
B Phillipson	44	–	–	–	44	–	44
L Evans <sup>4</sup>	18	–	–	–	18	–	18
D Bauernfeind <sup>5</sup>	14	–	–	–	14	–	14
	850	–	19	12	881	–	881

The above disclosure has been audited.

**1** Jim Haynes was appointed on 12 February 2021

**2** Peter Bordui retired on 24 February 2021

**3** Alex Warnock resigned on 11 November 2019

**4** Louise Evans was appointed on 11 May 2020

**5** David Bauernfeind deceased on 26 December 2019

## REMUNERATION

Executive Directors are paid a basic salary together with annual bonus payments based on the achievement of Group profitability, cash and personal operational 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 further payments were made in FY2021 or FY2020.

## BENEFITS

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

## 2021 PERFORMANCE RELATED BONUSES

Bonuses in 2021 were based 60% on EPS, 20% on operating cash flow and 20% on personal strategic objectives. Details of the performance achieved against the EPS and cash flow targets are shown in the table below:

Financial targets	Performance required to trigger bonus payment	Performance required at maximum	% payable at maximum performance	Performance outcome	% bonus awarded
EPS target (adjusted diluted)	31.4p	38.4p	60%	40.5p	60%
Adjusted operating cash flow target	£20.2m	£22.2m	20%	£21.9m	19%

The EPS target for the year was exceeded by more than 10% reflecting a strong recovery in the Group's profitability during the year. This element of the bonus was therefore fully achieved. The adjusted operating cash flow target was exceeded, reflecting the strong results, but not by as much as 10% required to trigger full payment. This element of the bonus therefore paid out at 19% (out of a maximum of 20%).

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	Chris Jewell, CFO
<ul style="list-style-type: none"> <li>• Ensure health and safety of the company's employees and stakeholders remains the key priority for the Group during the pandemic.</li> <li>• Implementation of manufacturing footprint and outsourcing strategy.</li> <li>• Achieve inventory turn targets set by the Board.</li> <li>• Implement next stage of the financial and business systems project.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete the FY21 finance function organisational changes agreed with the Board.</li> <li>• Implement next stage of the financial and business systems project.</li> <li>• Implement a common suite of financial controls across the Group.</li> <li>• Complete the appointment of new tax advisors for the Group.</li> <li>• Achieve inventory turns targets set by the Board.</li> </ul>

The view of the Remuneration Committee is that excellent progress was made against the objectives set. Following due discussion at the October 2021 Remuneration Committee meeting, the Committee approved achievement levels of 17% and 18% out of the maximum 20% for this element of the bonus for Mark Webster and Chris Jewell respectively.



## DIRECTORS' PENSION ARRANGEMENTS

During FY2019, the rate of Company pension contributions for new executive directors was reduced from 10% to 6%. This brought the 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.

As referred to above, all Executive Directors will be entitled to a pension contribution of 6% of salary with effect from 1 October 2022, removing the one outstanding anomaly.

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 (2020: 1). Mark Webster is currently 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. The Chief Executive Officer's contract is subject to twelve months' notice and the Chief Financial Officer's contract is subject to six months' notice. The Chairman and non-executive Directors do not have contracts of service.

## MALUS AND CLAWBACK

Both the Long Term Incentive Plan and Annual Bonus scheme have malus and clawback clauses. These clauses permit the Remuneration Committee to reduce or cancel amounts due under these schemes at any time prior to payment or up to three years after payment if specific circumstances apply. These circumstances include the Director being dismissed for gross misconduct, the results of the Group being materially misstated, an error being identified in the performance conditions for the payments, or if the Remuneration Committee believe there to be circumstances giving rise to a reputational risk arising for the Company.

## LONG TERM INCENTIVE PLAN

There were no exercises under the Long Term Incentive Scheme by the Directors in either the year ended 30 September 2020 or 30 September 2021.

## DIRECTOR SHAREHOLDINGS

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

	Number of shares at 30 September 2021	% of salary As at 30 September 2021	Number of shares at 30 September 2020	% of salary As at 30 September 2020
<b>Executive Directors</b>				
Mark Webster	36,366	140%	36,366	113%
Chris Jewell	1,278	6%	1,278	5%
<b>Non-executive Directors</b>				
Gary Bullard	11,572	N/A	10,535	N/A
Brian Phillipson	1,954	N/A	1,954	N/A
Louise Evans	473	N/A	473	N/A
Jim Haynes	-	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.

### 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 Directors and 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 vesting shares in relation to all extant awards, 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.

	Date of grant	At 01.10.2020	Number of ordinary shares under option			At 30.09.2021	Expiry Date
			Awarded in year	Exercised in year	Lapsed		
<b>Executive</b>							
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
M Webster	07.01.2021	-	32,835	-	-	32,835	07.01.2025
M Webster	07.01.2021	-	21,890	-	-	21,890	07.01.2024
 C Jewell	 13.01.2020	 37,867	 -	 -	 -	 37,867	 13.01.2024
C Jewell	07.01.2021	-	22,839	-	-	22,839	07.01.2025
C Jewell	07.01.2021	-	18,686	-	-	18,686	07.01.2024

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.

### THE GOOCH & HOUSEGO PLC SAVE AS YOU EARN SCHEME

The Gooch & Housego PLC Save As You Earn Scheme was established in February 2021 and is open to all UK employees. The scheme allows participants to save up to a maximum of £100 per month over the three year vesting period. Participants commit to a fixed monthly savings amount at the start of the savings period and are granted options at a 10% discount to the market price of Gooch & Housego PLC shares on the date of commencement of the vesting period. During the year ended 30 September 2021, both Mark Webster and Chris Jewell signed up to the scheme and were granted 310 options.

	Date of grant	At 01.10.2020	Number of ordinary shares under option			At 30.09.2021	Expiry Date
			Awarded in year	Exercised in year	Lapsed		
<b>Executive</b>							
M Webster	26.03.2021	-	310	-	-	310	26.03.2025
 C Jewell	 26.03.2021	 -	 310	 -	 -	 310	 26.03.2025

The Group also established an all-US employee share scheme during the year, the Gooch & Housego PLC Employee Stock Purchase Plan. The Remuneration Committee reviewed the level of subscription to the two all-employee share schemes in the year.

During the year ended 30 September 2021, £735,000 (2020: £303,000) was charged to the income statement in respect of the IFRS 2 share based payments charge on all share option schemes and a debit of £25,000 (2020: credit £17,000) in respect of employer's national insurance contributions, based on a year end share price of £12.60 (2020: £10.00).

**Brian Phillipson**

**Chairman of the Remuneration Committee**

30 November 2021

# Independent Auditors' Report

to the members of Gooch & Housego PLC

## Report on the audit of the financial statements

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### 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 2021 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 accounting standards in conformity with the requirements 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 2021; 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 Financial Statements, which include a description of the significant accounting policies.

### BASIS FOR OPINION

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

### INDEPENDENCE

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

## OUR AUDIT APPROACH OVERVIEW

### Audit scope

- The UK audit team performed an audit of the complete financial information of three operating units in the USA (Gooch & Housego (Palo Alto) LLC, EM4 Inc and Gooch & Housego (Ohio) LLC) and four operating units in the UK (Integrated Technologies Limited, Gooch & Housego (Torquay) Limited, Gooch & Housego (UK) Limited and Kent Periscopes Limited) as well at 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.
- Specified procedures were also performed by the UK audit team on certain other balances and transactions within the remaining thirteen reporting units, along with analytical procedures on all of the remaining reporting units.
- Taken together, these eight reporting units (post consolidation entries) account for 82% of the Group's revenue.

### Key audit matters

- Goodwill impairment assessment (group).
- Impact of COVID-19 on the financial statements (group and company).

### Materiality

- Overall group materiality: £1,239,000 (2020: £533,000) based on 1% of total revenue.
- Overall company materiality: £300,000 (2020: £300,000) based on 0.5% of net assets.
- Performance materiality: £929,250 (group) and £225,000 (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.

### 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.

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), which was a key audit matter last year, is no longer included because of the level of estimation required in the these long-term contracts now being unlikely to result in a material impact within the Group. Otherwise, the key audit matters below are consistent with last year.



## Key Audit Matter

## How our audit addressed the key audit matter

## Goodwill impairment assessment (Group)

At 30 September 2021, the Consolidated Statement of Financial Position includes £36.7 million of goodwill (2020: £37.7 million). In accordance with International Accounting Standards, 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 testing included the following procedures:

- Held discussions with management to assess their judgements and estimates in relation to the impairment assessment at the year end;
- We have agreed the impairment model to the 3 year strategic plan and tested the mathematical accuracy of the model;
- We have assessed whether the forecast Revenues and EBITDA margins are reasonable by comparing them to historical trends and by considering the accuracy of management's historical forecasting;
- We have assessed forecasts against order book details and pipeline analysis from the 3 year strategic plans;
- We have held challenge meetings with Sales and Marketing teams to consider key assumptions in the 3 year plan in order to assess the reasonableness of the growth assumptions;
- We have considered plausible downside sensitivities to confirm that there is still appropriate headroom under different scenarios;
- We have also assessed the reasonableness of the assumed long-term growth rate in light of external forecasts for the markets in which the Group operates; and
- We have used our in-house valuation experts to consider the appropriateness of the discount rate used to wider market and sector comparatives.

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 the 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.

## Impact of COVID-19 on the financial statements (Group and Company)

In March 2020 the global pandemic became significant and is continuing to cause widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. 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, which consisted of the following audit procedures:

- Performed a risk assessment to consider the impact of the pandemic on the financial statements;
- Held discussions with management to understand, in qualitative and quantitative terms, the impact of COVID-19 on the Group's operations;
- Considered the impact COVID-19 has had on areas such as the impairment of goodwill (referred to above), recoverability of debtors, and going concern; in each case we performed certain additional procedures to validate explanations given and to explore potential estimation uncertainties where relevant and to explore any indicators of additional risk over recoverability; and
- Read management's disclosures in the Annual report and financial statements.

Based on the audit 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.

## 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 team performed an audit of the complete financial information of three operating units in the USA (Gooch & Housego (Palo Alto) LLC, EM4 Inc and Gooch & Housego (Ohio) LLC) and four operating units in the UK (Integrated Technologies Limited, Gooch & Housego (Torquay) Limited, Gooch & Housego (UK) Limited and Kent Periscopes 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.

Specified procedures were also performed by the UK audit team on certain other balances and transactions within the

remaining thirteen reporting units, along with analytical procedures on all of the remaining reporting units.

Taken together, these eight reporting units (post consolidation entries) account for 82% of the 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
<b>Overall materiality</b>	£1,239,000 (2020: £533,000).	£300,000 (2020: £300,000).
<b>How we determined it</b>	1% of total revenue.	0.5% of net assets.
<b>Rationale for benchmark applied</b>	Overall materiality in the current year has been based on 1% of the Group's forecasted revenue. This is a change from the previous year where the benchmark used was adjusted profit before tax. This change allows for a more consistent year on year benchmark figure moving forward, which is not impacted by the ongoing restructuring which has continued into FY21. We have also considered this change in relation to other similar sized AIM listed entities in similar industries, and performed a benchmarking assessment to ensure its appropriateness.	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 £225,000 and £700,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £929,250 for the group financial statements and £225,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £61,500 (group audit) (2020: £26,650) and £15,000 (company audit) (2020: £15,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of management's going concern assessment.
- Evaluation of the Group's forecast financial performance, liquidity and covenant compliance over the going concern period including an evaluation of the impact of COVID-19 on the financial outlook of the Group.
- Evaluation of stress testing performed by management in their downside scenario and consideration of whether the stresses applied are appropriate for assessing going concern.
- Validation of the terms of the current banking facilities.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## 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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and 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.

## CORPORATE GOVERNANCE STATEMENT

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the audit committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group's and the 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.



Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to those with a direct impact on the financial statements such as financial reporting regulations, taxation legislation and the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting unusual journal entries to increase revenue and profits or the manipulation of accounting estimates which could be subject to management bias. Audit procedures performed by the engagement team included:

- Confirmation and enquiry of management and those charged with governance over compliance with laws and regulations, including consideration of actual or potential litigation and claims
- Reading board minutes for evidence of breaches of regulations and reading any relevant correspondence
- Evaluation of management's controls designed to prevent and detect irregularities, in particular the whistleblowing policy and employee code of conduct
- Challenging assumptions and judgements made by management in their significant accounting estimates
- Identifying and testing journal entries, in particular journal entries posted with unexpected account combinations
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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](http://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 obtained 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  
Bristol  
30 November 2021

# Group Income Statement

For the year ended 30 September 2021

	Total	30 September 2021			30 September 2020		
		Underlying £'000	Non-underlying (Note 14) £'000	Total £'000	Underlying £'000	Non-underlying (Note 14) £'000	Total £'000
Revenue	7	124,074	–	124,074	122,095	–	122,095
Cost of revenue		(82,753)	–	(82,753)	(82,845)	–	(82,845)
Gross profit		41,321	–	41,321	39,250	–	39,250
Research and development		(8,147)	–	(8,147)	(7,924)	–	(7,924)
Sales and Marketing		(8,342)	–	(8,342)	(7,440)	–	(7,440)
Administration		(12,294)	(7,941)	(20,235)	(13,759)	(4,875)	(18,634)
Other income	9	804	–	804	1,082	–	1,082
Operating profit	7	13,342	(7,941)	5,401	11,209	(4,875)	6,334
Finance income	12	1	–	1	16	818	834
Finance costs	12	(722)	–	(722)	(1,473)	(303)	(1,776)
Profit before income tax expense		12,621	(7,941)	4,680	9,752	(4,360)	5,392
Income tax expense	13	(2,368)	1,092	(1,276)	(2,128)	518	(1,610)
Profit for the year		10,253	(6,849)	3,404	7,624	(3,842)	3,782
Basic earnings per share	16	41.0p	(27.4p)	13.6p	30.5p	(15.4p)	15.1p
Diluted earnings per share	16	40.5p	(27.0p)	13.5p	30.2p	(15.2p)	15.0p

# Group Statement of Comprehensive Income

For the year ended 30 September 2021

	Note	2021 £000	2020 £000
Profit for the year		3,404	3,782
Other comprehensive (expense)/income – items that may be reclassified subsequently to profit or loss			
(Losses)/gains on cash flow hedges	28	(468)	333
Currency translation differences	28	(1,621)	(2,105)
Other comprehensive expense for the year net of tax		(2,089)	(1,772)
Total comprehensive income for the year attributable to the shareholders of Gooch & Housego PLC		1,315	2,010

# Group Balance Sheet

For the year ended 30 September 2021

	Note	2021 £000	2020 £000
<b>Non-current assets</b>			
Property, plant and equipment	17	37,945	38,741
Right of use assets	18	5,230	6,742
Intangible assets	19	50,835	54,624
Deferred income tax assets	26	1,883	1,432
		95,893	101,539
<b>Current assets</b>			
Inventories	20	28,150	30,580
Trade and other receivables	21	28,310	26,298
Cash and cash equivalents	22	8,352	19,734
		64,812	76,612
<b>Current liabilities</b>			
Trade and other payables	23	(19,324)	(17,971)
Borrowings	24	(65)	(64)
Lease liabilities	24	(1,588)	(1,832)
Income tax liabilities		(481)	(1,120)
Deferred consideration		–	(3,250)
		(21,458)	(24,237)
<b>Net current assets</b>		43,354	52,375
<b>Non-current liabilities</b>			
Borrowings	24	(10,903)	(26,211)
Lease liabilities	24	(5,039)	(6,364)
Provision for other liabilities and charges	25	(1,447)	(1,692)
Deferred income tax liabilities	26	(7,582)	(6,294)
		(24,971)	(40,561)
<b>Net assets</b>		114,276	113,353
<b>Shareholders' equity</b>			
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	6,054	7,675
Hedging reserve	28	(135)	333
Retained earnings	28	80,087	77,075
<b>Total equity</b>		114,276	113,353

The financial statements for Gooch & Housego PLC, registered number 00526832, on pages 80 to 113 were approved by the Board of Directors on 30 November 2021 and signed on its behalf by:

Mark Webster  
Director

Chris Jewell  
Director

# Group Statement of Changes in Equity

For the year ended 30 September 2021

	Note	Called up share capital	Share premium account	Merger reserve	Retained earnings	Hedging reserve	Cumulative translation reserve	Total equity
		£000	£000	£000	£000	£000	£'000	£000
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)
Share based payments		-	-	-	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
At 1 October 2020		5,008	16,000	7,262	77,075	333	7,675	113,353
Profit for the financial year		-	-	-	3,404	-	-	3,404
Other comprehensive expense for the year		-	-	-	-	(468)	(1,621)	(2,089)
Total comprehensive income/(expense) for the year		-	-	-	3,404	(468)	(1,621)	1,315
Dividends	15	-	-	-	(1,127)	-	-	(1,127)
Share based payments		-	-	-	735	-	-	735
Total contributions by and distributions to owners of the parent recognised directly in equity		-	-	-	(392)	-	-	(392)
At 30 September 2021		5,008	16,000	7,262	80,087	(135)	6,054	114,276



# Group Cash Flow Statement

For the year ended 30 September 2021

	2021 £000	2020 £000
Cash flows from operating activities		
Cash generated from operations	16,822	21,561
Income tax paid	(575)	(1,119)
Net cash generated from operating activities	16,247	20,442
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(3,250)	(4,750)
Purchase of property, plant and equipment	(5,399)	(5,495)
Sale of property, plant and equipment	38	353
Purchase of intangible assets	(844)	(1,291)
Interest received	1	846
Interest paid	(505)	(1,399)
Legal dispute settlement	–	1,580
Net cash used in investing activities	(9,959)	(10,156)
Cash flows from financing activities		
Drawdown of borrowings	–	8,346
Repayment of borrowings	(14,093)	(12,610)
Principal elements of lease payments	(2,047)	(1,583)
Dividends paid to ordinary shareholders	(1,127)	(1,803)
Net cash used by financing activities	(17,267)	(7,650)
Net (decrease)/increase in cash	(10,979)	2,636
Cash at beginning of the year	19,734	17,512
Exchange losses on cash	(403)	(414)
Cash at the end of the year	8,352	19,734

# Notes to the Group Cash Flow Statement

## For the year ended 30 September 2021

### Reconciliation of cash generated from operations

	2021 £000	2020 £000
Profit before income tax	4,680	5,392
Adjustments for:		
- Amortisation of acquired intangible assets	2,081	2,676
- Amortisation of other intangible assets	1,275	984
- Loss/(profit) on disposal of property, plant and equipment	95	(27)
- Depreciation	7,030	6,901
- Share based payment charge	735	303
- Amounts claimed under the RDEC	(280)	(315)
- Finance income	(1)	(834)
- Finance costs	722	1,776
<b>Total</b>	<b>11,657</b>	<b>11,464</b>
Changes in working capital		
- Inventories	1,888	2,042
- Trade and other receivables	(2,655)	6,812
- Trade and other payables	1,252	(4,149)
<b>Total</b>	<b>485</b>	<b>4,705</b>
<b>Cash generated from operating activities</b>	<b>16,822</b>	<b>21,561</b>

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

	2021 £000	2020 £000
(Decrease)/increase in cash in the year	(10,979)	2,636
Drawdown of borrowings	-	(8,346)
Repayment of borrowings	16,140	14,193
Changes in net cash resulting from cash flows	5,161	8,483
Adoption of IFRS16 Leases	-	(9,429)
New leases	(510)	(766)
Translation differences	1,236	1,165
Non cash movements	(393)	97
Movement in net debt in the year	5,494	(450)
Net debt at 1 October	(14,737)	(14,287)
Net debt at 30 September	(9,243)	(14,737)

# Notes to the Group Cash Flow Statement continued

For the year ended 30 September 2021

## Analysis of net debt

	At 1 Oct 2020	Cash flow	New leases	Exchange movement	Non-cash movement	At 30 Sep 2021
	£000	£000	£'000	£000	£'000	£000
Cash at bank and in hand	19,734	(10,979)	-	(403)	-	8,352
Debt due within 1 year	(64)	14,093	-	-	(14,094)	(65)
Debt due after 1 year	(26,211)	-	-	1,284	14,024	(10,903)
Leases	(8,196)	2,047	(510)	355	(323)	(6,627)
Net debt	(14,737)	5,161	(510)	1,236	(393)	(9,243)

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 2021

## 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 128.

The consolidated financial statements of the Group for the year ended 30 September 2021 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 121.

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 accounting standards in conformity with the requirements of the Companies Act 2006 (‘IFRS’) and the applicable legal requirements of the Companies Act 2006.

The financial statements have been prepared on a going concern basis. The Directors have reviewed the budget for FY2022 and the projections for FY2023 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 33.

At 30 September 2021 the Group has a strong balance sheet with net current assets of £43.4m. The Group’s cash and undrawn available facilities totalled £34.5m.

The Directors have reviewed severe but plausible scenarios that estimate the potential impact of the principal risks that the Group faces (see pages 46 to 49 of this report) on the financial forecasts. These include the impact of a possible recession and/or further waves of the 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. They also included the effect of erosion of sales prices due to competition, the potential impact of a cyber-attack and a reduction in forecast revenue to

illustrate the potential effect of a loss of key personnel or inability to hire for a key role. This assessment covered not only the coming 12 month period but also for the period to September 2024 in order to support the Viability Statement given on page 60.

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.

## 3. APPLICATION OF IFRS

### Adoption of new standards

The following amended standards and interpretations were effective for the financial year ended 30 September 2021, however, they have not had a material impact on our consolidated financial statements:

- Definition of Material (Amendments to IAS 1 and IAS 8), effective from 1 January 2020;
- Definition of a Business (Amendments to IFRS 3), effective from 1 January 2020;
- Interest Rate Benchmark Reform (Phase 1) (Amendments to IFRS 9, IAS 39 and IFRS 7), effective from 1 January 2020;
- Amendments to References to the Conceptual Framework in IFRS Standards, effective 1 January 2020; and
- Covid-19 – Related Rent Concession (Amendment to IFRS 16), effective from 1 June 2020 and endorsed by the EU on 9 October 2020.

The following other amended standards and interpretations have been issued but were not mandatory for the financial year ended 30 September 2021. These are not expected to have a material impact on the consolidated financial statements.

- Interest Rate Benchmark Reform (Phase 2) (Amendments to IFRS 9, IAS 39 IFRS 7 IFRS 4 and IFRS 16), effective from 1 January 2021 (endorsed by the UK).

#### 4. ACCOUNTING POLICIES

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

##### Consolidation

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

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

Where deferred consideration is payable in cash, the amount is discounted to present value at the date of acquisition, using the Group's weighted average cost of capital. The financing charge 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 (05890426), Gooch & Housego (Torquay) Limited (04381203), Spanoptic Limited (SC192283), Kent Periscopes Limited (05417618), G&H US Holdings Limited (06382710), G&H Property Holdings Limited (04649035),

Integrated Technologies Limited (01300238), Integrated Technologies (Holdings) Limited (02635933), VITL Limited (08473871) and ORF Limited (01873862) 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.

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.

#### 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 FY2021 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 which are all accounted for as equity-settled 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 and the Gooch & Housego Employee Stock Purchase Plan are determined by using the Monte Carlo option pricing model. The fair value of options under the Gooch & Housego Save As You Earn Scheme are determined by using the Black-Scholes 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. These may include, but are not restricted to: restructuring costs, adjustments to the fair value of acquisition related items such as contingent consideration, acquired intangible asset amortisation and other items due to their significance, size or nature, and the related taxation.

### 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 the costs are included in the related lease liability.

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.

#### 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.

## 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 2021, 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 2021, the Company had contracts to sell \$5.5m in the period to 30 September 2022. The fair value of these contracts, of negative £0.1m, has been included within payables on the balance sheet (2020: contracts to sell \$7m in the period to 30 September 2021 with a fair value of £0.3m).

#### 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 2020, with all other variables constant, post tax profits for the year would have been £84,000 higher (2020: £105,000 higher) 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 £4,617,000 lower (2020: £3,751,000 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 £5,643,000 higher (2020: £4,584,000 higher).

##### b. Cash flow interest rate risk

The Group has cash balances of £8.4m, a proportion of 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 the Group's bank borrowings would have resulted in an annualised increase in interest expense of £182,000 (2020: £337,000).

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. During 2020 and 2021, 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.

The Group is exposed to concentration of credit risk. The Group's top ten customers in 2021 accounted for 29% of the Group's revenue (2020: 29%). 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 (£37.1m) of which \$14.8m (£11.0m) is drawn and an uncommitted flexible acquisition facility of \$20m (£14.8m) 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 appropriate 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 20.6% of the gross inventory value (2020: 19.1%). The Directors are satisfied that this provision is appropriate. An increase in the provision amounting to 2% of the gross inventory value would increase the provision by £0.8m.

**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.

## 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.

	Aerospace & Defence	Life Sciences/ Bio-photonics	Industrial	Corporate	Total
For year ended 30 September 2021	£000	£000	£000	£000	£000
<b>Revenue</b>					
Total revenue	43,619	30,546	59,598	-	133,763
Inter and intra-division	(2,530)	(3,113)	(4,046)	-	(9,689)
<b>External revenue</b>	41,089	27,433	55,552	-	124,074
Divisional expenses	(37,656)	(22,367)	(48,180)	(84)	(108,287)
<b>EBITDA<sup>1</sup></b>	3,433	5,066	7,372	(84)	15,787
EBITDA %	8.4%	18.5%	13.3%	-	12.7%
Depreciation and amortisation	(2,877)	(1,561)	(2,856)	(1,011)	(8,305)
<b>Operating profit before amortisation of acquired intangible assets</b>	556	3,505	4,516	(1,095)	7,482
Amortisation of acquired intangible assets	-	-	-	(2,081)	(2,081)
<b>Operating profit</b>	556	3,505	4,516	(3,176)	5,401
Operating profit margin %	1.4%	12.8%	8.1%	-	4.4%
Add back non-underlying items and amortisation of acquired intangibles	2,581	738	2,541	2,081	7,941
<b>Adjusted operating profit</b>	3,137	4,243	7,057	(1,095)	13,342
<b>Adjusted profit margin %</b>	7.6%	15.5%	12.7%	-	10.8%
Finance costs	(144)	(36)	(152)	(389)	(721)
<b>Profit before income tax expense</b>	412	3,469	4,364	(3,565)	4,680

	Aerospace & Defence	Life Sciences/ Bio-photonics	Industrial	Corporate	Total
For year ended 30 September 2020	£000	£000	£000	£000	£000
<b>Revenue</b>					
Total revenue	41,390	27,578	60,280	-	129,248
Inter and intra-division	-	(1,684)	(5,469)	-	(7,153)
<b>External revenue</b>	41,390	25,894	54,811	-	122,095
Divisional expenses	(37,295)	(20,543)	(48,004)	642	(105,200)
<b>EBITDA<sup>1</sup></b>	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)
<b>Operating profit before amortisation of acquired intangible assets</b>	1,541	4,387	3,171	(89)	9,010
Amortisation of acquired intangible assets	-	-	-	(2,676)	(2,676)
<b>Operating profit</b>	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
<b>Adjusted operating profit</b>	2,799	4,650	4,106	(346)	11,209
<b>Adjusted profit margin %</b>	6.8%	18.0%	7.5%	-	9.2%
Finance costs	(128)	(32)	(189)	(593)	(942)
<b>Profit before income tax expense</b>	1,413	4,355	2,982	(3,358)	5,392

<sup>1</sup>EBITDA = Earnings before interest, tax, depreciation and amortisation

## 7. SEGMENTAL ANALYSIS (CONTINUED)

Management have added back the amortisation of acquired intangibles, restructuring costs, site closure costs and amounts received in respect of litigation associated with a property lease 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:

	2021 £000	2020 £000
Revenue from long term contracts	4,322	5,512
Revenue from sale of products	119,752	116,583
<b>Total revenue</b>	<b>124,074</b>	<b>122,095</b>

### Analysis of net assets by location:

	2021 Assets £000	2021 Liabilities £000	2021 Net Assets £000	2020 Assets £000	2020 Liabilities £000	2020 Net Assets £000
United Kingdom	85,163	(28,240)	56,923	89,807	(41,676)	48,131
USA	73,858	(18,006)	55,852	86,824	(22,999)	63,825
Continental Europe	660	(64)	596	738	(52)	686
Asia Pacific	1,024	(119)	905	782	(71)	711
	<b>160,705</b>	<b>(46,429)</b>	<b>114,276</b>	<b>178,151</b>	<b>(64,798)</b>	<b>113,353</b>

For the year to 30 September 2021 non-current asset additions were £4.3m (2020: £5.1m) for the UK and for the USA £2.5m (2020: £3.1m). There were no additions to non-current assets in respect of Europe (2020: £nil) or the Asia Pacific region (2020: £nil). The value of non-current assets in the USA was £48.1m (2020: £44.7m) and in the United Kingdom £47.8m (2020: £39.3m). There were no non-current assets in Europe or the Asia-Pacific region.

### Analysis of revenue by destination:

	2021 £000	2020 £000
United Kingdom	31,339	33,994
North America	45,915	45,554
Continental Europe	23,383	24,101
Asia Pacific and Other	23,437	18,446
<b>Total revenue</b>	<b>124,074</b>	<b>122,095</b>

## 8. EXPENSES BY NATURE

	Note	2021 £000	2020 £000
Raw materials and consumables		47,846	47,387
Changes in inventory		2,736	2,042
Employee costs	10	50,399	52,885
Other operating charges		8,529	3,472
Depreciation on property, plant and equipment		5,298	5,253
Depreciation on right of use assets		1,732	1,648
Amortisation of acquired intangible assets		2,081	2,676
Amortisation of other intangible assets		1,275	984
Net (gains)/losses on foreign exchange		(419)	496
Other income	9	(804)	(1,082)
		<b>118,673</b>	<b>115,761</b>

## 9. OTHER INCOME

	2021 £000	2020 £000
Grants receivable	420	561
Amounts claimed under the RDEC	280	315
Other income	104	206
	804	1,082

Other income relates to sales of certain materials used in production which need to be reprocessed periodically.

## 10. EMPLOYEE BENEFIT EXPENSE

	2021 £000	2020 £000
Wages and salaries	40,934	42,912
Social security costs	3,473	3,725
Share based payment charge	735	303
Medical and other insurance	3,063	3,328
Pension costs	2,194	2,617
	50,399	52,885

The monthly average number of employees during the year was:

	2021 Number	2020 Number
Manufacturing	632	668
Sales, finance and administration	276	279
	908	947

### Key management compensation

	2021 £000	2020 £000
Salaries and other short-term benefits	5,445	5,408
Share based payments	707	303
Other pension costs	249	331
	6,401	6,042

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

Directors' remuneration, including the highest paid Director, has been included on page 69 of the Remuneration Committee Report. These disclosures have been audited.

## 11. AUDITORS' REMUNERATION

PwC's remuneration comprised:

	2021 £000	2020 £000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	50	48
Fees payable to the Company's auditors and its associates for other services:		
- audit of the Company's subsidiaries pursuant to legislation	156	137
- taxation compliance services	111	131
- taxation advisory services	91	5
	408	321



## 12. FINANCE INCOME AND COSTS

	2021 £000	2020 £000
Finance income comprises:		
- Settlement of legal dispute	-	818
- Bank interest	1	16
	1	834
Finance costs comprise:		
- Bank interest	(430)	(1,114)
- Lease interest	(292)	(359)
- Interest on discounted deferred consideration	-	(303)
	(722)	(1,776)

## 13. INCOME TAX EXPENSE

### Analysis of tax charge in the year

	2021 £000	2020 £000
Current taxation		
UK Corporation tax	722	1,089
Overseas tax	292	631
Adjustments in respect of prior years	(807)	(199)
Total current tax	207	1,521
Deferred tax		
Origination and reversal of temporary differences	1	(255)
Adjustments in respect of prior years	549	199
Change to UK tax rate	519	145
Total deferred tax	1,069	89
Income tax expense per income statement	1,276	1,610

The taxation expense for the year is higher (2020: higher) than the standard rate of corporation tax in the UK. An explanation of the differences is detailed below:

	2021 £000	2020 £000
Profit before income tax expense	4,680	5,392
Profit at the effective standard rate of tax of 19.0% for the year (2020: 19.0%)	889	1,024
Utilisation of losses	-	(194)
Permanent differences	140	369
Adjustments in respect of foreign tax rates	46	331
Effect of UK rate change on deferred tax balances	519	145
Other timing differences	(60)	(65)
Adjustments in respect of prior years	(258)	-
Total tax expense	1,276	1,610

### Factors affecting the future tax charge

Overseas tax losses of £9.2m (2020: £9.6m) and UK tax losses of £0.8m (2020: £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.

During the year, an increase of the current UK tax rate of 19%, to 25% applying to profits over £250,000 was announced in the UK Budget 2021, and this change will be effective from 1 April 2023. Following these changes, UK deferred tax balances in the closing position that are expected to unwind after 1 April 2023 have been measured at 25%, resulting in a £0.5m charge to the group income statement.

## 14. NON-UNDERLYING ITEMS

	2021 £000	2020 £000
Included within administration expenses		
Amortisation of acquired intangible assets	2,081	2,676
Restructuring costs	5,860	2,609
Property litigation settlement	-	(410)
	7,941	4,875
Included within net finance costs		
Interest awarded in property litigation settlement	-	(818)
Unwind of discount on deferred consideration	-	303
	-	(515)
Included within taxation		
Tax effect of the non-underlying items above	(1,611)	(518)
Restatement of UK deferred tax balances at 25%	519	-
	(1,092)	(518)

The restructuring costs incurred in the year related to the streamlining of our manufacturing operations and consequent closure of our Baltimore, Glenrothes and St Asaph facilities. We are also outsourcing the production of our commodity AO products to a contract manufacturer in Thailand. The costs incurred in the period largely comprised staff costs, severance costs, travel costs and asset write downs at the sites being closed.

The UK deferred tax balances on timing differences expected to reverse after 1 April 2023 have been restated at 25%. This gave rise to a non-underlying income statement charge of £0.5m.

Restructuring costs incurred in the year ended 30 September 2020 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.

In March 2020 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.

## 15. DIVIDENDS

	2021 £000	2020 £000
Final 2020 dividend: nil (Final 2019 dividend paid in 2020: 7.2p per share)	-	1,803
2021 Interim dividend of 4.5p (2020: nil)	1,127	-
	1,127	1,803

The Directors have proposed a final dividend of 7.7p per share making the total dividend paid and proposed in respect of the 2021 financial year 12.2p. (2020: nil).

## 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:

	2021	2020
Number of shares used for basic earnings per share	25,040,919	25,039,519
Dilutive shares	239,603	174,664
Number of shares used for dilutive earnings per share	25,280,522	25,214,183

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

	2021		2020	
	£000	pence per share	£000	pence per share
Basic earnings per share	3,404	13.6p	3,782	15.1p
Amortisation of acquired intangible assets (net of tax)	1,621	6.5p	2,279	9.1p
Restructuring costs (net of tax)	4,709	18.8p	2,218	8.9p
Interest on deferred consideration	-	-	303	1.2p
Property litigation settlement (net of tax)	-	-	(958)	(3.8p)
Restatement of UK deferred tax	519	2.1p	-	-
Total adjustments net of income tax expense	6,849	27.4p	3,842	15.4p
Adjusted basic earnings per share	10,253	41.0p	7,624	30.5p
Basic diluted earnings per share	3,404	13.5p	3,782	15.0p
Adjusted diluted earnings per share	10,253	40.5p	7,624	30.2p

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.

## 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
<b>Cost or valuation</b>							
At 1 October 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)
<b>At 30 September 2020</b>	<b>1,455</b>	<b>9,239</b>	<b>18,204</b>	<b>42,920</b>	<b>3,960</b>	<b>71</b>	<b>75,849</b>
Additions	538	-	1,202	3,248	411	24	5,423
Disposals	-	-	(65)	(2,089)	(287)	-	(2,441)
Reclassification	(766)	-	20	722	24	-	-
Exchange rate differences	(118)	(3)	(653)	(611)	(22)	(12)	(1,419)
<b>At 30 September 2021</b>	<b>1,109</b>	<b>9,236</b>	<b>18,708</b>	<b>44,190</b>	<b>4,086</b>	<b>83</b>	<b>77,412</b>
<b>Accumulated depreciation</b>							
At 1 October 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)
<b>At 30 September 2020</b>	<b>-</b>	<b>2,015</b>	<b>5,581</b>	<b>26,550</b>	<b>2,930</b>	<b>32</b>	<b>37,108</b>
Charge for the year	-	385	1,087	3,362	454	10	5,298
Disposals	-	-	(50)	(2,030)	(264)	-	(2,344)
Exchange rate differences	-	-	(186)	(375)	(33)	(1)	(595)
<b>At 30 September 2021</b>	<b>-</b>	<b>2,400</b>	<b>6,432</b>	<b>27,507</b>	<b>3,087</b>	<b>41</b>	<b>39,467</b>
<b>Net book value</b>							
At 1 October 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 2021	1,109	6,836	12,276	16,683	999	42	37,945

No interest was capitalised in the year (2020: £Nil).

## 18. RIGHT OF USE ASSETS

	Fixtures and fittings £000	Motor Vehicles £000	Land and Buildings £000	Plant and machinery £000	Total £000
<b>Cost</b>					
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)
<b>At 30 September 2020</b>	<b>33</b>	<b>45</b>	<b>8,213</b>	<b>80</b>	<b>8,371</b>
Additions	–	–	481	–	481
Adjustments	–	–	21	–	21
Exchange rate differences	(1)	–	(312)	(3)	(316)
<b>At 30 September 2021</b>	<b>32</b>	<b>45</b>	<b>8,403</b>	<b>77</b>	<b>8,557</b>
<b>Accumulated depreciation</b>					
On transition to IFRS16 – At 1 October 2019	–	–	–	–	–
Charge for the year	10	18	1,591	29	1,648
Exchange rate differences	–	–	(19)	–	(19)
<b>At 30 September 2020</b>	<b>10</b>	<b>18</b>	<b>1,572</b>	<b>29</b>	<b>1,629</b>
Charge for the year	9	18	1,679	26	1,732
Exchange rate differences	–	–	(33)	(1)	(34)
<b>At 30 September 2021</b>	<b>19</b>	<b>36</b>	<b>3,218</b>	<b>54</b>	<b>3,327</b>
<b>Net book value</b>					
At 1 October 2019	–	–	–	–	–
At 30 September 2020	23	27	6,641	51	6,742
At 30 September 2021	13	9	5,185	23	5,230

The adjustment to land and buildings right of use assets in FY2020 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	Acquired customer relationships and order books	Acquired brands	Capitalised R&D, Patents and licences	Software and other intangibles	Total
	£000	£000	£000	£000	£000	£000
<b>Cost</b>						
At 1 October 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)
<b>At 30 September 2020</b>	<b>53,594</b>	<b>30,645</b>	<b>4,187</b>	<b>4,975</b>	<b>4,146</b>	<b>97,547</b>
Additions	-	-	-	434	411	845
Disposals	-	-	-	(139)	(423)	(562)
Transfers	-	-	-	(18)	18	-
Exchange rate differences	(1,278)	(443)	(59)	37	12	(1,731)
<b>At 30 September 2021</b>	<b>52,316</b>	<b>30,202</b>	<b>4,128</b>	<b>5,289</b>	<b>4,164</b>	<b>96,099</b>
<b>Accumulated amortisation and impairment</b>						
At 1 October 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)
<b>At 30 September 2020</b>	<b>15,853</b>	<b>21,027</b>	<b>1,424</b>	<b>2,526</b>	<b>2,093</b>	<b>42,923</b>
Charge for the year	-	1,662	419	729	546	3,356
Disposals	-	-	-	(110)	(419)	(529)
Exchange rate differences	(255)	(203)	(19)	(5)	(4)	(486)
<b>At 30 September 2021</b>	<b>15,598</b>	<b>22,486</b>	<b>1,824</b>	<b>3,140</b>	<b>2,216</b>	<b>45,264</b>
<b>Net book value</b>						
At 1 October 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
At 30 September 2021	36,718	7,716	2,304	2,149	1,948	50,835

Goodwill is allocated to the manufacturing centres as follows: Acousto-Optics £3.0m, Precision Optics & Systems £14.6m and Fibre-Optics £8.9m. The goodwill relating to the Ashford site, which continues to constitute a separate CGU is £10.2m.

## 19. INTANGIBLE ASSETS (CONTINUED)

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 cash flow projections based on the latest strategic plan projections approved by the Board. The near term strategic plan is supported by detailed customer and product analysis. In the medium term forecast sales growth rates are based on past experience adjusted for the strategic direction and near-term investment priorities within each CGU. The key assumptions include growth rates in the key markets and customer demand for product lines validated by reference to third party market growth projections. Cash flow forecasts are determined based on historic experience of operating margins, adjusted for the impact of changes in product mix and delivered cost-saving initiatives. The projections do not include the benefits of any future planned restructuring or product outsourcing activity. For the purposes of the impairment review, the following key assumptions were made:

Cash Generating Unit	Average annual growth in revenue from FY2021 to FY2024	Average annual growth in revenue from FY2024 to FY2036	Growth into perpetuity	Pre Tax Discount Rate
Acousto-Optics	7.6%	3.0%	2.0%	11.8%
Precision Optics and Systems	7.1%	3.0%	2.0%	11.8%
Fibre Optics	6.7%	3.0%	2.0%	11.8%
Ashford (ITL)	2.7%	3.0%	2.0%	11.8%

The headroom on the value in use calculations is summarised for each of the cash generating units below:

Cash Generating Unit	Headroom
Acousto-Optics	£58.5m
Precision Optics and Systems	£6.2m
Fibre Optics	£5.7m
Ashford (ITL)	£10.8m

Headroom for our Precision Optics and Systems (PO&S) and Fibre Optics (FO) CGUs stand at £6.2m and £5.7m respectively. Whilst there are risks that projected revenue growth rates will not be achieved, including in the near term from supply chain and labour shortages, management believe that there are good upside opportunities for the PO&S CGU from the significant recent investments that have been made in the Ilminster Precision Optics centre of excellence which have provided that business with new capabilities that will be attractive to existing and new customers. In the FO CGU there are significant upside opportunities from the sensing and telecoms markets which are not fully recognised in the strategic plan.

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 effects of which are summarised below:

Cash Generating Unit	Effect on value in use of an increase of 1% in the discount rate	Effect of a 1% reduction in growth per annum from FY2021 to FY2024	Effect on value in use of a reduction in growth per annum from FY2024 to FY2036	Effect on value in use of an increase of 1% in growth into perpetuity
Acousto-Optics	(£10.9m)	(£4.6m)	(£4.3m)	(£4.4m)
Precision Optics and Systems	(£7.0m)	(£4.1m)	(£2.0m)	(£2.9m)
Fibre Optics	(£4.3m)	(£3.0m)	(£1.8m)	(£1.7m)
Ashford (ITL)	(£3.8m)	(£2.4m)	(£2.3m)	(£1.5m)

The Board noted that an impairment of £0.8m would arise if the discount rate were to be increased by 1% on the Precision Optics cash generating unit. However, the Board is comfortable that the pre-tax discount rate that has been used is appropriate. None of the other sensitivities give rise to an impairment, and therefore the directors are satisfied that the carrying values are supported.

## 20. INVENTORIES

	2021 £000	2020 £000
Raw materials	12,191	13,350
Work in progress	12,576	11,810
Finished goods	3,383	5,420
	28,150	30,580

The cost of inventories recognised as an expense and included in cost of revenue amounted to £50.6m (2020: £49.4m).

The movement in the inventories provision is as follows:

	2021 £000	2020 £000
At 1 October	7,226	6,236
Increase in provision	198	1,132
Exchange rate movement	(126)	(142)
At 30 September	7,298	7,226

## 21. TRADE AND OTHER RECEIVABLES

	2021 £000	2020 £000
Trade receivables	24,922	23,106
Other receivables	813	801
Contract assets	1,618	938
Derivative financial instruments	-	333
Grant funding held in trust account	-	87
Prepayments	957	1,033
	28,310	26,298

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

	2021 £000	2020 £000
Pound Sterling	9,234	9,257
US Dollar	15,653	15,525
Euro	3,208	1,355
Other	215	161
	28,310	26,298

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

	2021 £000	2020 £000
Current	18,567	17,240
1 to 3 months	6,921	6,059
Over 3 months	1,515	1,135
	27,003	24,434
Less provision for impairment	(463)	(390)
Net trade receivables and contract assets	26,540	24,044

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

## 21. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2021 £000	2020 £000
At 1 October	390	472
Release of provision	(15)	(99)
Increase in provision	90	22
Exchange rate movement	(2)	(5)
At 30 September	463	390

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

	2021 £000	2020 £000
Cash at bank and on hand	8,352	19,734

## 23. TRADE AND OTHER PAYABLES

	2021 £000	2020 £000
Trade payables	5,306	5,476
Contract liabilities	249	121
Other taxation and social security	521	1,242
Derivative financial instruments	135	–
Grant funding held in trust account	–	420
Accruals	13,113	10,712
	19,324	17,971

## 24. BORROWINGS AND LEASE LIABILITIES

	2021 £000	2020 £000
<b>Current:</b>		
Bank borrowings	65	64
Leases	1,588	1,832
	1,653	1,896
<b>Non-current:</b>		
Bank borrowings	10,903	26,211
Leases	5,039	6,364
	15,942	32,575
<b>Total borrowings and lease liabilities</b>	<b>17,595</b>	<b>34,471</b>

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

G&H's primary lending bank is NatWest Bank. The Group's facilities comprise a \$50m (£37.1m) dollar revolving credit facility and a \$20m (£14.8m) flexible acquisition facility. At 30 September 2021, the balance drawn on the revolving credit facility was \$14.8m (£11.0m) (2020: \$34m (£26.3m)) and on the flexible acquisition facility nil (2020: 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 borrowings

	2021 £000	2020 £000
Within one year	65	64
Between one and five years	10,903	26,211
	10,968	26,275

## Maturity profile of lease liabilities

	2021 £000	2020 £000
Within one year	1,819	2,118
Between two and five years	4,081	5,047
After five years	1,544	2,107
	7,444	9,272

Details of lease interest charges and right of use assets are given in notes 12 and 18 respectively.



## 25. PROVISION FOR OTHER LIABILITIES AND CHARGES

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

	2021 £000	2020 £000
At 1 October	1,692	1,243
Utilised during year	(257)	(72)
Increase in year	20	83
Reclassified from other creditors	-	444
Exchange movements	(8)	(6)
At 30 September	1,447	1,692

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:

	2021 £000	2020 £000
At 1 October	(4,862)	(4,870)
Charged to the income statement	(1,069)	(89)
Exchange movements	232	97
Net liability at 30 September	(5,699)	(4,862)

The current portion of the deferred tax liability is £0.3m (2020: £0.8m).

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

	2021 £000	2020 £000
<b>Deferred income tax assets</b>		
Intangible assets	281	139
IFRS16 Leases	392	406
Provisions	1,210	887
	1,883	1,432
<b>Deferred income tax liabilities</b>		
Property, plant and equipment	(4,999)	(4,151)
Intangible assets	(2,583)	(2,133)
Other timing differences	-	(10)
	(7,582)	(6,294)
Deferred tax balance at 30 September	(5,699)	(4,862)

The movement on the deferred tax balances by category is shown below:

	Intangible assets £000	IFRS16 leases £000	Provisions £000	Property, plant and equipment £000	Intangible assets £000	Other timing differences £000	Total £000
At 1 October 2020	139	406	887	(4,151)	(2,133)	(10)	(4,862)
Charged to income statement	157	-	348	(1,007)	(577)	10	(1,069)
Exchange movements	(15)	(14)	(25)	159	127	-	232
At 30 September 2021	281	392	1,210	(4,999)	(2,583)	-	(5,699)

## 26. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Overseas tax losses of £9.2m (2020: £9.6m) and UK tax losses of £0.8m (2020: £0.8m) are available to offset against future profits of the Group. The Group has not recognised a deferred income tax asset of £2.7m (2020: £2.2m) 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.

## 27. CALLED UP SHARE CAPITAL

	2021 Number	2020 Number	2021 £000	2020 £000
Issued and fully paid ordinary shares of 20p each				
At 1 October	25,040,919	25,039,072	5,008	5,008
Shares issued and fully paid	-	1,847	-	-
At 30 September	25,040,919	25,040,919	5,008	5,008

No shares were allotted under share option schemes during the year ended 30 September 2021 (2020: 1,847 shares).

## 28. RESERVES

	Share premium account £000	Merger reserve £000	Cumulative translation reserve £000	Hedging Reserve £000	Retained earnings £000
At 1 October 2020	16,000	7,262	7,675	333	77,075
Profit for the financial year	-	-	-	-	3,404
Dividends paid	-	-	-	-	(1,127)
Fair value of share options	-	-	-	-	735
Currency hedge fair value	-	-	-	(468)	-
Currency translation differences	-	-	(1,621)	-	-
At 30 September 2021	16,000	7,262	6,054	(135)	80,087

## 29. SHARE OPTIONS

The Company operates the Gooch & Housego 2013 Long Term Incentive Plan (the "2013 LTIP"), the Gooch & Housego Save As You Earn Scheme and the Gooch & Housego ESPP scheme.

A reconciliation of total share option movements across these three schemes is shown below:

	2021		2020	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	247,269	–	251,911	–
Awarded	215,904	2.19	133,159	–
Lapsed	(70,897)	0.12	(137,801)	–
Outstanding at 30 September	392,276	1.18	247,269	–
Exercisable at 30 September	–	–	–	–

The total charge for the year relating to share options was £735,000 (2020: £303,000), all of which related to equity-settled share based payment transactions.

### 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 nine 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 2021 are summarised below:

	7 Jan 2021	Grant date 13 Jan 2020	8 Jan 2019
No. of options granted	174,781	133,159	99,228
Expected volatility	46%	30%	30%
Risk free rate	0.76%	0.76%	0.76%
Fair value (£)	1,751,334	569,331	1,010,655

A reconciliation of LTIP option movements is shown below:

	2021		2020	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	247,269	–	251,911	–
Awarded	174,781	–	133,159	–
Exercised	–	–	–	–
Lapsed	(70,182)	–	(137,801)	–
Outstanding at 30 September	351,868	–	247,269	–
Exercisable at 30 September	–	–	–	–

The weighted average fair value of options granted in the year was 1004.0p per option (2020: 742.0p per option).

## 29. SHARE OPTIONS (CONTINUED)

### The Gooch & Housego PLC Save As You Earn Scheme

The Gooch & Housego PLC Save As You Earn Scheme was established in February 2021 and is open to all UK employees. Under the scheme, employees choose to save a fixed monthly amount from their net pay of between £5 and £100. At the start of the savings period, participants are awarded options at a discount of 10% to the market value at that date. At the end of the three year savings period, participants can either withdraw their savings or exercise their options to acquire shares at the option price. 31,749 options were granted under this scheme on 26 March 2021.

	2021		2020	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	-	-	-	-
Awarded	31,749	11.59	-	-
Lapsed	(465)	11.59	-	-
Outstanding at 30 September	31,284	11.59	-	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 359.0p per option.

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

	Exercise price per share option	Number of share options	
		2021	2020
G&H PLC Save As You Earn Scheme	£11.59	31,284	-

### The Gooch & Housego PLC Employee Stock Purchase Plan

The Gooch & Housego PLC Employee Stock Purchase Plan was established in February 2021 and is open to all US employees. Under the Plan, participants save a fixed monthly amount of between \$5 and \$135 over the two year savings period. At maturity of the savings period, employees are able to withdraw their savings, or exercise their options at a price equal to the lower of a 10% discount to the market price at the start of the savings plan and a 10% discount to the market price at the end of the savings plan. 9,374 options were issued under this plan on 26 March 2021.

	2021		2020	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	-	-	-	-
Awarded	9,374	11.14	-	-
Lapsed	(250)	11.14	-	-
Outstanding at 30 September	9,124	11.14	-	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 368.0p per option.

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

	Exercise price per share option	Number of share options	
		2021	2020
Employee Stock Purchase Plan	£11.14	9,124	-

### 30. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise bank borrowings, cash at bank, 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 leases. Other than 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	
	2021	2020	2021	2020
	£000	£000	£000	£000
Pound Sterling	3,945	9,675	342	515
US Dollars	3,315	8,720	17,388	33,956
Euro	811	1,466	-	-
Yen	281	206	-	-
	8,352	20,067	17,730	34,471

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, lease liabilities and derivative financial instruments. 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

	2021	2020
	£000	£000
Capital commitments - authorised and contracted but not provided for	1,049	256

All capital commitments relate to property, plant and equipment.

### 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

For the year ended 30 September 2021

		2021	2020
	Note	£000	£000
<b>Non-current assets</b>			
Investments	5	51,638	51,411
Property, plant and equipment	6	4,114	4,589
Intangible assets	7	1,476	1,842
Deferred income tax assets	9	377	205
		57,605	58,047
<b>Current assets</b>			
Other receivables	8	13,255	8,047
Cash and cash equivalents		885	1,986
		14,140	10,033
<b>Current liabilities</b>			
Trade and other payables	10	(3,572)	(5,722)
<b>Net current assets</b>		10,568	4,311
<b>Non-current liabilities</b>			
Deferred income tax liabilities	9	(172)	(204)
<b>Net assets</b>		68,001	62,154
<b>Shareholders' equity</b>			
Called up share capital	11	5,008	5,008
Share premium account		16,000	16,000
Merger reserve		4,591	4,591
Hedging reserve		(135)	333
Retained earnings			
At 1 October		36,222	24,670
Profit for the year		6,707	13,052
Other changes in retained earnings		(392)	(1,500)
		42,537	36,222
<b>Total equity</b>		68,001	62,154

The financial statements on pages 114 to 127, were approved by the Board of Directors on 30 November 2021 and signed on its behalf by:

Mark Webster  
Director

Chris Jewell  
Director



# Company Statement of Changes in Equity

For the year ended 30 September 2021

	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 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)
Share based payments		–	–	–	–	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
At 1 October 2020		5,008	16,000	4,591	333	36,222	62,154
Profit for the financial year		–	–	–	–	6,707	6,707
Total comprehensive income for the year		–	–	–	–	6,707	6,707
Dividends	4	–	–	–	–	(1,127)	(1,127)
Share based payments		–	–	–	–	735	735
Loss on cash flow hedge		–	–	–	(468)	–	(468)
Total contributions by and distributions to owners of the parent recognised directly in equity		–	–	–	(468)	(392)	(860)
At 30 September 2021		5,008	16,000	4,591	(135)	42,537	68,001

# Company Cash Flow Statement

For the year ended 30 September 2021

	2021 £000	2020 £000
<b>Cash flows from operating activities</b>		
Cash used in operations	(3,996)	(8,465)
Income tax paid	(1)	(85)
<b>Net cash used in operating activities</b>	<b>(3,997)</b>	<b>(8,550)</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries, net of cash acquired	(3,250)	(4,750)
Purchase of property, plant and equipment	(3)	(15)
Proceeds on disposal of property, plant and equipment	–	350
Purchase of intangible assets	(81)	–
Interest received	–	184
Dividends received from subsidiaries	7,357	13,454
<b>Net cash generated by investing activities</b>	<b>4,023</b>	<b>9,223</b>
<b>Cash flows from financing activities</b>		
Dividends paid to ordinary shareholders	(1,127)	(1,803)
<b>Net cash used by financing activities</b>	<b>(1,127)</b>	<b>(1,803)</b>
<b>Net decrease in cash</b>	<b>(1,101)</b>	<b>(1,130)</b>
Cash at beginning of the year	1,986	3,116
<b>Cash at the end of the year</b>	<b>885</b>	<b>1,986</b>

Dividends received from subsidiary companies have been classified within investing activities to reflect the nature of these payments.

# Notes to the Company Cash Flow Statement

For the year ended 30 September 2021

## Reconciliation of cash used by operations

	2021	2020
	£000	£000
Profit before income tax	6,348	12,881
Adjustments for:		
- Dividends received from subsidiaries	(7,357)	(13,454)
- Amortisation of intangible assets	447	336
- Depreciation	478	508
- Share based payment obligations	508	303
- Loss on disposal of property, plant and equipment	-	124
- Finance income	-	(184)
- Finance expense	-	303
Total	(5,924)	(12,064)
Changes in working capital		
- Trade and other receivables	(6,254)	94
- Trade and other payables	1,834	(9,376)
Total	(4,420)	(9,282)
Cash used in operating activities	(3,996)	(8,465)

## Analysis of net cash

	At 1 Oct 2020	Cash flow	At 30 Sep 2021
	£000	£000	£000
Cash at bank and in hand	1,986	(1,101)	885
Net cash	1,986	(1,101)	885

# Notes to the Company Financial Statements

For the year ended 30 September 2021

## 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 accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006. The financial statements have been prepared on a going concern basis.

The Directors have reviewed the budget for FY2022 and the projections for FY2023 developed as part of the annual strategic plan update. They have assessed the future funding requirements of the Company and compared them with available cash balances.

The Directors have considered the going concern review performed for the Group financial statements in assessing the status of the parent Company. Noting that work, and the strength of the Company balance sheet, the Directors are satisfied that the Company 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 Company financial statements.

The Directors do not believe there are any critical accounting estimates or judgements that affect the amounts reported in the Company financial statements.

### Adoption of new standards

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

The following amended standards and interpretations were effective for the financial year ended 30 September 2021, however, they have not had a material impact on our financial statements:

- Definition of Material (Amendments to IAS 1 and IAS 8), effective from 1 January 2020;
- Definition of a Business (Amendments to IFRS 3), effective from 1 January 2020;
- Interest Rate Benchmark Reform (Phase 1) (Amendments to IFRS 9, IAS 39 and IFRS 7), effective from 1 January 2020; and

- Amendments to References to the Conceptual Framework in IFRS Standards, effective 1 January 2020.

### New Standards and Interpretations not yet adopted

The following other amended standards and interpretations have been issued but were not mandatory for the financial year ended 30 September 2021. These are not expected to have a material impact on the financial statements.

- Interest Rate Benchmark Reform (Phase 2) (Amendments to IFRS 9, IAS 39 IFRS 7 IFRS 4 and IFRS 16), effective from 1 January 2021 (endorsed by the UK).

### 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 FY2021 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.

#### Property, plant and equipment

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

Freehold buildings	2-3%	Straight line
Plant and machinery	10-20%	Straight line
Fixtures, fittings and computers	10-33%	Straight line
Computer equipment	25-33%	Straight line

#### Intangible assets

Intangible assets include costs relating to computer systems development, computer software and other intangible assets. These costs are amortised over their useful economic lives as follows:

Computer software	5 years straight line
Systems	5 years straight line
Patents & Licences (other)	3 years straight line

#### Investments

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

#### Deferred tax

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

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

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

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

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

In the UK and US, the Company is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share options" 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 Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

#### Dividend distribution

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

#### 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.

#### Capital risk management

Details of the ways in which the Company manages capital risk are given in note 5 to the group financial statements.

## 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 £6,707,000 (2020: £13,052,000 profit).

Fees payable to the Company auditors for the statutory audit for the year amounted to £17,000 (2020: £16,000).

## 3. EMPLOYEE BENEFIT EXPENSE

	2021 £000	2020 £000
Wages and salaries	4,429	2,151
Social security costs	295	180
Medical and other insurances	44	37
Share based payments	508	303
Other pension costs	92	57
	5,368	2,728

The average number of employees during the year was 18 (2020: 12), all of whom were administrative.

#### Directors' remuneration

	2021 £000	2020 £000
Directors' remuneration	1,383	850
Medical and other insurances	22	19
Directors' pension scheme contributions	10	12
	1,415	881

The aggregate emoluments of the highest paid Director including gain on exercise of share options were £679,000 (2020: £364,000). Further information is included in the Remuneration Committee report on page 69.

The aggregate gain on Directors' share option exercises in the year was 12.2p (2020: nil).

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 1 (2020: 1).

## 4. DIVIDENDS

	2021 £000	2020 £000
Final 2020 dividend paid: nil per share. (Final 2019 dividend paid in 2020: 7.2p per share)	-	1,803
2021 Interim dividend paid: 4.5p per share (2020: nil)	1,127	-
	1,127	1,803

The Directors have proposed a final dividend of 7.7p for the financial year ended 30 September 2021, making the dividend for the full year 12.2p (2020: nil).

## 5. INVESTMENTS

	2021 £000	2020 £000
Cost and net book value at 1 October	51,411	51,411
Additions related to share based payments for subsidiary employees	227	-
Cost and net book value at 30 September	51,638	51,411



The subsidiary companies at 30 September 2021, 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%	Dowlsh Ford, Ilminster, Somerset, TA19 0PF	Manufacturer of acousto-optic products and precision optics
Gooch & Housego (Torquay) Limited*	100%	Dowlsh Ford, Ilminster, Somerset, TA19 0PF	Manufacturer of fibre-optic products
Spanoptic Limited*	100%	Telford Road, Glenrothes, KY7 4 NX	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
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%	Dowlsh Ford, Ilminster, Somerset, TA19 0PF	Property holding company
G&H (US Holdings) Limited*	100%	Dowlsh 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

## 6. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Computer equipment £000	Total £000
<b>Cost or valuation</b>					
At 1 October 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
Additions	–	–	–	3	3
At 30 September 2021	4,432	3,987	1,392	233	10,044
<b>Accumulated depreciation</b>					
At 1 October 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
Charge for the year	83	265	93	37	478
At 30 September 2021	1,094	3,381	1,262	193	5,930
<b>Net book value</b>					
At 1 October 2019	3,919	1,137	316	119	5,491
At 30 September 2020	3,421	871	223	74	4,589
At 30 September 2021	3,338	606	130	40	4,114

## 7. INTANGIBLE ASSETS

	Systems £000	Computer Software £000	Other £000	Total £000
<b>Cost or valuation</b>				
At 1 October 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
Additions	73	8	–	81
Disposals	–	(414)	–	(414)
At 30 September 2021	2,125	904	64	3,093
<b>Accumulated amortisation</b>				
At 1 October 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
Charge for the year	411	19	17	447
Disposals	–	(414)	–	(414)
At 30 September 2021	705	850	62	1,617
<b>Net book value</b>				
At 1 October 2019	1,472	85	41	1,598
At 30 September 2020	1,758	65	19	1,842
At 30 September 2021	1,420	54	2	1,476

## 8. OTHER RECEIVABLES

	2021 £000	2020 £000
Prepayments and accrued income	188	32
Derivative financial instruments	–	333
Intercompany receivables	13,067	7,682
	13,255	8,047

## 9. DEFERRED TAX

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

	2021 £000	2020 £000
At 1 October	1	153
Credited/(debited) to the income statement	204	(152)
At 30 September	205	1

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

	2021 £000	2020 £000
Property, plant and equipment	240	90
Intangible assets	(127)	(154)
Other timing differences	92	65
	205	1

All movements on deferred tax were recognised in the income statement in the year ended 30 September 2021 and 30 September 2020.

The current portion of the deferred tax asset is £0.1m (2020: £0.2m).

### Factors affecting the future tax charge

UK tax losses of £0.8m (2020: £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.

## 10. TRADE AND OTHER PAYABLES

	2021 £000	2020 £000
Trade payables	428	93
Amounts owed to group undertakings	371	1,269
Taxation and Social Security	326	320
Derivative financial instruments	135	–
Accruals and deferred income	2,312	790
Deferred consideration payable	–	3,250
	3,572	5,722

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

	2021 Number	2020 £000	2021 Number	2020 £000
Allotted, issued and fully paid				
At 1 October	25,040,919	25,039,072	5,008	5,008
Shares issued and fully paid	–	1,847	–	–
At 30 September	25,040,919	25,040,919	5,008	5,008

No shares were issued under share option schemes during the year ended 30 September 2021 (2020: 1,847 shares).

## 12. FINANCIAL INSTRUMENTS

The Company's financial instruments comprise cash at bank, financial derivatives 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 to the Group financial statements.

Operations are financed through a mixture of retained profits, cash reserves, group borrowings and 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	
	2021 £000	2020 £000	2021 £000	2020 £000
Pound Sterling	733	1,700	-	-
US Dollars	46	588	135	-
Euro	106	31	-	-
	885	2,319	135	-

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

At the year end, the Company had contracts to sell \$5.5m in the period to 30 September 2022 (2020: contracts to sell \$7m in the period to 30 September 2021). The fair value of these contracts, of negative £0.1m, has been included in payables on the balance sheet (2020: £0.3m asset).

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.

## 13. SHARE OPTIONS

The Company operates the Gooch & Housego 2013 Long Term Incentive Plan (the 2013 LTIP), the Gooch & Housego Save As You Earn Scheme and the Gooch & Housego ESPP scheme.

A reconciliation of total share option movements across these three schemes is shown below:

	2021		2020	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	247,269	-	251,911	-
Awarded	215,904	2.19	133,159	-
Lapsed	(70,897)	0.12	(137,801)	-
Outstanding at 30 September	392,276	1.18	247,269	-
Exercisable at 30 September	-	-	-	-

### 13. SHARE OPTIONS (CONTINUED)

The total charge for the year relating to share options was £508,000 (2020: £303,000), all of which related to equity-settled share based payment transactions.

#### 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 nine 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 2021 are summarised below:

	7 Jan 2021	Grant date 13 Jan 2020	8 Jan 2019
No. of options granted	174,781	133,159	99,228
Expected volatility	46%	30%	30%
Risk free rate	0.76%	0.76%	0.76%
Fair value (£)	1,751,334	569,331	1,010,655

A reconciliation of LTIP option movements is shown below:

	2021		2020	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	247,269	–	251,911	–
Awarded	174,781	–	133,159	–
Lapsed	(70,182)	–	(137,801)	–
Outstanding at 30 September	351,868	–	247,269	–
Exercisable at 30 September	–	–	–	–

The weighted average fair value of options granted in the year was 1004.0p per option (2020: 742.0p per option).

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

		Number of share options	
	Exercise price per share option	2021	2020
2013 LTIP	0.0p	351,868	247,269

### 13. SHARE OPTIONS (CONTINUED)

#### The Gooch & Housego PLC Save As You Earn Scheme

The Gooch & Housego PLC Save As You Earn Scheme was established in February 2021 and is open to all UK employees. Under the scheme, employees choose to save a fixed monthly amount from their net pay of between £5 and £100. At the start of the savings period, participants are awarded options at a discount of 10% to the market value at that date. At the end of the three year savings period, participants can either withdraw their savings or exercise their options to acquire shares at the option price. 31,749 options were granted under this scheme on 26 March 2021.

	2021		2020	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	-	-	-	-
Awarded	31,749	11.59	-	-
Lapsed	(465)	11.59	-	-
Outstanding at 30 September	31,284	11.59	-	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 359.0p per option.

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

	Exercise price per share option	Number of share options	
		2021	2020
G&H PLC Save As You Earn Scheme	£11.59	31,284	-

#### The Gooch & Housego PLC Employee Stock Purchase Plan

The Gooch & Housego PLC Employee Stock Purchase Plan was established in February 2021 and is open to all US employees. Under the Plan, participants save a fixed monthly amount of between \$5 and \$135 over the two year savings period. At maturity of the savings period, employees are able to withdraw their savings, or exercise their options at a price equal to the lower of a 10% discount to the market price at the start of the savings plan and a 10% discount to the market price at the end of the savings plan. 9,374 options were issued under this plan on 26 March 2021.

	2021		2020	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	-	-	-	-
Awarded	9,374	11.14	-	-
Lapsed	(250)	11.14	-	-
Outstanding at 30 September	9,124	11.14	-	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 368.0p per option.

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

	Exercise price per share option	Number of share options	
		2021	2020
Gooch & Housego Employee Stock Purchase Plan	£11.14	9,124	-



#### 14. RELATED PARTY DISCLOSURES

The company recharges certain costs to, and is recharged certain costs by, its subsidiary companies in the ordinary course of business. The closing balances due from and to the subsidiary companies are shown in notes 8 and 10 respectively.

The amounts recharged to Gooch & Housego PLC by group undertakings during the year ended 30 September were:

	2021 £000	2020 £000
EM4 Inc	25	–
Gooch & Housego (UK) Limited	26	–
Kent Periscopes Limited	14	–
Gooch & Housego (Torquay) Limited	79	34
Gooch & Housego (Deutschland) GmbH	293	361
Gooch & Housego Japan KK	286	350
	723	745

The amounts recharged by Gooch & Housego PLC to group undertakings during the year ended 30 September were:

	2021 £000	2020 £000
EM4 Inc	728	479
Gooch & Housego (Ohio) LLC	601	365
Spanoptic Limited	102	265
Gooch & Housego (UK) Limited	1,383	666
Gooch & Housego (Palo Alto) LLC	796	522
StingRay Optics LLC	361	265
Kent Periscopes Limited	363	236
Gooch & Housego (Torquay) Limited	1,119	782
Integrated Technologies Limited	525	–
	5,978	3,580

The amounts receivable from/(payable to) subsidiary undertakings as at 30 September were:

	2021 £000	2020 £000
EM4 Inc	(371)	(401)
G&H (US Holdings) Limited	6,199	1,548
Spanoptic Limited	–	1,501
Gooch & Housego (UK) Limited	5,855	4,001
Gooch & Housego (Palo Alto) LLC	(140)	(179)
StingRay Optics LLC	–	(1)
Kent Periscopes Limited	1,786	–
Gooch & Housego (Torquay) Limited	(1,318)	(5)
Gooch & Housego (Deutschland) GmbH	(135)	(71)
Gooch & Housego Japan KK	21	20
G&H Holdings (Delaware) Inc.	799	–
	12,696	6,413

During the year Gooch & Housego PLC received dividends of £1.5m and £5.9m respectively from Spanoptic Limited and Integrated Technologies Limited. In the prior year Gooch & Housego PLC received £1.3m from Integrated Technologies Limited, £9.1m from G&H (US Holdings) Limited, £0.7m from Gooch & Housego (UK) Limited, £1.2m from Gooch & Housego (Torquay) Limited, £0.7m from G&H (Property) Holdings Limited and £0.5m from Kent Periscopes Limited. The total dividend received from subsidiary undertakings during the year was £7.4m (2020: £13.5m).

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.

# Shareholder Information

## Company Information

### Nominated Adviser and Broker

Investec Bank plc  
2 Gresham Street  
London  
EC2V 7QP

### Independent Auditors

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

### Legal Advisers

Burges Salmon LLP  
One Glass Wharf  
Temple Quay  
Bristol  
BS2 0ZX

### 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

23 February 2022

Interim Results Announcement

June 2022

Financial Year End

30 September 2022

Preliminary announcement  
of results for the year  
ending 30 September 2022

December 2022

# Notice of Annual General Meeting

## Voting

You will not receive a form of proxy for the 2021 AGM in the post. Instead, you can vote online at [www.signalshares.com](http://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 Group 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 23 February 2022 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 2021 together with the Directors' Report and Auditors' Report thereon.
- 2 To receive and approve the Remuneration Committee Report set out on pages 65 to 72 (excluding page 67 and 68) of the Annual Report and Financial Statements for the financial year ended 30 September 2021.
- 3 To declare a final dividend, as recommended by the Directors, of 7.7p per ordinary share for the financial year ended 30 September 2021.
- 4 To re-elect Gary Bullard as a Director.
- 5 To re-elect Mark Webster as a Director.
- 6 To re-elect Chris Jewell as a Director.
- 7 To re-elect Brian Phillipson as a Director.
- 8 To re-elect Louise Evans as a Director.
- 9 To elect Jim Haynes as a Director.
- 10 To re-appoint PricewaterhouseCoopers LLP as Auditors.
- 11 To authorise the Directors to fix the remuneration of the Auditors.

- 12 THAT the Directors of the Company be, and they are hereby, generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company on, and subject to, such terms as the Directors may determine. The authority hereby conferred shall, subject to section 551 of the Act, be for a period commencing on the date of the passing of this Resolution and expiring at the conclusion of the next Annual General Meeting of the Company or 23 May 2023 (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 30 November 2021). The Directors shall be entitled under such authority to make at any time prior to the expiry of such authority any offer or agreement which would or might require shares in the Company to be allotted after the expiry of such authority and the Directors may allot shares in pursuance of such offer or agreement as if such authority had not expired.

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

- 13 (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:

# Notice of Annual General Meeting continued

(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 30 November 2021); 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 30 November 2021); 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 23 May 2023 (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 30 November 2021);

(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 23 May 2023 (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  
30 November 2021

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 65 to 72 of the Annual Report and Financial Statements for the financial year ended 30 September 2021. Pages 65, 66, 69, 70, 71 and 72 of the Remuneration Committee Report set out the pay and benefits received by each of the directors for the year ended 30 September 2021. The Company's policy on remuneration and potential pay outs to directors in the future, which is set out on pages 67 and 68 of the Annual Report and Financial Statements for the financial year ended 30 September 2021, is specifically excluded from this Resolution.
- 3 Resolutions 1 to 12 (inclusive) are proposed as Ordinary Resolutions. This means that for those resolutions to be passed, more than half of the votes cast on such resolutions must be in favour of such resolutions. Resolutions 13 and 14 are proposed as Special Resolutions. This means that for those resolutions to be passed, at least three-quarters of the votes cast on such resolutions must be in favour of such resolutions.
- 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.

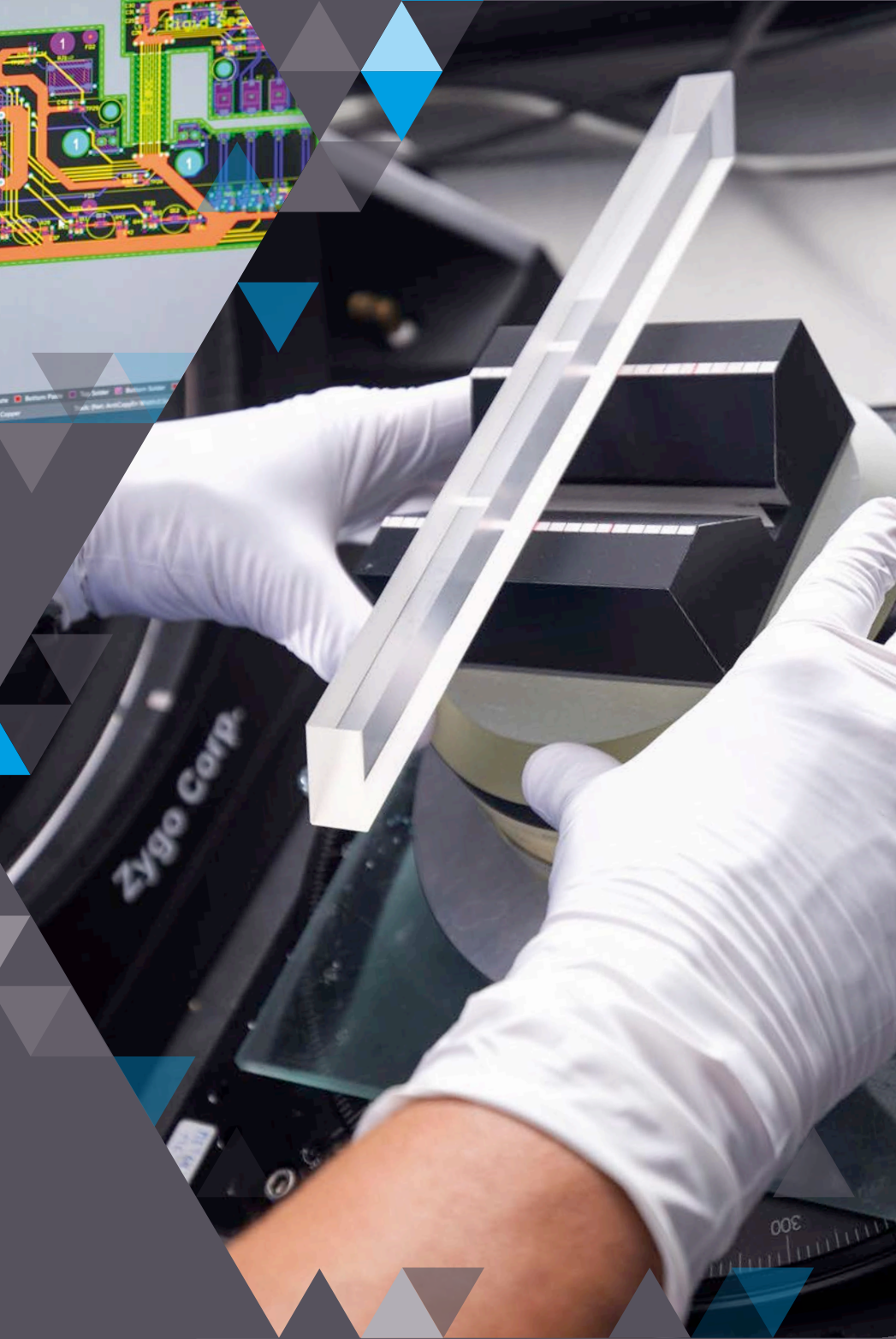
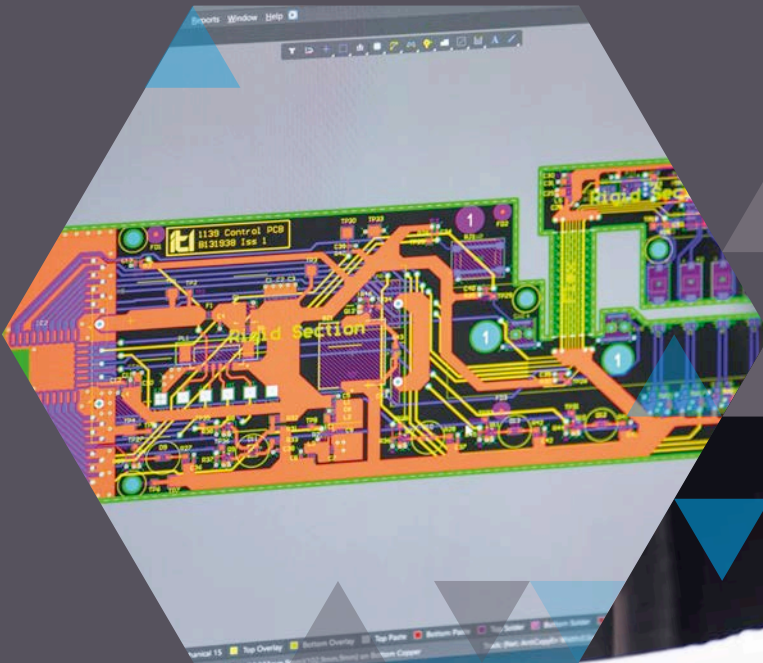
Any power of attorney or other authority under which the proxy is submitted must be returned to the Company's Registrars, Link Group, PXS1, Central Square, 29 Wellington Street, Leeds, LS1 4DL. If a paper form of proxy is requested from the registrar, it should be completed and returned to Link Group, PXS1, Central Square, 29 Wellington Street, Leeds, LS1 4DL to be received not less than 48 hours before the time of the meeting.

If you need help with voting online, or require a paper proxy form, please contact our Registrar, Link Group by email at **enquiries@linkgroup.co.uk**, or you may call Link on 0371 664 0391. 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. We are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales. Submission of a Proxy vote shall not preclude a member from attending and voting in person at the meeting in respect of which the proxy is appointed or at any adjournment thereof.

# Notes continued

- 8 For an electronic proxy appointment to be valid, the appointment must be received by the Company's Registrar, Link Group, no later than 11.00am on 21 February 2022.
- 9 Only those members registered on the register of members of the Company at close of business on 21 February 2022 (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](http://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.
- 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](http://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.







Gooch & Housego PLC

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