

# Focusrite Plc

Annual Report 2016

## Making Music Easy to Make



# Key strengths

## Global leadership

We have always aimed to produce the best quality product at every price point. The result of this is that we are now the number one audio interface company in the world and we are developing our other ranges such as Novation, RedNet and iOS software to widen that global leadership position.

## Product innovation

Product innovation is a cornerstone of our continued growth. We spend approximately 7% of our revenue on research and development introducing between 10 and 20 new products each year.

## Solid growth and profitability

Since 2009, we have grown our revenue from £9 million to £54million. Our EBITDA is approximately 19% of revenue and we have been highly cash generative over that period.

## Geographic diversity

Our product is sold in around 160 territories and we are increasing our own global footprint with employees now based in the UK, the USA, Germany and Hong Kong.

Focusrite is a global music and audio products group supplying hardware and software products used by professional and amateur musicians, which enables the high quality production of music.

[www.focusriteplc.com](http://www.focusriteplc.com)

## Highlights

By following our mission – to make music easy to make – we are successfully delivering transparent technology that liberates musicians, allowing them to create, produce, record and distribute their music. In turn, we are creating a profitable, international and sustainable AIM-quoted company.

### Operational highlights

- Continued growth across all geographies with 16 new products launched this year.
- Strong performance from Focusrite products with the launch of a new generation of the world's number one audio interface, Scarlett.
- Entrance into lucrative adjacent price segments with Clarett and Red ranges receiving positive channel and consumer reaction.
- Further strong sales growth of RedNet products, targeted at the live sound and broadcast business-to-business markets.
- Novation strategy executing to plan with new software updates to the Circuit and Launchpad Pro products.
- Launch of highly intuitive Blocs Wave app, making it easier for musicians to create their own sounds and songs from scratch on any iOS smartphone or tablet, with over 47,000 downloads to date.
- Strong growth in Rest of World with sales improving by 28.1% and opening of a new dedicated Asia office in Hong Kong to support further growth.
- Launch of new e-commerce websites in the UK and USA.
- Queen's Award for Enterprise for International Trade and named in the 'Sunday Times 100 Best Small Companies to Work For' for fifth successive year

### Financial highlights

- Group revenue grew by 13.1% to £54.3 million (FY15: £48.0 million)
- Adjusted EBITDA<sup>1</sup> grew by 10.2% to £10.2 million (FY15: £9.3 million)
- Operating profit grew 13.0% to £7.1 million (FY15: £6.3 million)
- Profit before tax grew 9.9% to £7.1 million (FY15: £6.5 million)
- Basic earnings per share grew 13.5% to 11.8p (FY15: 10.4p)
- Adjusted<sup>2</sup> diluted earnings per share grew 8.6% to 11.4p (FY15: 10.5p)
- Net cash of £5.6 million (FY15: £6.2 million)
- Proposed final dividend increased by 8.3% to 1.3p recommended making 1.95p for the year (FY15: 1.8p)

<sup>1</sup> Comprising of earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items.

<sup>2</sup> Adjusted for non-underlying items (see note 13).

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## STRATEGIC REPORT

# Focusrite at a Glance

The Group's products are sold in around 160 territories and countries all over the world. Roughly one-third of our business is direct to retailers – online and 'bricks and mortar', one-third is through distributors and the final third through a hybrid approach in the USA, where we provide marketing and sales support to drive demand. We sold 700,000 products to end-users last year. Our suppliers are chiefly Asian and we use third-party logistics support. We employ around 170 people in the UK, USA, Germany and Hong Kong.

### **FOCUSRITE**

#### **2/3 of Group Revenue**

The Focusrite division has evolved from selling large studio consoles 25 years ago. It now provides a spectrum of products, from recording equipment to hobbyists all the way to audio networking systems to large organisations, such as NBC and Microsoft. The Focusrite brand has always meant legendary sound quality; through innovation we now offer the best value too in a wide range of segments. We've become the number one producer of audio interfaces in the world.

### **NOVATION**

#### **1/3 of Group Revenue**

Bought by Focusrite in 2005, Novation now represents about a third of our revenue. Making new instruments and software for electronic music, the fastest-growing music creation segment, Novation is disrupting how music is made with its grid controllers, iOS software and new approaches to mobile music making.

# Market Context

## **Worldwide Leader with Room to Grow**

- 11% share of currently addressable market
- Number one in sales of audio interfaces
- Moved successfully into broadcast and live sound markets with RedNet Audio Networking
- Introduced iOS apps with over five million downloads
- Disrupting how new music is made with grids and synthesisers
- Distributed in 160 countries

## **Focusrite**

The Company's Scarlett range is the largest selling range of audio interfaces in the world, with a market share of more than 40%. Our RedNet range of products with Audio over IP connectivity is penetrating new B2B high-end markets in broadcast and live sound. Just in the last year Focusrite launched new Red and Clarett interfaces for professional markets, with Clarett already capturing 14% of the market. A new iOS app, Blocs Wave, is disrupting how mobile music is made and recorded, making it easy for musicians to create 'on the fly'.

## **Novation**

The ubiquitous LaunchPad range, at the centre of electronic music making, is Novation's largest selling instrument: more than 300,000 sold since inception. The new Circuit instrument – a mashup of grids and synthesizers – lets electronic musicians create tunes in minutes without being encumbered by a computer. The LaunchPad iOS app has been downloaded five million times, moving the Company to the forefront of mobile, easy music making.

# Strategy

Focusrite's four-pronged strategy relies on our strengths, understands our customers, foresees impending technology and differentiates us from our competitors.

## Innovate

We've grown quickly while we've invested heavily in research and development to turn out innovative, high-quality and attractive products for musicians and audio professionals. We spend over 6% of revenue on product development and seek to achieve about a third of our revenue from products launched within the last twelve months. The result: in FY16 we launched 16 new products.

## Disrupt

Music making is going through a profound time of change: it's performed, recorded and distributed in new ways. Focusrite is at the forefront of these changes: creating new instruments, disrupting how music is recorded, and helping musicians find new paths to listeners.

## Make Easy

Technology has been a double-edged sword for musicians: it has created inexpensive ways to make, record and distribute music but it has also made giant demands on them. In the past, for example, a musician went into a studio where an audio engineer recorded them. Now the musician IS the engineer. Focusrite develops transparent technology to liberate the musician, to make music easy to make, at all levels of expertise.

## Expand

Focusrite's addressable market currently represents only 16% of the larger market for musical instruments and professional audio products. We are actively moving into new segments organically and are carefully considering acquisitions. For example, RedNet, our audio networking over IP product line, is taking us into live sound, broadcast and other new segments.

# Strategy in Action

Innovate

## Scarlett 2<sup>nd</sup> generation

Our mission for the follow-up to the world's best-selling audio interface was to deliver a product range that was 'Better, Faster and Easier' than its predecessor. We made it **better** by refining the design both inside and out and more beautiful by adopting an industrial design concept we call the 'screw-less' design, visually and physically communicating 'I am quality'. Moreover, the audio circuits were enhanced for higher performance and robustness, delivering quality and ease of use. Scarlett II is **faster**, resulting in audio latency times that have been slashed in half. This lower latency not only makes Focusrite the class leader in terms of performance but also transforms a customer's recording experience, making it easier to record live music more naturally. Finally we made it **easier** by redesigning our entire software user interface using an extensive 'real user' customer experience testing process to validate our product innovation hypotheses.

# Chairman's Statement

An excellent second year of trading as a plc

**"Overall it has been a real year of progress and I am delighted that as a result of all our employees' hard work, we were the proud winners of the Queen's Award for Enterprise for International Trade."**

Focusrite has had an excellent second year of trading as a public company and I am very pleased to report on the Company's performance and progress over the last 12 months.

We have continued to grow revenue and correspondingly our profits as we deliver on our strategic goals. The year-on-year performance has been strong, showing a significant increase in revenue of 13.1% to £54.3 million. There have been a number of drivers for this increase including improving market share globally, a strong performance from new and existing products, and a number of new sales, marketing and distribution initiatives.

Given the cash-generative characteristics of the business and the strength of our balance sheet, the Board has decided to recommend a final dividend of 1.3 pence per share (FY15 final dividend 1.2 pence), giving a total of 1.95 pence per share for the year (FY15: 1.8 pence). The final dividend is subject to shareholder approval, which is being sought at Focusrite's Annual General Meeting ('AGM') to be held in January 2017.

Importantly, all our achievements represent the collective efforts of an outstanding workforce. With the majority of our employees being active musicians there is a real enthusiasm for what we do and a wealth of inherent expertise.

Approximately a third of our people are engaged in product development and I am very proud of their world-class capabilities. Our marketing and sales staff are exemplars in the global market we inhabit, employing state-of-the-art digital marketing techniques to ensure that the Focusrite and Novation brands are recognised as the 'Best Choice at Every Price Point', a company ambition that we are continually striving to achieve.

In this regard, FY16 produced a number of significant product achievements, most notably the complete renewal of our Focusrite Scarlett audio interface range, the global leader in the sub-\$500 product category. This complete design revision of Scarlett improves the audio performance, industrial design and control software, and as a result will continue to defend and improve our market share in a competitive market. Scarlett Gen.2 is also bundled free with 'Avid Pro Tools | First' recording software for the first time. This is a ringing endorsement of Focusrite as the perfect partner for Pro Tools.

Additionally we remain active across all price points in the professional music recording market, addressing identified market requirements. The new Focusrite Clarett and Red ranges (\$500-\$4,000) were successfully launched this year, as were second generation RedNet products, targeted at high-calibre institutional customers such as Microsoft and Disney, as well as broadcasters and universities.

Progress at Novation, our Company's music creation brand, was predominantly driven by our innovative Circuit product. Launched in the first half of FY16, Circuit is a new concept musical instrument, which actually inspires and helps in the creation of electronic music. Regular software enhancements are meeting customer aspiration and Circuit is becoming a considerable success in this new category.

During FY16, we have also been active on the sales, distribution and marketing side of the business and recently established a marketing and sales subsidiary in the Asia Pacific region to represent our brands in these territories, working without third-party distributors. This region continues to show substantial growth.

In Europe we appointed a new distributor for France and Benelux. Algam is the market-leading distributor of musical instruments and professional audio products in these geographies and this move has resulted in a valuable increase in sales in these territories.

Our largest market remains the USA and six years ago we established Focusrite Novation Inc. as a marketing subsidiary to promote and support our brands alongside our third-party distributor. This continues to prove a successful business model with sales into the retail channel continuing to increase in FY16.

We acknowledge our excellent relationships with all our authorised retailers, distributors and resellers in the USA and across the rest of the world and we thank them for their continued custom and support.

Overall it has been a real year of progress and I am delighted that as a result of all our employees' hard work, we were the proud winners of the Queen's Award for Enterprise for International Trade and, for the fifth year running, were included in the Sunday Times 100 Best Small Companies to Work For.

Finally, I would also like to take this opportunity to express my appreciation to retiring Chief Executive Officer, Dave Froker. He has been a valuable and integral member of the Focusrite team for several years and has made a terrific contribution to our success. We wish him every happiness in his retirement back home in the USA. The process for finding a successor to Dave Froker continues and is well advanced. Furthermore, I would also like to acknowledge the entire executive team for their tireless commitment to growing the business and, most importantly, to 'always making things happen'!

As we look forward to the next financial year, we will be focused on the same mantra!

**Phil Dudderidge**  
Executive Chairman  
22 November 2016

# Strategy in Action

## Disrupt

### **Circuit: the new instrument and composition tool**

Music software is designed primarily to satisfy the deep detailed needs of high-end users and not for ease of use of music composition. Many users simply find computers and software for 'music making' slow, frustrating and ultimately unproductive. Our mission for Circuit was to give users the ability 'to make a tune in minutes' without their computer. The approach was to get the user out of the software and into a new hardware-based work flow we call Circuit. We combine the features of a drum machine, synthesiser, grid-based musical user interface and a multi-part composition note sequencer in one 'whole' easy to use product. This combination of parts creates both a new easy-to-play instrument and a very immediate and powerful composition tool for making original music.

# Chief Executive's Statement

"A positive year and well positioned for growth."

Focusrite has been quoted on the AIM market now for almost two years and during that time we have gone from strength to strength. We continue to hit our growth benchmarks and perform well both operationally and financially.

Our growth this year was driven by new product releases which were supported by positive industry and consumer acceptance. The Group continues to penetrate new market segments and price points with best in class, user-friendly products. Customer and sales channel satisfaction feedback remains strong on new and existing products and continued high levels of end-user satisfaction are illustrated by our top net promoter scores for individual products.

## Growth strategy

Our strategy of innovation and expansion continues to work and we are leading the market with our cutting edge technology and design, which continues to attract industry recognition. We remain committed to making music easier to make for professionals and hobbyists and our success is driven by our entrepreneurial and pioneering team, many of whom are themselves musicians.

## Financial performance

Having clearly outlined to investors our strategy for growth, which focuses on the four key areas of *Innovate*, *Disrupt*, *Make Easy* and *Expand*, we have this year shown that the wider operational team has the capability to execute that strategy.

As a result, we have grown Group revenues by 13.1% to £54.3 million (FY15: £48.0 million). Following last year's Novation product introductions and growth, the real engine for growth this year has been the Focusrite products, with sales increasing by 20.4% from £31.2 million to £37.6 million. Profitability also grew with adjusted EBITDA up by 10.2% to £10.2 million (FY15: £9.3 million).

Regionally, the USA grew by 15.6% with further growth in our Scarlett range, boosted by the launch of the 2<sup>nd</sup> generation, and strong uptake of our Clarett and Red products in the second half. Europe grew by 5.2%, despite Brexit and currency movements and the Rest of World region grew by 28.1%, notably in Asia where our Novation products, in particular, have proved very popular.

## The market

Pleasingly, the overall music equipment market still continues to grow and the Company grew market share despite facing some macroeconomic headwinds.

The most notable of these was the UK's Brexit vote in June 2016 and the resulting significant currency exchange rate volatility both before and after the result. It is too early to know if there will be any impact on underlying consumer demand for our products as a result of Brexit, but to date we have seen no evidence of this.

The USA still has a relatively healthy economy, and overall seems in better shape than the Eurozone and Latin America. Asia continues to grow faster than the rest of the world despite China's slowdown, although it is currently a small part of our business, but we hope to capitalise more on this region of the world now we have a dedicated presence in Hong Kong.

## Products

During the year we introduced 16 new products across our business segments. Our major product launches and growth drivers this year have been within the Focusrite business segment, which accounts for 69.2% of our overall turnover. All new products were delivered on schedule and are gaining market share. The feedback via our sales channels and from end customers has been positive.

Within Focusrite our major initiative this year was the launch of the new generation of Scarlett, an improved version of the world's number one audio interface. The new and upgraded Scarlett range is targeted widely, from aspiring musicians recording at home (a large market) through to professional producers and sound engineers. This second generation of Scarlett has been well received by our sales channels and consumers and has received enthusiastic industry media reviews.

Alongside this, we also entered the lucrative adjacent price segments with new Clarett and Red interfaces. The Clarett Thunderbolt line is priced between \$500 and \$1,300 and has sold well since its introduction. The Red Series offers unequalled sound quality, speed and ease of use for professional recording engineers and producers, and has been widely acclaimed in the trade media. It started shipping in April and sales are now starting to build up nicely.

We also continue to open up new market segments with our RedNet products, which enable numerous high-quality audio signals to be distributed via 'Audio over IP' based technology, utilising common off-the-shelf networking infrastructure. Delivered in real time across a network, these products are targeted at the live sound and broadcast business-to-business markets.

In the previous financial year we introduced a large number of new Novation products and so this year has been a quieter year for this brand as expected. We have executed our new strategy for this market segment by continuously upgrading our innovative Circuit groove box with new software. We continue to strive to make music easier to make and in this regard we are particularly pleased with the performance and market acceptance of Circuit, across all our sales channels.

As announced at the time of the interim results, we launched Blocs Wave, the second iOS app from our London based software team. The app has been designed for everybody to use, whether a professional or beginner, and is highly intuitive. Blocs Wave makes it easier for musicians to create their own sounds and songs from scratch on any iOS smartphone or tablet. With initial support from Apple, downloads have been strong with over 47,000 to date.

Finally, although a small part of our overall product mix, we continue to distribute third-party products and during the year, we agreed a new distribution deal for sE Electronics microphones in the UK.

#### **New initiatives**

We are always looking at ways to expand our sales channels, improve our distribution and capture margin. During the year we opened an office in Hong Kong as mentioned above. This will give us a better understanding of our customers and help to maintain close links with our contract manufacturers in China. Ultimately, we plan to increase the proportion of the Group's revenue coming from Asia.

Additionally, we launched Focusrite's first web-store in the UK. We have now expanded this to the USA and some European territories and although still in its infancy we see the potential for creating a direct sales channel for our products. In addition, where customers wish to try our products prior to buying, we will direct them to the dealers that sell our products, providing a further benefit to those dealers.

On the logistics side of the business, we successfully transitioned our business to Kuehne + Nagel to achieve more highly integrated supply chain and delivery management. This is expected to impact our logistics positively and further improve the efficiency of our operations.

#### **Our people**

Managed by a skilled operations board with combined music industry experience in excess of 100 years and with an average Focusrite service of over 12 years each, we can truly demonstrate strength and depth in our management team.

Supporting them we have an energetic, committed and creative young workforce who develop, market and sell our products. A very high proportion of our workforce are users of our products, 62% are 35 years of age or below and 87% own shares or stock options in Focusrite Plc. It has been my great pleasure and privilege to help guide and lead them while I have been Chief Executive.

#### **Current trading and outlook**

Pleasingly, our positive trading momentum has continued in the period since the year end. Our strategy is paying off as we grow our market share, revenue and profits. We've energetically introduced new innovative products which continue to be well received by our customers. We are managing our way through macroeconomic turbulence and the expansion of our channels to market is driving opportunities for growth. We look ahead with confidence.

This will be my last report as Chief Executive of Focusrite, as I have announced my retirement and intention to return to the USA. I would like to thank all of my Board colleagues, as well as all of our employees, who are truly world-class colleagues, for their support and dedication. I remain a shareholder in the business and am confident that the Company can achieve even greater things over the longer term.

**Dave Froker**  
Chief Executive Officer  
22 November 2016

# Strategy in Action

## Make Easy

### **Making the recording setup foolproof**

The vast majority of our users are primarily musicians, not technology or engineering experts, who have trouble with the set-up and use of recording interface equipment. Our ease of use campaign creates new solutions to remove the speed bumps and barriers that inhibit customers from making music. Our customer support team is a key data mining resource in the battle for ease of use, feeding 'real world' customer issues into a prioritised backlog of important product updates. Over time we have refined our products with extensive user experience testing to validate the simplicity and ease of use of new features. Software updates are 'pushed' to our customers using auto-updating software programs that 'nudge' customers to update regularly to the latest versions rather than waiting for problems to occur and then contacting support for solutions.

# Financial Review

## Financially robust

"The performance this year has continued the trend of consistent annual growth and the Group is taking the appropriate steps to maintain that positive progress going forward"

### Overview

The Group has delivered another positive year exceeding market expectations with revenue up 13.1%, adjusted EBITDA up 10.2% and adjusted diluted earnings per share up 8.6%.

### Income statement

#### **Revenue**

Revenue grew from £48.0 million to £54.3 million, continuing the record of double digit percentage growth achieved each year since 2009. In FY15, the faster growth was in the Novation range as the Group launched several new or updated products within that brand. In FY16, the Group has launched more new or updated products in the Focusrite range and consequently the Focusrite brand has increased revenue by 20.4%. This included the high-end RedNet range which increased by 15.9%. The Novation brand declined by 3.4% although consumer registrations increased by 11.9% indicating that the revenue decline was due to the managing of stock held by dealers rather than a decline in consumer demand.

Regionally, the USA grew by 15.6% to £21.4 million, Europe by 5.2% to £22.6 million and the Rest of World by 28.1% to £10.3 million. The primary driver of growth in the Rest of World region was Asia, which has been a great market for the Novation products and in which the Group launched a new sales office in Hong Kong in early 2016.

As ever, exchange rates played a part with the US Dollar and the Euro both strengthening against Sterling during FY16. At constant exchange rates, revenue grew by 7.5%.

#### **Gross profit**

Gross profit increased to £20.9 million (FY15: £18.6 million), a gross margin of 38.4% (FY15: 38.8%). The gross margin reduced slightly due to the strengthening of the US Dollar which increased revenue but also increased cost of sales by a similar value in Sterling terms, thereby reducing the gross margin as a percentage of revenue.

#### **Adjusted EBITDA**

Adjusted EBITDA (earnings before interest, tax, depreciation, amortisation and non-underlying items) increased by 10.2% to £10.2 million (FY15: £9.3 million). The rate of growth was slightly slower than the rise in revenue due to the lower gross margin, a greater amount spent on sales (with the US and Asia offices) and marketing (with significant new product launches).

In FY16, there was a non-underlying cost of £0.5 million due to legal cases relating to intellectual property and distribution contracts which have no significant effect on our ongoing business. The one remaining case relates to the cessation of a distribution contract and the Group continues to defend its position vigorously.

In FY15, there was a non-underlying cost of £0.7 million relating to the costs of the Initial Public Offering, when the Group floated on the AIM market in December 2014.

## Income statement

|                         | 2016     | 2016           | 2016     | 2015     | 2015           | 2015     |
|-------------------------|----------|----------------|----------|----------|----------------|----------|
|                         | £m       | £m             | £m       | £m       | £m             | £m       |
|                         | Reported | Non-underlying | Adjusted | Reported | Non-underlying | Adjusted |
| Revenue                 | 54.3     | -              | 54.3     | 48.0     | -              | 48.0     |
| Cost of sales           | (33.4)   | -              | (33.4)   | (29.4)   | -              | (29.4)   |
| Gross profit            | 20.9     | -              | 20.9     | 18.6     | -              | 18.6     |
| Administrative expenses | (13.8)   | 0.5            | (13.3)   | (12.3)   | 0.7            | (11.6)   |
| Operating profit        | 7.1      | 0.5            | 7.6      | 6.3      | 0.7            | 7.0      |
| Net finance income      | (0.0)    | -              | (0.0)    | 0.2      | -              | 0.2      |
| Profit before tax       | 7.1      | 0.5            | 7.6      | 6.5      | 0.7            | 7.2      |
| Income tax expense      | (0.8)    | (0.1)          | (0.9)    | (1.0)    | -              | (1.0)    |
| Profit for the period   | 6.3      | 0.4            | 6.7      | 5.5      | 0.7            | 6.2      |

|   | 2016     | 2016           | 2016     | 2015     | 2015           | 2015     |
|---|----------|----------------|----------|----------|----------------|----------|
|   | £m       | £m             | £m       | £m       | £m             | £m       |
|   | Reported | Non-underlying | Adjusted | Reported | Non-underlying | Adjusted |
| Operating profit                        | 7.1      | 0.5            | 7.6      | 6.3      | 0.7            | 7.0      |
| Add – amortisation of intangible assets | 2.1      | -              | 2.1      | 1.9      | -              | 1.9      |
| Add – depreciation of tangible assets   | 0.5      | -              | 0.5      | 0.4      | -              | 0.4      |
| EBITDA                                  | 9.7      | 0.5            | 10.2     | 8.6      | 0.7            | 9.3      |

### Foreign exchange and hedging

During the period, there have been significant movements in both the US Dollar and the Euro.

| Exchange rates | FY16 | FY15 |
|----------------|------|------|
| Average        |      |      |
| USD:GBP        | 1.45 | 1.56 |
| EUR:GBP        | 1.29 | 1.35 |

| Year end |      |      |
|----------|------|------|
| USD:GBP  | 1.31 | 1.54 |
| EUR:GBP  | 1.18 | 1.37 |

The Group has a largely effective natural hedge in US Dollars. Therefore, while the US Dollar strengthened from an average USD:GBP exchange rate of \$1.56 in FY15 to \$1.45 in FY16, the positive impact on revenue is negated by the impact on cost of sales because the Group's products are bought in US Dollars from China and therefore become correspondingly more expensive in Sterling terms.

The Euro represents approximately 25% of revenue and little cost. The Group hedges its Euro cash flows up to one financial year ahead. In FY16, the average rate was €1.29 and approximately 75% of the flows were hedged at €1.39 creating an effective exchange rate of €1.37. In FY15, the average EUR:GBP exchange rate was €1.35 and approximately 75% of the Euro flows were hedged at €1.27 creating an effective exchange rate of €1.29. The hedged exchange rate for the coming financial year (FY17) is €1.28.

In previous years, the outstanding hedging contracts have been revalued and movement in fair value shown in the income statement. The hedging contracts relating to FY17 have been matched to income flows and, providing the hedging contracts remain effective, movements in fair value are shown in a hedging reserve in the balance sheet.

### Corporation tax

The effective tax rate for FY16 was approximately 12.2% as the Group is expected to benefit from tax credits in respect of research and development and share options.

### **Earnings per share**

The basic earnings per share increased by 13.5% to 11.8p (FY15: 10.4p) driven by the higher profit before tax and the lower effective tax rate. In a similar fashion, the adjusted diluted earnings per share increased by 8.6% to 11.4p (FY15: 10.5p).

### **Earnings per share**

|                  | FY16 | FY15 | Growth |
|------------------|------|------|--------|
|                  | p    | p    | %      |
| Basic            | 11.8 | 10.4 | 13.5%  |
| Diluted          | 10.7 | 9.3  | 15.1%  |
| Adjusted basic   | 12.6 | 11.8 | 6.8%   |
| Adjusted diluted | 11.4 | 10.5 | 8.6%   |

### **Balance sheet**

|                             | 2016   | 2015  |
|-----------------------------|--------|-------|
|                             | £m     | £m    |
| Non-current assets          | 6.4    | 5.3   |
| Current assets              |        |       |
| Inventories                 | 11.4   | 8.6   |
| Trade and other receivables | 11.2   | 7.7   |
| Other current assets        | -      | 0.2   |
| Cash                        | 5.6    | 6.2   |
| Current liabilities         | (10.4) | (8.8) |
| Non-current liabilities     | (0.3)  | (0.7) |
| Net assets                  | 23.9   | 18.5  |

### **Cash flow**

|                                    | 2016 | 2015 |
|------------------------------------|------|------|
|                                    | £m   | £m   |
| Free cash flow <sup>1</sup>        | 0.2  | 2.7  |
| Add – non-underlying cash outflows | 0.2  | 1.2  |
| Underlying free cash flow          | 0.4  | 3.9  |

<sup>1</sup>Defined as net cash from operating activities less net cash used in investing activities

### **Balance sheet**

#### **Non-current assets**

The non-current assets comprise mainly capitalised research and development costs. Approximately 80% of research and development costs are capitalised and they are amortised over three years. The typical product life is three to six years. This policy is unchanged from last year.

#### **Working capital**

Working capital increased from 15.7% of revenue to 22.4% of revenue. The biggest factor driving this was the increased level of stock. The Group developed and launched several new and innovative Focusrite and Novation products without a demand history both this financial year and in the previous year and, in light of the lead times being as long as six months, decided to increase stock to reduce the risk of running out of stock, should demand soar. As the demand pattern becomes more predictable, the stock quantities will be reduced. A second, less significant factor was a change in payment terms afforded to one customer.

#### **Cash flow**

Cash at the period end was £5.6 million, up from £4.0 million at the half year but down from £6.2 million at 31 August 2015, driven by the higher stock and debtors explained previously. Notwithstanding these factors, the free cash flow remained positive at £0.2 million (FY15: £2.7 million) and the Group has a £10 million revolving credit facility with HSBC.

#### **Dividend**

In accordance with the Group's progressive dividend policy, the Board is proposing a final dividend of 1.3 pence per share (FY15 final dividend 1.2 pence), which would result in a total of 1.95 pence per share for the year (FY15: 1.8 pence). At this level, the dividend is covered approximately six times by earnings. The Group remains focused on growth and maintains a significant dividend cover to afford continued investment in order to generate further growth in the future.

## Summary

The Group has grown revenue by 13.1% in the year, adjusted EBITDA by 10.2% and adjusted diluted earnings per share by 8.6%. The Group is cash-generative and well-funded, supported by £5.6 million of cash and a £10 million revolving credit facility. The performance this year has continued the trend, over many years, of strong growth and the Group is working hard to maintain that positive progress going forward.

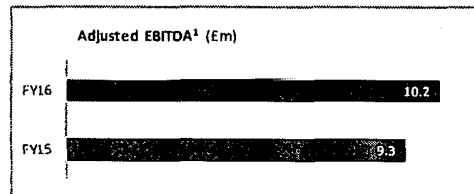
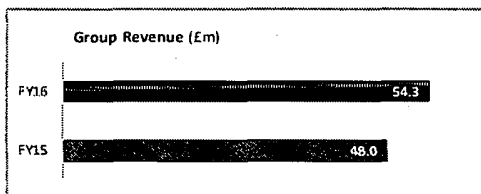
**Jeremy Wilson**  
Chief Financial Officer  
22 November 2016

## Key Performance Indicators ('KPIs')

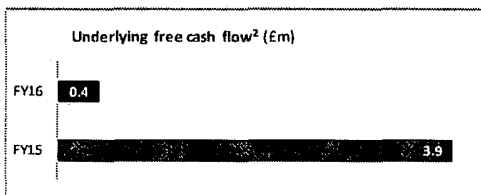
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### Key performance Indicators ('KPIs')

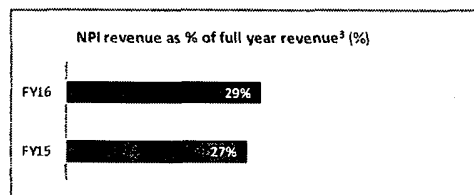
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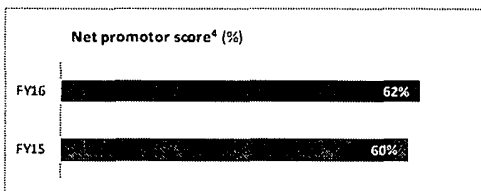
¹ Comprising of earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items.



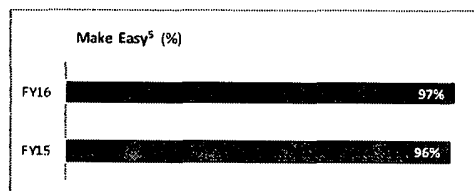
² This is free cash flow prior to non-underlying items. It has declined due largely to increased investment in stock and increased terms for one customer.



³ This is the first 12-month revenue for new products as a percentage of total revenue.



⁴ This asks the question 'How likely are you to recommend Focusrite to a friend or colleague?'. The score is based on subtracting the percentage of detractors (score 0-6, unhappy customers) from the percentage of promoters (score 9-10, loyal enthusiasts) and yields the net promoter score of the Company.



⁵ We aim to make our products easy to use. This is the proportion of people who buy a Focusrite product, register their purchase and have no need to call our technical helpline. We target at least 95%.

# Strategy in Action

## Expand

### **RedNet: moving us into new markets**

Audio networking technology is now transforming professional audio industries, such as live sound and broadcasting, where very high channel densities and high quality, reliable audio are demanded. Focusrite saw this technology trend early and invested in the development of a networked audio solution to expand into these new larger market segments. RedNet combines Focusrite's premium audio reputation and a rock-solid Audio over IP platform to create a highly modular networked audio range. This modularity allows audio architects and professionals to combine any number of individual units over multiple sites, up to many kilometres apart, to create enormous synchronised audio networks using a single ethernet cable.

# Principal Risks and Uncertainties

## Risk factors

In common with all businesses, the Group faces risks, the effective management of which is necessary to enable it to achieve its strategic objectives and secure the resilience of the business for the long term. Management of risk is critical to the effective running of the business and is considered as part of the Group's decision-making processes.

| <b>Risk area</b>   | <b>Description</b>   | <b>Mitigation</b>  |
|--|--|--|
| <b>Economic environment</b>                                      | The Group operates in the global economy and ultimately within a retail environment to consumer end-user musicians. Such operations are influenced by global and national economic factors.  | The Group sells products in around 160 territories worldwide via two distinct product categories and so aims to avoid being unduly reliant on any single product or territory.   |
| <b>UK exit from the European Union</b>                           | The impact of the decision to exit the European Union remains uncertain. There has already been foreign exchange volatility and it is possible that, in future, the UK may not be part of the European free trade zone, or the Customs Union.  | The Group has increased selling prices in UK to correct the imbalance caused by the significant foreign exchange rate changes. The Group will continue to monitor other possible effects of Brexit and act accordingly as they become known.   |
| <b>Technological changes, product innovation and competition</b> | The market for the Group's products is characterised by continued evolution in technology, evolving industry standards, changes in customer needs and frequent new competitive product introductions. If the Group is unable to anticipate or respond to these challenges, or fails to develop and introduce successful products on a timely basis, it could have an adverse impact on the Group's business and prospects. | The Group invests significantly in its research and development and operates a rigorous, disciplined product introduction process to ensure that as far as possible the fast-changing needs of its target markets are met. In addition, the Board aims to operate an efficient, low-cost business.                                   |
| <b>Dependence on a small number of suppliers</b>                 | The Group is dependent on a small number of suppliers, in particular its largest supplier, which supplies Focusrite interfaces. Failure or material delay by its suppliers to perform or failure by the Group to renew such arrangements could have a material adverse effect on the Group's business, operating results and financial position.   | The Group aims to diversify its risk by using four major Chinese manufacturers for the production of its products. Relationships are long-lasting and strong. Typically, members of the operations department within Focusrite meet each supplier every quarter to review performance and costs.                                     |
| <b>Key resellers and distributors</b>                            | In certain countries, the Group operates via a single distributor or has large individual reseller customers. In certain cases, a failure of or breakdown in the relationship with a key reseller could significantly and adversely affect the Group's business.   | In cases where there is a large distributor in a significant market (e.g. the USA), the Group also maintains contact with the major retailers. In addition, the Group carefully monitors customer credit limits and has credit insurance which typically covers the majority of the customer debts outstanding at any point in time. |

| <b>Risk area</b>                                   | <b>Description</b>  | <b>Mitigation</b>   |
|--|---|---|
| <b>Development of the channels to market</b>       | Significant change in the methods by which end-users wish to buy Focusrite products could significantly affect the Group's business.  | The Group or its distributors sell to both 'bricks and mortar' and e-commerce retailers so that the Group can satisfy customer demand via both methods.   |
| <b>Currency risks</b>                              | The Group is exposed to currency and exchange rate fluctuations which may affect the Group's revenue and costs when reported in Sterling.   | There is a largely effective natural hedge for USD transactions in as much as the Group uses its generation of US Dollars to buy product in US Dollars. In addition, the Group mitigates its Euro exposure by entering into forward foreign exchange hedging contracts for the conversion of Euros to Sterling.   |
| <b>Scarcity of experienced technical personnel</b> | The nature of the Group's business requires its employees in the technical and development teams to be highly skilled and experienced in their respective fields. The Group is dependent for its continued success on being able to hire and retain such individuals. | The Group is a leading music industry company in the UK and so attracts high-quality technical personnel. The Group also attracts graduates from music technology courses at local universities. The Group has wide-ranging share ownership incentives and other employment benefits to aid retention.  |
| <b>Intellectual property and data protection</b>   | The intellectual property and data developed by the Group is valuable and the Group could be harmed by infringement or loss.  | The Group has data and information technology controls which are reviewed by the Group Board. Additionally, the Group includes data protection provisions in the contracts of all Group employees. The Group also aims to protect its intellectual property and pursues infringements.  |
| <b>Information security</b>                        | Information security and cyber threats are currently a priority across all industries and remain a key Government agenda item.  | The Group is undergoing a detailed review of IT systems to upgrade older elements. There has already been a widespread upgrade of core IT functionality and the improvement of back up and disaster recovery processes. There is an improving business continuity framework and a dedicated internal IT support team aided by external support providers. |

# Corporate Social Responsibility

## “Committed to acting responsibly”

We have a duty to maintain the trust of the end-users of our products as well as our customers, suppliers, staff and other stakeholders by ensuring that we act with integrity at all times. Corporate Social Responsibility ('CSR') is a core part of that commitment. We recognise that by acting in a responsible and considerate way with everyone who comes into contact with us, we will positively impact both the societies we operate in and the music-making communities that lie at the heart of our business, supporting the long-term value of Focusrite. Our CSR policy builds on the foundations we have put in place to reduce our impact on the environment, ensuring we act as a responsible and fair employer and supporting the national and local community projects that our staff are involved in.

### **Impact on society**

Focusrite carefully considers its social impact at both the local and global levels. Local initiatives include always trying to recruit locally to minimise commuting miles and encouraging employees living further afield to relocate locally, which in turn supports the local community.

Focusrite has successfully established and maintained links with educational establishments on a local and national level. Working with educational establishments is not a new concept for Focusrite. Since 1999 Focusrite has worked closely with Surrey University and its Institute of Sound Recording under the banner of the world-renowned Tonmeister course. Each year Focusrite takes on two Tonmeister third year undergraduate interns and provides them with a year of intense work experience. Several of Focusrite's current technical staff have been recruited as a result of this close relationship with Surrey University.

Moving further afield Focusrite works with four major Chinese contract manufacturers. Focusrite visits its contract manufacturers at least once every three months to check on compliance issues, manufacturing control and general relationship management.

### **Environmental impact**

There are two aspects which Focusrite evaluates when assessing environmental impact, the first being the environmental impact of the corporation and its activities and the second being the environmental impact of Focusrite's products.

In terms of the environmental impact of the corporation there are a number of policies that have been introduced to lower any negative impacts. These include Focusrite supporting the government initiative of the Bike to Work scheme, of which 16% of staff have participated.

Employees are encouraged to lower their carbon footprint by lift sharing and there is an unofficial car pool scheme for those who live in London and in the local area which is used on a daily basis.

In terms of waste, Focusrite is registered for WEEE and Focusrite has deployed recycling bins in every office and communal work area with shredding bins for secure waste.

Focusrite has also stopped using alkaline (non-rechargeable) batteries across the Company and has replaced these with high capacity nickel metal hydride (rechargeable) batteries.

Focusrite has started to conduct video conferencing for international meetings that has resulted in a reduction in the annual number of international flights undertaken by employees.

The packaging for Focusrite products has been designed to have minimal environmental impact and Focusrite has recently substituted the use of expanded polyethylene foam with moulded recycled pulp paper.

All Focusrite products which rely on mains power comply with all current power efficiency directives and either have internal high efficiency switchable power supplies or external high efficiency power supplies.

### **Relations with suppliers, partners and contractors**

Whilst price will always play an important part in the commercial decision making of Focusrite in terms of suppliers, partners and contractors, it is by no means the only significant consideration. Focusrite prides itself

not only on what it does but the way that it does it and this must also be true for those third parties with which it partners.

Examples of this include a strategic partnership with Kuehne + Nagel which provides inbound and outbound third-party logistics to Focusrite. Kuehne + Nagel is committed to lowering the negative environmental impact of its operations as well as maximising the positive social impact. It achieves this by reviewing each shipment to determine the most efficient methods of transporting products, both inbound and outbound. Focusrite forward plans the production and shipment of its products so that air freight is not required.

The electricity supplier to Focusrite is Total, which has demonstrated a true year-on-year reduction in CO<sub>2</sub> emissions from its power stations, transportation and from its own offices. The fact that Total states that sustainability is its business, its strategy and its future aligns it well with the sustainability ethos of Focusrite.

Focusrite's choice of Chinese contract manufacturers is critical to the business, not only in terms of quality of manufacture but also in terms of social responsibility and sustainability. An example of this is our largest manufacturer, which is ISO 9002, TS 9000, ISO 9001:2000, ISO 14001, TL 9001, ISO 13488 and TS 16949 certified as well as having a commitment to providing a safe and enjoyable working environment for its 3,500 contract manufacturing staff.

### **Slavery and human trafficking**

Focusrite is committed to ensuring that there is no modern slavery or human trafficking in its supply chain or any part of its business. The Focusrite Anti-slavery Policy, as published on the Group's websites, reflects the commitment to acting ethically and with integrity in all the Group's business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in its supply chain.

All Focusrite contract manufacturers operate with a minimum accreditation of ISO 9001 and ISO 14001. Our largest manufacturer also holds SA 8000 and OHSAS 18001 accreditation with a strong, active CSR programme in place to improve worker engagement, health and safety. All of Focusrite's contract manufacturers are responsible employers which comply with local employment law and provide good working and living conditions for their staff. As part of the ongoing relationship with these manufacturers, senior members of the Group visit each supplier around four times per year. These visits include inspection of the production lines, the people working on those production lines and their working, eating and living conditions to ensure that they are acceptable.

To ensure a high level of understanding of the risks of modern slavery and human trafficking in our supply chains and our business, we provide training to our staff. An introduction to our modern slavery and human trafficking practices and policies forms part of the induction process for each new member of staff.

### **Relations with employees**

Whilst Focusrite has clear leadership and reporting structures in place it enjoys a flat hierarchy amongst its staff. This approach, together with an 'open door' policy, means that anyone at any time can talk to any of the Directors to raise any matters for discussion, ask questions or share ideas. The fluidity of knowledge sharing in the Company is one of its core strengths and that together with the true sense that all staff are members of the Focusrite family means that challenges can often turn into opportunities.

Focusrite has been awarded a three star accreditation (the highest possible) six years in a row from Best Companies, the organisation which conducts and manages The Sunday Times 100 Best Small Companies to Work For. Focusrite has also been included in the list of The Sunday Times 100 Best Small Companies to Work For from 2011 to 2016.

To assist in the dynamic flow of knowledge within the Company, Focusrite has an internal company blog, WIKI, and message board for the sharing of ideas, information and best practice.

Focusrite staff enjoy the use of a fully subsidised kitchen for both breakfast and lunch as well as free coffee, tea and biscuits throughout the working day.

To ensure that both employees and Focusrite are getting the best out of each other there are formal employee assessments on an annual basis and informal assessments throughout the year.

The Company has a comprehensive documented health and safety policy in place which is reviewed by the Compliance Committee regularly.

The Group has implemented a whistle blowing policy. All employees are clear that they are able to contact the Chairman, Chief Executive Officer or either of the Non-executive Directors of the Group if they have an issue which they feel they cannot discuss with their immediate manager.

#### **Relations with customers**

Focusrite has three types of customer: distributor, retailer and end-user. Ultimately Focusrite makes product for the end-users of those products and that is where its customer attention is most acutely focused. Communicating with end-users is realised through direct e-comms, social media sites and YouTube channels. Relevance and authenticity are the hallmarks of Focusrite's end-user communication strategy, with industry-leading videos as the primary medium for content. A genuine bi-directional line of communication with swift response rates has helped to grow Focusrite's social media channels, most notably with the Novation brand. With paid advertising on social media kept relatively low, investments are instead made in the generation of strong relevant content that the community shares organically. Social media channels include Facebook, Twitter, Instagram, Periscope and Google+, as well as YouTube.

Both the Focusrite and Novation brands have worldwide recognition as being class leading. With over 10% of the Company's staff dedicated to end-user customer support, Focusrite makes sure that the users of its products have the best possible experience.

The customer support team meets weekly to discuss end-user, distributor and retailer topics which have come up during the week and review past topics. The customer support team also relays this information directly to the research and development team, either to effect improved usability of a product or to influence future product innovation and design.

**Dave Froker**  
Chief Executive Officer  
22 November 2016

**Jeremy Wilson**  
Chief Financial Officer  
22 November 2016

# Board of Directors

## **PHILIP 'PHIL' DUDDERIDGE**

### **Executive Chairman and Founder**

Phil has a distinguished career in the professional audio industry. He co-founded Soundcraft in 1973 which became a leading brand of sound mixing consoles, and was sold to Harman International in 1988. Phil acquired the assets of Focusrite Ltd in 1989. Phil served as Chief Executive Officer of Focusrite from 1989 until he became Chairman in 2012.

## **DAVID 'DAVE' FROKER**

### **Chief Executive Officer**

Dave was appointed Chief Executive Officer of Focusrite in March 2012. Previously, he was Chief Marketing Officer at Line6. He served as Chief Executive Officer of Stanton Group until 2007, where he led the turnaround of audio equipment businesses Stanton Magnetics, Cerwin-Vega and KRK. Prior to Stanton Group, Dave was the General Manager of the digital audio technology company, Digidesign (a division of Avid Technology), from 1996 to 2002, where he presided over the growth of Pro Tools into the industry-standard audio workstation, as Digidesign's revenue tripled to \$135 million. As previously announced, Dave Froker will be retiring in December 2016.

## **JEREMY WILSON**

### **Chief Financial Officer**

Jeremy was appointed Chief Financial Officer of Focusrite in September 2014. Prior to Focusrite, Jeremy was Chief Financial Officer of Atex Group Ltd, a leading worldwide developer of content management and advertising software to the media industry. Before that, Jeremy was Chief Financial Officer of Regeneris plc, the AIM-quoted support services business. Prior to his Chief Financial Officer roles, Jeremy held several senior finance roles at DHL Express (UK) Limited and Electrocomponents Plc. He qualified as a Chartered Accountant at KPMG in 1992.

## **DAVID BEZEM**

### **Independent Non-executive Director**

David joined the Board of Focusrite in December 2014. He brings with him more than 25 years' experience as an investment banker advising UK public companies across a range of sectors. Most recently David was a Managing Director at Altium Corporate Finance and prior to that a Managing Director at Close Brothers Corporate Finance. David qualified as a Chartered Accountant with Arthur Andersen & Co. in 1984. He is also a Non-executive Director and Chairman of the Remuneration Committee at Harvey Nash Group plc.

## **PAUL DEAN**

### **Independent Non-executive Director**

Paul joined the Board of Focusrite in December 2014. Paul has over 30 years of experience across numerous sectors, including technology. Previously, he was Group Finance Director at Ultra Electronics Holdings Plc between 2009 and 2013 and Group Finance Director of Foseco Plc between 2001 and 2008, including the period of its flotation in 2005. He also held various senior finance roles at Burmah Castrol Plc from 1990 to 2000. Currently, Paul is a Non-executive Director and Chairman of the Audit Committee at Porvair Plc, Polypipe Group Plc and Wincanton Plc. He is also the Senior Independent Director at Porvair Plc and Polypipe Group Plc. Paul is a Chartered Management Accountant.

# Executive Management Team

The executive management team are known internally as the Operations Board. As a team, they have huge experience of the music industry and have worked at Focusrite for a combined period of over 100 years. It is this team that has generated the strong growth over the last decade and it signals significant strength in depth within the Group.

# Corporate Governance Report

The Company was admitted to trading on AIM in December 2014. Accordingly, compliance with the governance framework contained in the UK Corporate Governance Code published by the Financial Reporting Council (the 'Code') is not currently mandatory. Nevertheless, the Board remains committed to high standards of corporate governance and endeavours to comply with the Code to the extent practicable for a public company of its size. Furthermore, the Board confirms that it has complied with the QCA Corporate Governance Guidelines (as devised by the QCA in consultation with a number of significant institutional small company investors), to the extent appropriate and practicable for a company of its nature and size.

## **Board of Directors and Board committees**

The Board comprises five Directors of whom three are Executives and two Non-executives, and reflects a blend of different experience and backgrounds. The Board considers the two Non-executive Directors to be independent. Biographical details of all the Directors at the date of this report are set out on pages 24 to 25.

The roles of Chairman and Chief Executive are separate. The Chairman leads Board meetings and Board discussions and has responsibility for the Board's overall effectiveness. The Chief Executive is responsible for the achievement of the Group's strategic and commercial objectives, within the context of the Group's resources and the risk tolerances laid down by the Board. The Board is responsible to shareholders and provides leadership and direction to the Group. It is the role of the Board to set the strategic direction and goals of the Group within the risk tolerances and control mechanisms the Board believes are appropriate.

The Board has a list of matters reserved for its consideration which include, but are not limited to, matters of strategy, risk management, consideration and approval of financial budgets, major capital expenditure decisions, acquisitions and disposals, approval of the interim and final results and the recommendation of any dividends.

An Executive Committee (known as the Operations Board) supports the Board in implementing strategy and reports relevant matters to the Board for its consideration and approval. This Executive Committee comprises three Executive Directors and seven members of senior management.

All the Directors have access to the advice and services of the General Counsel and Company Secretary who are responsible for ensuring compliance with applicable rules, regulations and Board procedures.

Directors have the right to request that any concerns they have are recorded in the appropriate committee or Board minutes.

The Board has three committees, each with defined terms of reference. They are the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board meets on a regular basis. During the year from 1 September 2015, the Board met ten times. A formal agenda and briefings are prepared for Board meetings, allowing all Directors to participate fully. The Directors all have access to independent advice, if required, in respect of their duties from a variety of professional advisers. The Company maintains an appropriate Directors' and Officers' insurance policy in respect of any legal actions against the Directors and Officers.

## **Re-election of Directors**

At every AGM, one-third of the Directors for the time being (excluding any Director appointed since the previous AGM) or, if their number is not divisible by three, the number nearest to but not exceeding one-third, shall retire from office by rotation. On this basis, Phil Dudderidge will offer himself for re-election at the forthcoming AGM. As noted above, Dave Froker will stand down as Chief Executive before the end of 2016.

## **Information and professional development**

Prior to the Company's admission to AIM in December 2014, all Directors received a briefing from the Company's nominated adviser of their duties, responsibilities and liabilities as a Director of an AIM company. Directors are encouraged to keep abreast of developments and attend training courses to assist them with their duties.

In addition to the formal meetings of the Board, the Chairman is available to the other Non-executive Directors to discuss any issues of concern they may have relating to the Group or as regards their area of responsibility and to keep them fully briefed on ongoing matters relating to the Group's operations.

The Chairman is responsible for ensuring that new Directors each receive a full, formal and tailored induction on joining the Board.

### Meetings of the Board and its Committees

The following table sets out the number of meetings of the Board and its Committees during the year under review and individual attendance by the relevant members at these meetings:

|                 | Board  |          | Audit Committee |          | Remuneration Committee |          | Nomination Committee |          |
|-----------------|--------|----------|-----------------|----------|------------------------|----------|----------------------|----------|
|                 | Number | Attended | Number          | Attended | Number                 | Attended | Number               | Attended |
| Dave Froker     | 10     | 10       | –               | –        | –                      | –        | –                    | –        |
| Jeremy Wilson   | 10     | 10       | –               | –        | –                      | –        | –                    | –        |
| Phil Dudderidge | 10     | 9        | –               | –        | –                      | –        | 2                    | 2        |
| David Bezem     | 10     | 10       | 3               | 3        | 3                      | 3        | 2                    | 2        |
| Paul Dean       | 10     | 10       | 3               | 3        | 3                      | 3        | 2                    | 2        |

In the event that Directors are unable to attend a meeting, their comments on the business to be considered at the meeting are discussed with the Chairman ahead of the meeting so that their contribution can be included in the wider Board discussion.

### Board committees

As noted above, the Board has three principal committees with clearly defined terms of reference. The members of the committees and their duties are set out below.

### Audit Committee

The Audit Committee assists the Board in discharging its responsibilities, within agreed terms of reference, with regard to corporate governance, financial reporting and external and internal audits and controls.

This includes, amongst other things, reviewing the Group's interim and annual financial statements and reviewing the auditor's findings from the audit including discussions with the auditor without executive management being present. The interim and annual reporting processes also include review of going concern, judgements and significant accounting policies. The Committee's work also includes the appointment of external auditors, the approval of their audit plan and fees, reviewing and monitoring the extent of the non-audit services undertaken by external auditors. Additionally, the Audit Committee reviews the effectiveness of the Group's internal controls and risk management systems.

In this second year post-IPO, the Group has extended its internal audit work. Areas of perceived higher financial control risk were identified and internal reviews carried out by personnel independent of those areas. The resultant findings and recommendations were documented, discussed with local management and then the final reports presented to the Audit Committee for their review. The Committee believes that these internal review processes are appropriate for a group of this size and complexity, and will continue to assess this on an ongoing basis.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. Membership of the Audit Committee comprises the two independent Directors and is chaired by Paul Dean. The Audit Committee meets formally not less than three times every year and otherwise as required.

### Remuneration Committee

The Remuneration Committee is responsible, within agreed terms of reference, for establishing a formal and transparent procedure for developing policy on executive remuneration and for setting the remuneration packages of individual Directors. This includes agreeing with the Board the framework for remuneration of the Executive Directors, the General Counsel and the executive management team. It is furthermore responsible for determining the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options. No Director may be involved in any decision as to their own remuneration. The membership of the Remuneration Committee comprises the two independent Directors and the Committee is chaired by David Bezem. The Remuneration Committee meets not less than twice a year and at such other times as the Chairman of the Committee shall require.

### **Nomination Committee**

The Nomination Committee has responsibility for reviewing the structure, size and composition of the Board and recommending to the Board any changes required, for succession planning, and for identifying and nominating for approval of the Board candidates to fill vacancies as and when they arise. The Committee is also responsible for reviewing the results of any Board performance evaluation process and making recommendations to the Board concerning the Board's Committees and the re-election of Directors at the AGM. Membership of the Nomination Committee comprises the two independent Directors and Phil Dudderidge. The Committee is chaired by David Bezem. The Nomination Committee meets not less than once a year and at such other times as the Chairman of the Committee shall require.

### **Board evaluation**

The Chairman, as part of his responsibilities, informally assesses the performance of the Board and its Directors on an ongoing basis and brings to the Board's attention any areas for improvement. For the time being, the Board will continue to evaluate in this way the balance of skills, experience, independence and knowledge required to ensure that its composition is appropriate to the Group's size and complexity. Following the announcement on 19 July 2016 that Dave Froker, Chief Executive Officer, will retire from the Board towards the end of 2016, the Nomination Committee agreed to defer any formal evaluation process until after the appointment of a new Chief Executive Officer.

### **Internal control and risk management**

The Board is responsible for the Group's systems of internal controls and, together with the Audit Committee, reviewing those systems. The systems put in place are designed to manage, limit and control risk but cannot eliminate all risk completely.

The Executive Directors of the Company are actively involved in the daily management of the operations of the Group. Business risks are regularly identified and appropriate control systems are implemented to manage those risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. Steps have been taken to embed internal control and risk management further into the operations of the business. The monthly results of each area of the business are reported, discussed and compared to forecast.

### **Auditor independence**

The Audit Committee and the external auditor, KPMG LLP, have safeguards in place to avoid the possibility that the auditor's objectivity and independence could be compromised. These safeguards include the auditor's report to the Audit Committee on the actions they take to comply with the professional and regulatory requirements and best practice designed to ensure their independence from the Company. In addition, a formal policy for audit and non-audit services has been agreed by the Audit Committee, ensuring that there is appropriate high level authorisation before the auditor is engaged in providing a material non-audit service.

The overall performance and the independence of the auditor is reviewed annually by the Audit Committee taking into account the views of management. The Audit Committee also has discussions with the auditor without management being present on the adequacy of controls and on any judgemental areas.

The annual appointment of auditors by shareholders in the AGM is a fundamental safeguard of auditor independence. Beyond this, the Group has implemented an audit service policy, compliant with the latest guidance, that considers whether additional work performed by the auditor may be appropriate for sound commercial and practical reasons, including confidentiality. Examples of work that would fall into this category include regulatory advice, taxation services and financial due diligence work.

### **Shareholder relations and the Annual General Meeting**

The Chief Executive and Chief Financial Officer meet analysts and institutional shareholders of the Company after the interim and annual results announcements and on an as-needed basis at other times in the year to update shareholders on the progress of the Group. Additionally, the Non-executive Directors are available to meet shareholders if requested.

The Directors encourage the participation of all shareholders, including private shareholders, at the AGM. The Annual Report and Accounts are published on the Company's website, [www.focusriteplc.com](http://www.focusriteplc.com), and can be accessed by shareholders and potential investors.

Notice of the AGM will be sent to shareholders at least 21 clear days before the meeting. The voting results will be announced following the meeting.

The Company uses its corporate website ([www.focusriteplc.com](http://www.focusriteplc.com)) to communicate with its institutional shareholders and private investors and posts the latest announcements, press releases and published financial information together with market updates and other information about the Group.

# Directors' Report

## For the year ended 31 August 2016

The Directors present their report for the year ended 31 August 2016 in accordance with section 415 of the Companies Act 2006. . Particulars of important events affecting the Group, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 23 which is incorporated into this report by reference together with the corporate governance report on pages 26 to 29. In addition, this report should be read in conjunction with information concerning employee share schemes, which can be found in the Directors' Remuneration Report on page 35 and in note 31 to the financial statements, and which is incorporated by way of cross-reference into the Directors' Report. The Company did not make any political donations during the year.

### Results and dividends

The results for the year are set out in the consolidated statement of comprehensive income on page 40. During the year the Directors approved the payment of an interim dividend of 0.65 pence per share. Following the year end the Directors assessed the appropriateness of the Group declaring a final dividend and are recommending that a dividend of 1.3 pence should be paid. This dividend recommendation shall be put to the shareholders to vote on at the AGM to be held on 10 January 2017.

### Directors

There were no changes to the Board during the year and details of the Director offering himself for re-election at the AGM are set out in the corporate governance statement on page 26.

The Executive Directors have service contracts in place with a six-month notice period. The Non-executive Directors were appointed on 11 December 2014 to serve for an initial three-year term. Details of each Director's contractual arrangements, including notice periods, are included as part of the Directors' Remuneration Report on pages 33 to 36 and that information is incorporated by reference into the Directors' Report.

The Directors who served during the year were as follows:

P Dudderidge  
D Foker  
J Wilson  
D Bezem  
P Dean

### Directors' interests and indemnity arrangements

At no time during the year did any Director hold a material interest in any contract of significance with the Group or any of its subsidiary undertakings other than an indemnity provision between each Director and the Group and employment contracts between each Executive Director and the Group. The Group has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of all Group companies.

The number of ordinary shares of the Company in which the Directors were beneficially interested at 31 August 2016 is set out in the Directors' Remuneration Report on page 35.

On 5 December 2014, the Group entered into an agreement with Phil Dudderidge (the 'Investor'). This agreement contains, inter alia, provisions to allow the Group to operate independently of the Investor and any person connected with him for as long as they together hold not less than 25% or more of the voting rights. This agreement, known as the Relationship Agreement, is described in more detail in the Admission Document.

### Significant agreements – change of control

A number of agreements take effect, alter or terminate upon a change of control of the Group, such as the employee share-based incentive schemes.

### Articles of Association

Any amendments to the Articles of Association of the Company may be made by special resolution of the shareholders.

### Share capital

Details of the Company's share capital are set out in note 27 to the financial statements. The Company has one class of share capital: 58,075,000 ordinary shares with a nominal value of £0.001 each which, following the

Company's IPO, were admitted to AIM on 11 December 2014. The rights and obligations attached to the ordinary shares are governed by UK law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at general meetings. On a show of hands, every shareholder present in person or by proxy (or a duly authorised corporate representative) shall have one vote and, on a poll, every member who is present in person or by proxy (or a duly authorised corporate representative) shall have one vote for every share held. Other than the general provisions of the Articles of Association and prevailing legislation, there are no specific restrictions on the size of a holding of the Company's share capital. The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction on the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

#### Restrictions on the transfers of shares

The Articles of Association do not contain any restrictions on the transfer of ordinary shares in the Company other than the usual restrictions, which are applicable where a share instrument is not duly stamped or certified as exempt from stamp duty, is in respect of more than one class of share, relates to joint transferees and such transfer is in favour of more than four such transferees, or relates to shares that are not fully paid.

#### Major interests in shares

As at 31 August 2016, the following substantial interests (3% or more) in voting rights attaching to the Company's ordinary shares had been notified to the Company:

| Shareholder                       | Number of voting rights as at 31 August 2016 | % voting rights as at 31 August 2016 |
|-----------------------------------|--|--------------------------------------|
| Philip Dudderidge and family      | 30,249,000                                   | 52.09%                               |
| Schroder Investment Management    | 4,911,108                                    | 8.46%                                |
| Focusrite Employee Benefit Trust  | 4,494,504                                    | 7.74%                                |
| Highclere International Investors | 2,542,055                                    | 4.38%                                |
| Investec Asset Management         | 2,381,000                                    | 4.10%                                |
| Polar Capital Partners            | 2,000,000                                    | 3.44%                                |

#### Financial risk management

The Group uses financial instruments to manage certain types of risks, including those relating to credit and foreign currency exchange. The Group's objectives and policies on financial risk management including information on liquidity, capital, credit and risk can be found in note 33 of the financial statements and in the risks section on pages 19 to 20.

#### Future business developments

The strategy of the Group is explained in the Strategic Report section of this Annual Report and Accounts which, as noted in the preamble to the Directors' Report, is incorporated into this report by reference.

#### Research and development

The Group continues to invest in its research and development activities, as explained in the Chairman's Statement and the Chief Executive's Statement.

#### Health and safety

The Group is committed to providing a safe and healthy working environment for all staff and contractors. The Group's health and safety standard sets out the range of policies, procedures and systems required to manage risks and promote wellbeing. The General Counsel has overall accountability for health and safety across the organisation.

#### Going concern

The Company's business activities, together with risk factors which potentially affect its future development, performance or position can be found in the Strategic Report on pages 1 to 23. Details of the Company's financial position and its cash flows are outlined in the Financial Review on pages 14 to 17.

After making reasonable enquiries, the Board has an expectation that the Group and the Company have adequate financial resources together with a strong business model to ensure they continue to operate for the foreseeable future. The Company is a cash-generative business that, when required, has access to borrowing facilities to meet the Group's future cash requirements. Accordingly, the Directors have adopted the going concern basis in preparing the financial statements.

**Auditor**

As recommended by the Audit Committee, pursuant to section 487 of the Companies Act 2006 and having indicated its willingness to act, the Company will propose a resolution at the AGM that KPMG LLP be reappointed as auditor of the Company.

**Audit information**

Each of the Directors at the date of the Directors' Report confirms that so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware and he has taken all the reasonable steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

**Annual General Meeting**

Details of the Company's AGM and the resolutions to be proposed will be set out in a separate notice of meeting.

The Directors' Report has been approved by the Board of Directors on 22 November 2016.

Signed on behalf of the Board.

**Prism Cosec**

Company Secretary  
22 November 2016

Focusrite Plc  
Windsor House  
Turnpike Road  
High Wycombe  
Buckinghamshire  
HP12 3FX

Company number: 9312676

# Directors' Remuneration Report

## Introduction

This is the second Remuneration Report since Focusrite's IPO on the Alternative Investment Market (AIM) in December 2014 and the first since the Company shares have been traded on AIM for a full financial year. As reported last year, following the IPO a review of the executive Directors' and senior management's remuneration structures was conducted with assistance from third party advisers. Following this work, changes were made by the committee in order to bring the Company's remuneration structures more into line with those of other quoted companies of similar size and complexity. The review also helped inform the formulation of new performance targets intended to align the interests of the Directors and management with those of its shareholders. During this financial year the committee has monitored the effectiveness of these new remuneration structures and where appropriate is continuing this process by making further changes which will take effect in the next financial year.

As a company admitted to AIM, Focusrite Group Plc is not required to prepare a Directors' Remuneration Report, however the Board supports the principle of transparency and has therefore prepared this report in order to provide useful information to shareholders on its executive remuneration arrangements. Accordingly, although not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'), the Company has used these Regulations as guidance for presenting selected disclosures where it considers these to be both relevant, helpful and appropriate. Accordingly, this report sets out information about the remuneration of the Directors of the Company for the year ended 31 August 2016.

## Remuneration Committee

The members of the Remuneration Committee are David Bezem (Chairman) and Paul Dean who are both independent Non-executive Directors.

Terms of reference have been approved for the Remuneration Committee and are reviewed annually. The committee's primary responsibility is to determine, on behalf of the Board, the policy for the remuneration of the Executive Directors and such other members of the executive management team of the Group as is deemed appropriate. The remuneration of the Non-executive Directors is a matter for the Chairman and the executive members of the Board.

The Executive Chairman, Chief Executive Officer, General Counsel, Company Secretary and external advisers may be invited to attend meetings of the Remuneration Committee but do not take part in the decision making.

Attendance at meetings of the Remuneration Committee by individual members is detailed in the Corporate Governance Report on page 27.

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group. The Committee members do not participate in any bonus, share awards or pension arrangements.

## Remuneration policy

The Committee's overarching aims in setting the remuneration policy are to attract, retain and motivate high-calibre senior management and to focus them on the delivery of the Group's strategic and business objectives, to promote a strong and sustainable performance culture, to incentivise growth and to align the interests of Executive Directors and senior managers with those of shareholders.

The remuneration package for each Executive Director is designed to include performance and non-performance-related elements. Non-performance elements include salary, taxable benefits and employer pension contributions. All other components of the remuneration package are performance-related and comprise a mixture of cash and share-based, and short and long-term incentives, as set out below.

The main elements of the remuneration packages for Executive Directors are:

- base salary;
- performance-related annual bonus;
- long-term share incentives;
- pension contribution; and
- benefits.

#### Base salary

Base salaries for each Executive Director are reviewed annually and determined by individual performance, scope of responsibility, relative pay levels within the Group and reference to external market data such as other AIM-quoted companies of similar size and complexity and those operating in related industries. In particular, as mentioned in last year's annual report, during the financial year ended 31 August 2015, the committee commissioned Kepler Associates, a brand of Mercer Limited, to carry out a remuneration benchmarking survey in respect of the Executive Directors and senior management, the data from which the committee has taken into account in setting base salaries and other remuneration for the financial year ended 31 August 2016 and for the following financial year.

The Executive Directors' base salaries for the financial year ended 31 August 2016 are set out on the table on page 36. As explained in last year's annual report, the base salary of Dave Froker, the Chief Executive Officer, was increased to be set at the same level as Jeremy Wilson's, the Chief Financial Officer, who joined the Group shortly before the IPO during the preceding financial year.

#### Performance-related annual bonus

Dave Froker and Jeremy Wilson were awarded a performance-based cash bonus for the financial year ended 31 August 2016. Phil Dudderidge, the Executive Chairman, does not receive an annual bonus. The bonuses for the year ended 31 August 2016 were based upon EBITDA targets as set out in the table below. The table shows the lower and upper boundaries, the target and the actual bonuses achieved:

|                  |                  | Performance range<br>Below which no bonus is paid and above which no additional<br>bonus is paid, and calculated on a straight-line basis between the<br>lower boundary and the target as well as between the target and<br>the upper boundary |          |                | FY16 bonus<br>payout – EBITDA<br>achieved |
|------------------|------------------|--|----------|----------------|---|
|                  |                  | Lower boundary   | Target   | Upper boundary |   |
| Dave<br>Froker   | EBITDA<br>target | £9.3m  | £11.054m | £12.269m       | £10.249m                                  |
|                  | Bonus<br>payout  | £0   | £84,200  | £127,500       | £47,210                                   |
|                  | % salary         | 0%   | 50.0%    | 75.8%          | 28.0%                                     |
| Jeremy<br>Wilson | EBITDA<br>target | £9.3m  | £11.054m | £12.269m       | £10.249m                                  |
|                  | Bonus<br>payout  | £0   | £67,300  | £102,000       | £37,770                                   |
|                  | % salary         | 0%   | 40.0%    | 60.6%          | 22.4%                                     |

For the financial year ending 31 August 2017 the annual performance bonus parameters have been set by the Remuneration Committee and will be set out in next year's annual report.

#### Long-term incentive plans

A bespoke share incentive plan was put in place for Dave Froker when he joined the Group in September 2012. In addition, an award of options under the existing Enterprise Management Incentive Scheme (the 'EMI Scheme') was made to Jeremy Wilson pre-IPO when he joined Focusrite in September 2014. Phil Dudderidge does not participate in a long-term incentive plan. The details of these awards are as follows:

|               |                                  |                           |                           |                           |
|---------------|----------------------------------|---------------------------|---------------------------|---------------------------|
| Dave Froker   | Vesting criteria                 | £9m <sup>1</sup>          | £12m <sup>2</sup>         | £15m <sup>2</sup>         |
|               | EBITDA attainment                |                           |                           |                           |
|               | Exercisable options              | 619,000                   | 632,000                   | 646,000                   |
|               | Exercise price                   | 10.3p                     | 10.3p                     | 10.3p                     |
| Jeremy Wilson | Vesting criteria                 | To FY17                   | To FY18                   | To FY19                   |
|               | Three-year EPS CAGR <sup>3</sup> | 12.5% to 22.5% or greater | 12.5% to 22.5% or greater | 12.5% to 22.5% or greater |
|               | Exercisable options              | 0 to 133,333              | 0 to 133,333              | 0 to 133,333              |
|               | Exercise price                   | 14.6p                     | 14.6p                     | 14.6p                     |

- 1 During FY15 the vesting threshold of £9 million EBITDA was exceeded and consequently the Remuneration Committee approved the vesting of the 619,000 options.
- 2 Dave Froker will retire on 31 December 2016 as a consequence of which the remaining unvested options granted to him will lapse at that time.
- 3 Compound Annual Growth Rate

As part of the post-IPO review of the remuneration structures referred to above, the Remuneration Committee looked at the role of long-term incentive plans for both the Executive Directors and other senior management within the Group. This resulted in the introduction of a PSP during the financial year ending 31 August 2015, the terms of which were set out in last year's annual report. Currently the PSP is not being used for the Executive Directors due to their pre-existing long-term incentive awards described above although it is the intention to do so in the future. However, awards over a total of 139,935 shares were made during the year to certain other senior executives as part of the Remuneration Committee's ambition to retain, reward and incentivise individuals whose contribution is considered to be a significant factor in the Group's overall performance.

The Group also operates both approved EMI Schemes and unapproved option schemes for the benefit of other employees of the Group. These schemes, which were set up prior to the IPO, form part of the programme of incentives to promote the successful recruitment, retention and rewarding of all employees. Currently there is an employment benefit trust ('EBT'), also established prior to the IPO, which holds a sufficient number of shares to satisfy vested options under these schemes. It should be noted that these awards do not vest on performance-based criteria but rather as the result of spent time, typically in thirds over three years.

#### Dilution

All of the Group's equity-based awards are subject to an overall limit on the number of new ordinary shares that can be issued which will be dilutive. Other than awards to be satisfied by shares held by the EBT at the time of the IPO, these must not, in aggregate, exceed 10% of the Company's issued share capital over any rolling ten-year period post-IPO. The following table illustrates the maximum outstanding share awards and the potential net dilution as at 31 August 2016:

| Plan   | Maximum number of shares relating to award | % of issued share capital |
|--|--|---------------------------|
| Dave Froker LTIP <sup>1</sup>                | 1,897,000                                  | 3.27%                     |
| Jeremy Wilson LTIP                           | 400,000                                    | 0.69%                     |
| Senior management PSP                        | 278,811                                    | 0.48%                     |
| Other general employee share option plans    | 3,809,338                                  | 6.56%                     |
| Options outstanding at end of period         | 6,385,149                                  | 11.00%                    |
| Less: Issued shares held in EBT <sup>2</sup> | (4,494,504)                                | (7.74%)                   |
| Potential net dilution                       | 1,890,645                                  | 3.26%                     |

- 1 With regard to the 1,897,000 options held by Dave Froker, 619,000 have vested and will be exercised. The remaining unvested options granted to him will lapse upon his retirement.
- 2 Represents the number of shares held by the EBT as at the IPO less the number of shares used by the EBT since then to satisfy options that have vested and been exercised.

#### Pension contributions

Dave Froker and Jeremy Wilson are members of a money purchase pension scheme. In the financial year ended 31 August 2016, the Company made defined contributions, of 1% of gross salary including any annual bonus.

The Company does not have any final salary pension schemes.

## Benefits

The Company provides life assurance, membership of the Group's healthcare insurance scheme, critical illness cover and travel insurance to the Executive Directors. These benefits do not form part of their pensionable earnings. The value of these benefits is set out in the Directors' emoluments table overleaf.

## Executive Directors' service contracts

The service contracts for the Executive Directors are terminable by either the Company or the Executive Directors on not less than six months' notice. There are no predetermined special provisions for Executive Directors with regard to compensation in the event of loss of office.

## Non-executive Directors' terms of appointment

Both Non-executive Directors have letters of appointment with the Company for an initial period of three years, subject to reappointment at the AGM. The appointment letters for the Non-executive Directors provide that no compensation is payable on termination. The appointments are terminable by the Company or the Non-executive Directors on six months' notice.

## Directors' emoluments table

|                                |      | Salary/fees<br>£'000 | Other<br>taxable<br>benefits<br>£'000 | Annual<br>bonus<br>£'000 | Pension<br>contribution<br>£'000 | Total<br>£'000 |
|--------------------------------|------|----------------------|---------------------------------------|--------------------------|----------------------------------|----------------|
| <b>Executive Directors</b>     |      |                      |                                       |                          |                                  |                |
| Dave Froker                    | FY15 | 154                  | 2                                     | 36                       | 2                                | 194            |
|                                | FY16 | 168                  | 3                                     | 47                       | 2                                | 220            |
| Jeremy Wilson                  | FY15 | 161                  | –                                     | 66                       | 2                                | 229            |
|                                | FY16 | 168                  | 2                                     | 38                       | 1                                | 209            |
| Phil Dudderidge                | FY15 | 168                  | –                                     | –                        | –                                | 168            |
|                                | FY16 | 168                  | 3                                     | –                        | –                                | 171            |
| <b>Non-executive Directors</b> |      |                      |                                       |                          |                                  |                |
| David Bezem <sup>1</sup>       | FY15 | 26                   | –                                     | –                        | –                                | 26             |
|                                | FY16 | 36                   | –                                     | –                        | –                                | 36             |
| Paul Dean <sup>1</sup>         | FY15 | 26                   | –                                     | –                        | –                                | 26             |
|                                | FY16 | 36                   | –                                     | –                        | –                                | 36             |

1 The remuneration for David Bezem and Paul Dean each comprises a basic fee of £30,700 per annum, for their roles as Non-executive Directors of the Group, and an additional £5,000 per annum for their roles as Chairmen of Board committees.

## Directors' interest in shares

The interests of the Directors and their families in the shares of the Company at end of the financial year were as follows:

|                          | 0.1p ordinary shares as at<br>31 August 2016 | Outstanding options<br>over shares as at<br>31 August 2016 | 0.1p ordinary shares<br>as at<br>31 August 2015 |
|--------------------------|--|--|---|
| Phil Dudderidge          | 30,249,000                                   | –  | 30,249,000                                      |
| Dave Froker <sup>1</sup> | 1,202,000                                    | 1,897,000  | 1,202,000                                       |
| Jeremy Wilson            | 31,746                                       | 400,000  | 31,746  |
| David Bezem              | 7,937  | –  | 7,937   |
| Paul Dean                | 7,937  | –  | 7,937   |

1 With regard to the 1,897,000 options held by Dave Froker, 619,000 have vested and will be exercised. The remaining unvested options granted to him will lapse upon his retirement.

## Approval

This report was approved by the Directors and signed by order of the Board.

## David Bezem

Chairman of the Remuneration Committee  
22 November 2016

# Statement of Directors' Responsibilities

## In respect of the Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## FINANCIAL STATEMENTS

# Independent Auditor's Report to the Members of Focusrite Plc

We have audited the financial statements of Focusrite Plc for the year ended 31 August 2016 set out on pages 40 to 79. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRS as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 37, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Peter Meehan (Senior Statutory Auditor)**

for and on behalf of KPMG LLP

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

22 November 2016

# Consolidated Income Statement

For the year ended 31 August 2016

|   | Note | 2016<br>£'000 | 2015<br>£'000 |
|---|------|---------------|---------------|
| <b>Revenue</b>  | 5    | <b>54,301</b> | 48,029        |
| Cost of sales   |      | (33,439)      | (29,381)      |
| <b>Gross profit</b>                                     |      | <b>20,862</b> | 18,648        |
| Administrative expenses                                 |      | (13,722)      | (12,328)      |
| <b>Adjusted EBITDA (non-GAAP measure)</b>               |      | <b>10,249</b> | 9,302         |
| Depreciation and amortisation                           |      | (2,572)       | (2,278)       |
| Non-underlying items                                    | 13   | (537)         | (704)         |
| <b>Operating profit</b>                                 |      | <b>7,140</b>  | 6,320         |
| Finance income  | 9    | 325           | 164           |
| Finance costs   | 10   | (339)         | -             |
| <b>Profit before tax</b>                                |      | <b>7,126</b>  | 6,484         |
| Income tax expense                                      | 14   | (870)         | (1,022)       |
| <b>Profit for the period from continuing operations</b> |      | <b>6,256</b>  | 5,462         |
| <b>Earnings per share</b>                               |      |               |               |
| From continuing operations                              |      |               |               |
| Basic (pence per share)                                 | 16   | <b>11.8</b>   | 10.4          |
| Diluted (pence per share)                               | 16   | <b>10.7</b>   | 9.3           |

# Consolidated Statement of Comprehensive Income

For the year ended 31 August 2016

|   | Note | 2016<br>£'000 | 2015<br>£'000 |
|---|------|---------------|---------------|
| <b>Profit for the period</b>  |      | <b>6,256</b>  | <b>5,462</b>  |
| <i>Items that may be reclassified subsequently to the income statement</i>                  |      |               |               |
| Exchange differences on translation of foreign operations                                   |      | 45            | -             |
| Loss on forward foreign exchange contracts designated and effective as a hedging instrument | 33   | (1,143)       | -             |
| Tax on hedging instrument   | 24   | 229           |               |
| <b>Total comprehensive income for the period</b>  |      | <b>5,387</b>  | <b>5,462</b>  |
| <b>Profit attributable to:</b>  |      |               |               |
| Equity holders of the Company   |      | <b>5,387</b>  | <b>5,462</b>  |
|   |      | <b>5,387</b>  | <b>5,462</b>  |

Notes 1 to 35 form part of the financial statements.

# Consolidated Statement of Financial Position

As at 31 August 2016

|   | Note | 2016<br>£'000 | 2015<br>£'000 |
|---|------|---------------|---------------|
| <b>Assets</b>                                       |      |               |               |
| <b>Non-current assets</b>                           |      |               |               |
| Goodwill  | 17   | 419           | 419           |
| Other intangible assets                             | 18   | 4,373         | 3,522         |
| Property, plant and equipment                       | 19   | 1,575         | 1,323         |
| <b>Total non-current assets</b>                     | 6    | <b>6,367</b>  | <b>5,264</b>  |
| <b>Current assets</b>                               |      |               |               |
| Inventories   | 21   | 11,361        | 8,633         |
| Trade and other receivables                         | 22   | 11,224        | 7,737         |
| Other investments including derivatives             | 23   | -             | 223           |
| Cash and cash equivalents                           | 30   | 5,606         | 6,173         |
| <b>Total current assets</b>                         |      | <b>28,191</b> | <b>22,766</b> |
| <b>Total assets</b>                                 |      | <b>34,558</b> | <b>28,030</b> |
| <b>Equity and liabilities</b>                       |      |               |               |
| <b>Capital and reserves</b>                         |      |               |               |
| Share capital                                       | 27   | 58            | 58            |
| Merger reserve                                      | 28   | 14,595        | 14,595        |
| Merger difference reserve                           | 28   | (13,147)      | (13,147)      |
| Translation reserve                                 | 28   | 39            | (6)           |
| Hedging reserve                                     | 28   | (914)         | -             |
| Treasury reserve                                    | 28   | (5)           | (6)           |
| Deferred tax reserve                                | 28   | 333           | -             |
| Retained earnings                                   | 29   | 22,918        | 16,984        |
| <b>Equity attributable to owners of the Company</b> |      | <b>23,877</b> | <b>18,478</b> |
| <b>Total equity</b>                                 |      | <b>23,877</b> | <b>18,478</b> |
| <b>Current liabilities</b>                          |      |               |               |
| Trade and other payables                            | 26   | 8,612         | 8,406         |
| Current tax liabilities                             |      | 644           | 403           |
| Derivative financial instruments                    | 33   | 1,143         | -             |
| <b>Total current liabilities</b>                    |      | <b>10,399</b> | <b>8,809</b>  |
| <b>Non-current liabilities</b>                      |      |               |               |
| Deferred tax  | 24   | 282           | 743           |
| <b>Total liabilities</b>                            |      | <b>10,681</b> | <b>9,552</b>  |
| <b>Total equity and liabilities</b>                 |      | <b>34,558</b> | <b>28,030</b> |

The financial statements were approved by the Board of Directors and authorised for issue on 22 November 2016. They were signed on its behalf by:

**Dave Froker**  
Chief Executive Officer

**Jeremy Wilson**  
Chief Financial Officer

The company number of Focusrite plc is 09312676  
The notes on pages 45 to 72 form part of the financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 August 2016

|  | Share capital<br>£'000 | Merger reserve<br>£'000 | Merger difference reserve<br>£'000 | Translation reserve<br>£'000 | Deferred tax reserve<br>£'000 | Hedging reserve<br>£'000 | Treasury share reserve<br>£'000 | Share based payment reserve<br>£'000 | Retained earnings <sup>1</sup><br>£'000 | Total<br>£'000 |
|--|------------------------|-------------------------|------------------------------------|------------------------------|-------------------------------|--------------------------|---------------------------------|--------------------------------------|---|----------------|
| Balance at 1 September 2014  | 52                     | -                       | 1,448                              | (6)                          | -                             | -                        | -                               | 140                                  | 11,574                                  | 13,208         |
| Profit for the period  | -                      | -                       | -                                  | -                            | -                             | -                        | -                               | -                                    | 5,462                                   | 5,462          |
| Other comprehensive income for the period                                    | -                      | -                       | -                                  | -                            | -                             | -                        | -                               | -                                    | -                                       | -              |
| Total comprehensive income for the period                                    | -                      | -                       | -                                  | -                            | -                             | -                        | -                               | -                                    | 5,462                                   | 5,462          |
| Transactions with owners of the Company:                                     |                        |                         |                                    |                              |                               |                          |                                 |                                      |   |                |
| Issue of ordinary shares   | 6                      | -                       | -                                  | -                            | -                             | -                        | -                               | -                                    | -                                       | 6              |
| Ordinary shares issued to the EBT  | -                      | -                       | -                                  | -                            | -                             | -                        | (6)                             | -                                    | -                                       | (6)            |
| Share for share exchange   | -                      | 14,595                  | (14,595)                           | -                            | -                             | -                        | -                               | -                                    | -                                       | -              |
| Share-based payments   | -                      | -                       | -                                  | -                            | -                             | -                        | -                               | 122                                  | -                                       | 122            |
| Dividends paid   | -                      | -                       | -                                  | -                            | -                             | -                        | -                               | -                                    | (314)                                   | (314)          |
| Balance at 1 September 2015  | 58                     | 14,595                  | (13,147)                           | (6)                          | -                             | -                        | (6)                             | 262                                  | 16,722                                  | 18,478         |
| Profit for the period  | -                      | -                       | -                                  | -                            | -                             | -                        | -                               | -                                    | 6,256                                   | 6,256          |
| Other comprehensive income for the period                                    | -                      | -                       | -                                  | 45                           | -                             | (914)                    | -                               | -                                    | -                                       | (869)          |
| Total comprehensive income for the period                                    | -                      | -                       | -                                  | 45                           | -                             | (914)                    | -                               | -                                    | 6,256                                   | 5,387          |
| Transactions with owners of the Company:                                     |                        |                         |                                    |                              |                               |                          |                                 |                                      |   |                |
| Share-based payment deferred tax deduction in excess of remuneration expense | -                      | -                       | -                                  | -                            | 333                           | -                        | -                               | -                                    | -                                       | 333            |
| Share-based payment current tax deduction in excess of remuneration expense  | -                      | -                       | -                                  | -                            | -                             | -                        | -                               | -                                    | 363                                     | 363            |
| Shares from EBT exercised  | -                      | -                       | -                                  | -                            | -                             | -                        | 1                               | -                                    | 171                                     | 172            |
| Share-based payments   | -                      | -                       | -                                  | -                            | -                             | -                        | -                               | 120                                  | -                                       | 120            |
| Dividends paid   | -                      | -                       | -                                  | -                            | -                             | -                        | -                               | -                                    | (976)                                   | (976)          |
| Balance at 31 August 2016  | 58                     | 14,595                  | (13,147)                           | 39                           | 333                           | (914)                    | (5)                             | 382                                  | 22,536                                  | 23,877         |

<sup>1</sup> Of the retained earnings totalling £22,536,000, £171,317 relates to the gain on exercise of share options from the EBT and is therefore non-distributable.

The notes on pages 45 to 72 form part of the financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 August 2016

|   | Note | 2016<br>£'000  | 2015<br>£'000 |
|---|------|----------------|---------------|
| <b>Net cash from operating activities</b>                   | 30   | <b>3,912</b>   | 6,243         |
| <b>Investing activities</b>                                 |      |                |               |
| Purchases of property, plant and equipment                  | 19   | (773)          | (782)         |
| Purchases of intangible assets                              | 18   | (2,902)        | (2,778)       |
| Proceeds from disposal of intangible assets                 |      | -              | 1             |
| <b>Net cash used in investing activities</b>                |      | <b>(3,675)</b> | (3,559)       |
| <b>Financing activities</b>                                 |      |                |               |
| Issue of equity shares                                      |      | 172            | -             |
| Equity dividends paid                                       | 15   | (976)          | (314)         |
| <b>Net cash used in financing activities</b>                |      | <b>(804)</b>   | (314)         |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(567)</b>   | 2,370         |
| <b>Cash and cash equivalents at beginning of year</b>       |      | <b>6,173</b>   | 3,803         |
| <b>Cash and cash equivalents at end of year</b>             | 30   | <b>5,606</b>   | 6,173         |

# Notes to the Financial Statements

For the year ended 31 August 2016

## 1 GENERAL INFORMATION

Focusrite Plc (the 'Company'), is a company incorporated in the UK. The consolidated financial statements ('financial statements') as at and for the year ended 31 August 2016 comprised the Company and its subsidiaries (together referred to as the 'Group').

The Group is a business engaged in the development, manufacture and marketing of professional audio and electronic music products.

### Basis of preparation

#### Statement of compliance

The financial statements for the year ended 31 August 2016 are presented in pounds Sterling ('GBP'). This is the functional currency of the Group. The financial statements have been prepared in accordance with the IFRS, International Accounting Standards ('IAS') and interpretations currently endorsed by the International Accounting Standards Board ('IASB') and its committees as adopted by the EU and as required to be adopted by UK companies.

The Company has elected to prepare its Parent Company accounts in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

The Group has chosen to take advantage of the exemption available under IFRS 1, 'First time adoption of IFRS', for reassessing acquisitions completed before 30 March 2006. The goodwill arising on business combinations of the Group prior to March 2006 remains unchanged up to 31 August 2011 and is subject to an annual impairment review.

These financial statements were authorised for issue by the Company's Board of Directors on 22 November 2016.

## 2 ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has applied a number of amendments to IFRS that are mandatorily effective. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

### Standards not affecting the reported results or the financial position

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Annual improvements to IFRS 2012-2014 cycle
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'

Of these, only IFRS 16 is expected to have a material impact on the future financial statements of the Group since it would require the substantial majority of the Group's operating lease commitments (c£1.0m on an undiscounted basis as shown in note 25 of the financial statements) to be brought on to the balance sheet, resulting in the recognition of significant lease assets and liabilities which would be depreciated and amortised separately. IFRS 16 would first apply to the Group for the financial year ending August 2020.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently for all periods presented in the financial statements.

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied by the Group in these financial statements.

Application of these standards and interpretations is not expected to have a material effect on the financial statements in the future.

**Basis of consolidation**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date control ceases.

**Going concern**

The Group's business activities and position in the market are described in the Strategic Report. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertainties within the global economy. The Group has considerable financial resources, ongoing revenue streams and a broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further detail is contained in the Strategic Report on pages 1 to 23.

**Earnings per share**

The Group presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For diluted EPS, the weighted average number of ordinary shares is adjusted for the dilutive effect of potential ordinary shares arising from the exercise of granted share options.

As explained in the basis of consolidation accounting policy, the Group's financial statements reflect the continuation of the pre-existing Group headed by Focusrite Audio Engineering Limited ('FAEL').

For the period reported, the Group has chosen to present an adjusted EPS (note 16) calculation with profit adjusted for non-underlying items to aid comparability and to provide a consistent measure of performance.

**Goodwill**

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units ('CGUs') expected to benefit from synergies arising from the combination. CGUs to which goodwill has been attributed under IFRS 3 'Business Combinations' are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in determining profit or loss on disposal.

**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 sales taxes and discounts.

The Group recognises revenue when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue recognised in the income statement but not yet invoiced is held on the balance sheet within 'Trade and other receivables'. Revenue invoiced but not yet recognised in the income statement is held on the balance sheet within 'Deferred revenue'.

Revenue is classified as follows:

**Sale of goods**

Revenue from the supply of goods is recognised as soon as all substantial risks and rewards relating to the title of the goods have been transferred to the customer.

**Sale of apps**

Revenue from the download of apps is recognised upon confirmation from the app store provider.

**Interest income**

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Non-underlying items**

Non-underlying items are those items that are unusual because of their size, nature or incidence. The Directors consider that these items should be separately identified within their relevant income statement category to enable a full understanding of the Group's result.

**Leasing**

The Group's leases are currently all operating leases (leases in which a significant portion of the risks and rewards of ownership are retained by the lessor). Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease (net of any incentive received from the lessor).

**Foreign currencies**

The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which it operates (its functional currency). Sterling is the predominant functional currency of the Group and presentation currency for the consolidated financial information.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting).
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any, are recognised in the income statement.

**Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

**Equity-settled share-based payments**

The Group issues equity-settled payments to certain employees (including Directors). Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and a simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to the 'other reserves'.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium account.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are only recognised for taxable temporary differences arising on investments in subsidiaries, where the Group is unable to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## **Tangible and intangible assets**

### ***Property, plant and equipment***

The Group has held no land and buildings for the period covered by the consolidated financial information.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets less residual value over their useful lives, using the straight-line method, on the following bases:

|                              |              |
|------------------------------|--------------|
| Plant, equipment and tooling | 3 to 5 years |
| Computer equipment           | 2 years      |
| Fixtures and fittings        | 5 years      |
| Leasehold improvements       | 5 to 8 years |
| Customer demonstration units | 2 years      |

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income on the transfer of the risks and rewards of ownership.

The Group has no class of tangible fixed asset that has been revalued. On transition to IFRS the net book values recorded at 1 September 2012 have been applied and these are based on historic cost or fair value recognised at the date of acquisition.

### ***Intangible assets***

Intangible assets are amortised over the following periods on a straight-line basis:

|                                 |              |
|---------------------------------|--------------|
| Development expenditure         | 3 years      |
| Purchased intellectual property | 2 years      |
| Licences                        | 2 to 5 years |
| Computer software               | 2 years      |

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development of new and enhanced products is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as product designs and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the costs of developing this asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, the expenditure is recognised as an expense in the period in which it is incurred.

### **Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Capitalised development costs are calculated by reference to the Group's product development department and will therefore be tested for impairment at CGU level.

Recoverable amount is the higher of: (i) fair value less costs to sell and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the

impairment loss is treated as a revaluation decrease to the extent that the revaluation balance is greater than the impairment loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years for the asset (or CGU). A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using either the First-In-First-Out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### **Trade and other receivables**

Trade debtors, which generally have 30–90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### ***Financial assets***

All financial assets are normally recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ('FVTPL'), which are initially measured at fair value. On derecognition, however, where a specific transaction is entered into with a counterparty that is judged to carry a high credit or liquidity risk, then management may determine that derecognition of the financial asset shall be based on settlement date rather than trade date, with any realised gain or loss taken to profit and loss on date of settlement.

Financial assets are classified into the following specified categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' ('AFS') financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

#### ***Classes of financial asset***

##### ***Financial assets at FVTPL***

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line in the income statement. Fair value is determined in the manner described in note 33.

#### *Held-to-maturity investments*

The Group holds no financial assets classified as held-to-maturity investments.

#### *AFS financial assets*

The Group holds no financial assets classified as AFS.

#### *Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

**Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

**Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line in the income statement. Fair value is determined in the manner described in note 33.

**Other financial liabilities**

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**Derivative financial instruments**

The Group is able to enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps. Further details of derivative financial instruments are disclosed in note 33.

**Hedge accounting**

Up to 31 August 2015 the Group had not adopted hedge accounting for the foreign currency forward contracts purchased to hedge against short-term movements in cash flows of the underlying hedged item. For the year ended 31 August 2016 and subsequent years, the Group has adopted hedge accounting for qualifying transactions. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of

foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

#### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### **4 CRITICAL JUDGEMENTS AND ESTIMATIONS IN APPLYING THE GROUP'S ACCOUNTING POLICIES**

The following are the critical judgements and estimations that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial information.

##### **Revenue recognition**

In making its judgement, management considered the detailed criteria for the recognition of revenue set out in IAS 18. Management is satisfied that the significant risks and rewards of ownership are transferred and that the recognition of revenue upon despatch is appropriate.

##### **Inventory valuation**

The Group has an inventory provisioning policy that reflects the fact that there are strong physical controls carried out by the independent service provider which manages the Group's inventory resulting in low inventory loss or damage. Also, the levels of inventory are managed with the aim that inventory is sold before it becomes obsolete.

##### **Share option scheme**

The Group has established a share option scheme known as the EMI Scheme. The fair value of the options issued under the EMI Scheme is derived by the Company using the Black-Scholes model and the resultant values are allocated to the income statement over the period of vesting. In arriving at the fair value using this model, the Company calculates a number of inputs to the model, including estimated share price volatility.

Further details regarding the EMI Scheme are set out in note 31.

##### **Recoverability of internally-generated intangible asset**

Management reconsidered the recoverability of its internally-generated intangible asset for development costs which is included in the balance sheet at 31 August 2016 at £4,172,000 (2015: £3,419,000). These projects continue to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project.

Management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

##### **Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows

expected to arise from the CGU and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at 31 August 2016 was £419,000 (2015: £419,000). Further details are given in note 17.

#### Allowance for doubtful debts

Management undertakes a review of all new customers and a periodic review of existing customers to determine whether specific risks of default exist. A substantial proportion of the Group's trade receivables ledger is covered by credit insurance. Beyond identification of specific risks, management undertakes periodic reviews into the calculation of allowances for doubtful debts to ensure historic trends continue to provide a basis for determining a reliable estimate for them.

## 5 REVENUE

An analysis of the Group's revenue is as follows:

|                                | Year ended 31 August |               |
|--------------------------------|----------------------|---------------|
|                                | 2016                 | 2015          |
|                                | £'000                | £'000         |
| <b>Continuing operations</b>   |                      |               |
| USA                            | 21,382               | 18,498        |
| Europe, Middle East and Africa | 22,582               | 21,460        |
| Rest of World                  | 10,337               | 8,071         |
| <b>Consolidated revenue</b>    | <b>54,301</b>        | <b>48,029</b> |

## 6 BUSINESS SEGMENTS

Information reported to the Group's Chief Executive (who has been determined to be the Group's Chief Operating Decision Maker) for the purposes of resource allocation and assessment of segment performance is focused on the main product groups which Focusrite sells. The Group's reportable segments under IFRS 8 are therefore as follows:

- Focusrite – Sales of Focusrite branded products
- Novation – Sales of Novation branded products
- Distribution – Distribution of third-party brands including KRK speakers, Ableton, Stanton, Cerwin-Vega, Cakewalk and sE Electronics

#### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of the share of central administration costs including Directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Central administration costs comprise principally the employment-related costs and other overheads incurred by Focusrite and its USA subsidiary, net of inter-Company commission income. Also included within central administration costs is the charge relating to the share option scheme (note 32) of £120,000 for the year ended 31 August 2016 (2015: £122,000).

#### Segment net assets and other segment information

Management does not make use of segmental data relating to net assets and other balance sheet information for the purposes of monitoring segment performance and allocating resources between segments. Accordingly, other than the analysis of the Group's non-current assets by geographical location shown below, this information is not available for disclosure in the consolidated financial information.

|  | Year ended 31 August |               |
|--|----------------------|---------------|
|  | 2016                 | 2015          |
|  | £'000                | £'000         |
| <b>Revenue from external customers</b>   |                      |               |
| Focusrite  | 37,563               | 31,187        |
| Novation   | 13,683               | 14,169        |
| Distribution   | 3,055                | 2,673         |
| <b>Total</b>   | <b>54,301</b>        | <b>48,029</b> |
| <b>Segment profit</b>  |                      |               |
| Focusrite  | 17,159               | 14,221        |
| Novation   | 6,743                | 6,842         |
| Distribution   | 917                  | 846           |
|  | <b>24,819</b>        | <b>21,909</b> |
| Central distribution costs and administrative expenses before non-underlying items | (17,142)             | (14,885)      |
| Adjusted operating profit before non-underlying items                              | 7,677                | 7,024         |
| Non-underlying items   | (537)                | (704)         |
| Operating profit   | 7,140                | 6,320         |
| Finance income   | 325                  | 164           |
| Finance costs  | (339)                | -             |
| Profit before tax  | 7,126                | 6,484         |
| Tax  | (870)                | (1,022)       |
| Profit after tax   | 6,256                | 5,462         |

The Group's non-current assets, analysed by geographical location were as follows:

|                                 | 2016         |  | 2015         |  |
|---------------------------------|--------------|--|--------------|--|
|                                 | £'000        |  | £'000        |  |
| <b>Non-current assets</b>       |              |  |              |  |
| USA                             | 60           |  | 29           |  |
| Europe, Middle East and Africa  | 5,602        |  | 4,683        |  |
| Rest of World                   | 705          |  | 552          |  |
| <b>Total non-current assets</b> | <b>6,367</b> |  | <b>5,264</b> |  |

#### Information about major customers

Included in revenues shown for 2016 is £21.4 million (2015: £18.5 million) attributed to the Group's largest customer. Amounts owed at end of year is £5.2 million (2015: £2.7 million).

#### 7 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

|  | Note | Year ended 31 August |        |
|--|------|----------------------|--------|
|  |      | 2016                 | 2015   |
|  |      | £000                 | £000   |
| Net foreign exchange gains                                   | 9,10 | (96)                 | (53)   |
| Research and development costs                               |      | 779                  | 743    |
| Non-underlying costs   | 13   | 537                  | 704    |
| Depreciation and impairment of property, plant and equipment | 19   | 521                  | 374    |
| Profit on disposal of property, plant and equipment          |      | -                    | (1)    |
| Amortisation of intangibles                                  | 18   | 2,051                | 1,902  |
| Operating lease rental expense                               | 25   | 183                  | 156    |
| Cost of inventories recognised as an expense                 |      | 27,955               | 25,606 |
| Staff costs  | 11   | 7,505                | 6,059  |
| Impairment loss recognised on trade receivables              | 22   | 4                    | 12     |
| Change in fair value of financial instruments                | 33   | 223                  | (105)  |
| Share-based payments charge to profit and loss               | 31   | 120                  | 122    |

## 8 AUDITOR'S REMUNERATION

|  | Year ended 31 August |            |
|--|----------------------|------------|
|  | 2016                 | 2015       |
|  | £000                 | £000       |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 25                   | 20         |
| Fees payable to the Company's auditor and its associates for other services:         |                      |            |
| Audit of the accounts of subsidiaries pursuant to legislation                        | 38                   | 29         |
| Audit-related assurance services   | 2                    | 9          |
| Tax compliance services  | 4                    | 11         |
| Other assurance services   | 30                   | 313        |
|  | <b>99</b>            | <b>382</b> |

In 2015 the other assurance services comprised mainly of services supporting the Initial Public Offering process.

## 9 FINANCE INCOME

|  | Year ended 31 August |            |
|--|----------------------|------------|
|  | 2016                 | 2015       |
|  | £000                 | £000       |
| Bank deposit interest                        | 6                    | 6          |
| Exchange gain                                | 319                  | 53         |
| Change in fair value of financial instrument | -                    | 105        |
| Finance income                               | <b>325</b>           | <b>164</b> |

## 10 FINANCE COSTS

|  | Year ended 31 August |          |
|--|----------------------|----------|
|  | 2016                 | 2015     |
|  | £000                 | £000     |
| Bank charges                                 | 116                  | -        |
| Change in fair value of financial instrument | 223                  | -        |
| Finance costs                                | <b>339</b>           | <b>-</b> |

Other financial expenses include bank charges arising on transactions executed and completed in the corresponding period.

## 11 STAFF COSTS

|                       | Year ended 31 August |              |
|-----------------------|----------------------|--------------|
|                       | 2016                 | 2015         |
|                       | £000                 | £000         |
| Wages and salaries    | 6,586                | 5,250        |
| Social security costs | 646                  | 587          |
| Other pension costs   | 273                  | 222          |
|                       | <b>7,505</b>         | <b>6,059</b> |

The average number of persons, including Executive Directors, employed by the Group during the year was as follows:

|                            | 2016       |            | 2015   |        |
|----------------------------|------------|------------|--------|--------|
|                            | Number     | Number     | Number | Number |
| Research and development   | 57         | 50         |        |        |
| Sales and marketing        | 45         | 43         |        |        |
| Operations                 | 39         | 39         |        |        |
| Administration and central | 24         | 23         |        |        |
|                            | <b>165</b> | <b>155</b> |        |        |

## 12 DIRECTORS' REMUNERATION

A detailed analysis of Directors' remuneration, including salaries, bonuses and long-term incentives, and the highest paid Director, is provided in the remuneration table in the Directors' Remuneration Report, which forms part of these financial statements (page 36).

## 13 NON-UNDERLYING ITEMS

During the year ended 31 August 2016, the Group incurred one-off litigation costs relating to intellectual property and distribution contracts, totalling £0.5 million, which were charged to the income statement. This is stated net of a receipt of £0.25m on a legacy dispute, which had previously been written off. In December 2014, the Group floated on the AIM. Non-recurring IPO related costs totalled £0.7 million, which were charged to the income statement for the year ended 31 August 2015.

## 14 TAX

|                                 | Year ended 31 August |       |
|---------------------------------|----------------------|-------|
|                                 | 2016                 | 2015  |
|                                 | £'000                | £'000 |
| <b>Corporation tax charges:</b> |                      |       |
| Overprovision in prior year     | (231)                | (69)  |
| Current year                    | 1,000                | 878   |
|                                 | 769                  | 809   |
| <b>Deferred taxation</b>        |                      |       |
| Current year                    | 101                  | 213   |
|                                 | 870                  | 1,022 |

Corporation tax is calculated at 20.00% (2015: 20.58%) of the estimated taxable profit for the year. Taxation for the USA subsidiary is calculated at the rates prevailing in the respective jurisdiction.

The tax charge for each year can be reconciled to the profit per the income statement as follows:

|   | Year ended 31 August |              |
|---|----------------------|--------------|
|   | 2016                 | 2015         |
|   | £'000                | £'000        |
| <b>Current taxation</b>                                     |                      |              |
| Profit before tax on continuing operations                  | 7,126                | 6,484        |
| Tax at the UK corporation tax rate of 20.00% (2015: 20.58%) | 1,425                | 1,334        |
| Effects of:   |                      |              |
| Expenses not deductible for tax purposes                    | 480                  | 564          |
| Income not taxable for tax purposes                         | (1)                  | -            |
| Research and development tax credit                         | (706)                | (816)        |
| Overseas tax  | (8)                  | 36           |
| Prior period adjustment - current tax                       | (231)                | (69)         |
| Prior period adjustment - deferred tax                      | (12)                 | -            |
| Effect of change in standard rate of corporation tax        | -                    | (27)         |
| Share options expense deductible - current tax              | (25)                 | -            |
| Share options expense deductible - deferred tax             | (52)                 | -            |
| <b>Current tax charge for period</b>                        | <b>870</b>           | <b>1,022</b> |

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax liability at 31 August 2016 has been calculated based on these rates.

An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly and reduce the deferred tax liability.

## 15 DIVIDENDS

The following equity dividends have been declared.

|  | Year to<br>31 August 2016 | Year to<br>31 August 2015 |
|--|---------------------------|---------------------------|
| Dividend per qualifying ordinary share | 1.95p                     | 1.8p                      |

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2016 of 0.65 pence per share.

On 22 November 2016, the Directors recommended a final dividend of 1.3 pence per share (2015: 1.2 pence per share), making a total of 1.95 pence per share for the year (2015: 1.8 pence per share).

## 16 EARNINGS PER SHARE

### Reported EPS

The calculation of the basic and diluted EPS is based on the following data:

|  | Year ended 31 August   |                        |
|--|------------------------|------------------------|
|  | 2016<br>£'000          | 2015<br>£'000          |
| <b>Earnings</b>  |                        |                        |
| Earnings for the purposes of basic and diluted EPS being net profit for the period           | 6,256                  | 5,462                  |
|  |                        |                        |
|  | Year ended 31 August   |                        |
|  | 2016<br>Number<br>'000 | 2015<br>Number<br>'000 |
| <b>Number of shares</b>  |                        |                        |
| Weighted average number of ordinary shares for the purposes of basic EPS calculation         | 53,207                 | 52,399                 |
| Effect of dilutive potential ordinary shares:<br>EMI Scheme and unapproved share option plan | 5,297                  | 6,416                  |
| Weighted average number of ordinary shares for the purposes of diluted EPS calculation       | 58,504                 | 58,815                 |
|  |                        |                        |
|  | Pence                  |                        |
|  | 2016                   | 2015                   |
| <b>EPS</b>   |                        |                        |
| Basic EPS  | 11.8                   | 10.4                   |
| Diluted EPS  | 10.7                   | 9.3                    |

At 31 August 2016, the total number of ordinary shares issued and fully paid was 58,075,000. This included 4,494,504 (2015: 5,676,000) shares held by the EBT to satisfy options vesting in future years. The operation of this EBT is funded by the Group so the EBT is required to be consolidated, with the result that the weighted average number of ordinary shares for the purpose of the basic EPS calculation is the net of the total number of shares in issue (58,075,000) less the number of shares held by the EBT (4,494,504). It should be noted that the only right relinquished by the Trustees of the EBT is the right to receive dividends. In all other respects, the shares held by the EBT have full voting rights.

The effect of dilutive potential ordinary share issues is calculated in accordance with IAS 33 and arises from the employee share options currently outstanding, adjusted by the profit element as a proportion of the average share price during the period.

### Adjusted EPS

|  | Year ended 31 August |               |
|--|----------------------|---------------|
|  | 2016<br>£'000        | 2015<br>£'000 |
| <b>Earnings</b>                                      |                      |               |
| Profit for the financial period                      | 6,256                | 5,462         |
| Non-underlying items                                 | 537                  | 704           |
| Tax on non-underlying items                          | (107)                | -             |
| Total underlying profit for adjusted EPS calculation | 6,686                | 6,166         |

Year ended 31 August

|  | 2016<br>Number<br>'000 | 2015<br>Number<br>'000 |
|--|------------------------|------------------------|
| <b>Number of shares</b>  |                        |                        |
| Weighted average number of ordinary shares for the purposes of basic EPS calculation   | 53,207                 | 52,399                 |
| Effect of dilutive potential ordinary shares:  |                        |                        |
| EMI Scheme and unapproved share option plan  | 5,297                  | 6,416                  |
| Weighted average number of ordinary shares for the purposes of diluted EPS calculation | 58,504                 | 58,815                 |
| <b>EPS</b>   | <b>Pence</b>           | <b>Pence</b>           |
| Adjusted basic EPS   | 12.6                   | 11.8                   |
| Adjusted diluted EPS   | 11.4                   | 10.5                   |

## 17 GOODWILL

|                          | Total<br>£'000 |
|--------------------------|----------------|
| <b>Cost</b>              |                |
| At 1 September 2014      | 419            |
| At 31 August 2015        | 419            |
| <b>At 31 August 2016</b> | <b>419</b>     |

No impairment losses have been required on goodwill amounts recognised in the Group to date.

|                          |            |
|--------------------------|------------|
| <b>Carrying amount</b>   |            |
| At 31 August 2014        | 419        |
| At 31 August 2015        | 419        |
| <b>At 31 August 2016</b> | <b>419</b> |

Goodwill arose as a result of a transfer on 31 August 2006 of the assets and liabilities of Novation Digital Music Systems Limited for a consideration of £711,000. Accordingly, the whole of the value of goodwill is attributable to the Novation operating segment and cash CGU.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGU is determined using 'value in use' calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to earnings before interest, tax, depreciation and amortisation (EBITDA is used as a proxy of free cash flows) as well as the level of capital expenditure required to maintain the existing business into the future. These assumptions are reviewed and revised annually in light of current economic conditions and the future outlook for each CGU. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each CGU. This has been set at 10%.

The growth rates used are based on management's assessment of the cash flow forecasts over the medium term. The growth for the next five years is based on the lower of 2% and either the rate forecast for year five or the average annual growth rate derived over the initial five-year term and does not exceed the average long-term growth rate for the relevant economies in which these CGUs operate. These are based on conservative estimates of the Group's ability to participate in growth expected in the industry and a modest dilution in market share as more competitors enter the market over the next ten years. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value of goodwill recognised in the accounts has been compared to the derived value in use. Throughout the three-year period the goodwill carrying value has been below its value in use. The Group has conducted a sensitivity analysis on the impairment test results for each CGU and concluded no material sensitivity exists in these calculations.

## 18 OTHER INTANGIBLE ASSETS

|   | Intellectual<br>property<br>£'000 | Development<br>costs<br>£'000 | Licences<br>£'000 | Computer<br>software<br>£'000 | Total<br>£'000 |
|---|-----------------------------------|-------------------------------|-------------------|-------------------------------|----------------|
| <b>Cost</b>                                 |                                   |                               |                   |                               |                |
| At 1 September 2014                         | 182                               | 7,237                         | -                 | -                             | 7,419          |
| Additions                                   | 72                                | 2,667                         | 29                | 10                            | 2,778          |
| Transfers between classes                   | (182)                             | -                             | 182               | -                             | -              |
| Transfer from property, plant and equipment | -                                 | -                             | -                 | 97                            | 97             |
| At 31 August 2015                           | 72                                | 9,904                         | 211               | 107                           | 10,294         |
| Additions                                   | 133                               | 2,716                         | -                 | 53                            | 2,902          |
| <b>At 31 August 2016</b>                    | <b>205</b>                        | <b>12,620</b>                 | <b>211</b>        | <b>160</b>                    | <b>13,196</b>  |
| <b>Depreciation</b>                         |                                   |                               |                   |                               |                |
| At 1 September 2014                         | 134                               | 4,669                         | -                 | -                             | 4,803          |
| Charge for the year                         | 30                                | 1,816                         | 31                | 25                            | 1,902          |
| Transfers between classes                   | (134)                             | -                             | 134               | -                             | -              |
| Transfer from property, plant and equipment | -                                 | -                             | -                 | 67                            | 67             |
| At 31 August 2015                           | 30                                | 6,485                         | 165               | 92                            | 6,772          |
| Charge for the year                         | 42                                | 1,963                         | 32                | 14                            | 2,051          |
| <b>At 31 August 2016</b>                    | <b>72</b>                         | <b>8,448</b>                  | <b>197</b>        | <b>106</b>                    | <b>8,823</b>   |
| <b>Carrying amount</b>                      |                                   |                               |                   |                               |                |
| <b>At 31 August 2016</b>                    | <b>133</b>                        | <b>4,172</b>                  | <b>14</b>         | <b>54</b>                     | <b>4,373</b>   |
| At 31 August 2015                           | 42                                | 3,419                         | 46                | 15                            | 3,522          |
| At 31 August 2014                           | 48                                | 2,568                         | -                 | -                             | 2,616          |

## 19 PROPERTY, PLANT AND EQUIPMENT

|  | Plant, tooling<br>equipment<br>and machinery<br>£'000 | Fixtures,<br>fittings and<br>leasehold<br>improvements<br>£'000 | Computer<br>equipment<br>£'000 | Customer<br>demonstrat-<br>ion units<br>£'000 | Total<br>£'000 |
|--|---|---|--------------------------------|---|----------------|
| <b>Cost</b>                                    |   |   |                                |   |                |
| At 1 September 2014                            | 2,269   | 898   | 760                            | -   | 3,927          |
| Additions                                      | 540   | 133   | 109                            | -   | 782            |
| Exchange differences                           | -   | -   | (97)                           | -   | (97)           |
| Disposals                                      | (2)   | -   | (8)                            | -   | (10)           |
| At 31 August 2015                              | 2,807   | 1,031   | 764                            | -   | 4,602          |
| Additions                                      | 402   | 18  | 177                            | 176   | 773            |
| <b>At 31 August 2016</b>                       | <b>3,209</b>  | <b>1,049</b>  | <b>941</b>                     | <b>176</b>                                    | <b>5,375</b>   |
| <b>Accumulated depreciation and impairment</b> |   |   |                                |   |                |
| At 31 August 2015                              | 1,911   | 418   | 659                            | -   | 2,988          |
| Charge for the year                            | 215   | 90  | 69                             | -   | 374            |
| Exchange differences                           | -   | (2)   | (4)                            | -   | (6)            |
| Transfer to other intangible assets            | -   | -   | (67)                           | -   | (67)           |
| Eliminated on disposals                        | (2)   | -   | (8)                            | -   | (10)           |
| At 31 August 2015                              | 2,124   | 506   | 649                            | -   | 3,279          |
| Charge for the year                            | 275   | 92  | 118                            | 36  | 521            |
| <b>At 31 August 2016</b>                       | <b>2,399</b>  | <b>598</b>  | <b>767</b>                     | <b>36</b>                                     | <b>3,800</b>   |
| <b>Carrying amount</b>                         |   |   |                                |   |                |
| <b>At 31 August 2016</b>                       | <b>810</b>  | <b>451</b>  | <b>174</b>                     | <b>140</b>                                    | <b>1,575</b>   |
| At 31 August 2015                              | 683   | 525   | 115                            | -   | 1,323          |
| At 31 August 2014                              | 358   | 480   | 101                            | -   | 939            |

## 20 SUBSIDIARIES

The Group's principal subsidiary undertakings for the period are listed below, including the name, country of incorporation, and proportion of ownership interest:

| Name   | Country of registration or incorporation | Principal activity           | Class of shares | 2016 % | 2015 % |
|--|--|------------------------------|-----------------|--------|--------|
| Focusrite Audio Engineering Limited          | England and Wales                        | Manufacture and distribution | Ordinary        | 100    | 100    |
| Focusrite Novation Inc <sup>1</sup>          | United States of America                 | Marketing services           | Ordinary        | 100    | 100    |
| Focusrite Novation Asia Limited <sup>1</sup> | Hong Kong                                | Marketing services           | Ordinary        | 100    | n/a    |

<sup>1</sup> Owned indirectly through FAEL.

## 21 INVENTORIES

|                | 2016<br>£'000 | 2015<br>£'000 |
|----------------|---------------|---------------|
| Raw materials  | 94            | 65            |
| Finished goods | 11,267        | 8,568         |
|                | <b>11,361</b> | <b>8,633</b>  |

The stock value includes a provision of £844,000 (2015: £344,000). No inventories have been pledged as security against borrowings (2015: £nil). Stock days recorded against cost of goods sold amounted to 148 days in 2016 (2015: 123 days).

## 22 TRADE AND OTHER RECEIVABLES

|   | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Amount receivable for the sale of goods | 9,643         | 6,499         |
| Allowance for doubtful debts            | (40)          | (36)          |
|   | <b>9,603</b>  | <b>6,463</b>  |
| Other debtors                           | 1,407         | 1,109         |
| Prepayments                             | 214           | 165           |
|   | <b>11,224</b> | <b>7,737</b>  |

### Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are measured at amortised cost.

The average credit period offered on sales of goods during 2016 was 57 days (2015: 45 days). The days' sales outstanding ('DSO') at 31 August 2016 was 63 days (2015: 48 days).

The Group has not charged interest for late payment of invoices in 2015 or 2016.

Allowances against doubtful debts are recognised against overdue trade receivables based on estimated irrecoverable amounts determined by reference to past default experience. Specific counterparty risk is also considered where an analysis of the counterparty's current financial position indicates a change in credit risk.

Before accepting any significant new customer, the Group uses a variety of credit scoring systems to assess the potential customer's credit quality and to define credit limits for each customer. Limits and scoring attributed to customers are reviewed regularly. A single major distributor accounted for 53% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2016 (2015: 45%). No other single customer accounted for more than 10% of the total balance of trade receivables net of allowances for doubtful debts during the period under review.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the year end but against which the Group has not recognised an allowance for doubtful receivables. There has not been a significant change in credit quality and the amounts are still considered recoverable.

**Ageing of not impaired receivables:**

|                             | 2016         | 2015         |
|-----------------------------|--------------|--------------|
|                             | £'000        | £'000        |
| Not overdue                 | 8,835        | 5,225        |
| Overdue between 0-30 days   | 460          | 1,098        |
| Overdue between 31-60 days  | 262          | 140          |
| Overdue between 61-90 days  | 27           | -            |
| Overdue between 91-120 days | 19           | -            |
| Overdue more than 120 days  | -            | -            |
|                             | <b>9,603</b> | <b>6,463</b> |

**Movement in the allowance for doubtful debts:**

|  | 2016      | 2015      |
|--|-----------|-----------|
|  | £'000     | £'000     |
| Balance at the beginning of the period                 | 36        | 24        |
| Movement in provision and impairment losses recognised | 4         | 12        |
| Balance at the end of the period                       | <b>40</b> | <b>36</b> |

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the relevant year end. Aside from the major customer mentioned above, the concentration of credit risk is limited due to the customer base being large and diverse in terms of industry sector. The Group's exposure to credit risk for trade receivables is substantially covered by credit insurance, including amounts in relation to its largest customer. In addition, the Group maintains a close operational relationship with the key management of its major customer, so as to monitor any changes in the level of credit risk associated with that business.

**Ageing of impaired trade receivables:**

|                             | 2016      | 2015      |
|-----------------------------|-----------|-----------|
|                             | £'000     | £'000     |
| Overdue up to 30 days       | -         | -         |
| Overdue between 31-60 days  | -         | -         |
| Overdue between 61-90 days  | -         | -         |
| Overdue between 91-120 days | -         | -         |
| Overdue more than 120 days  | 40        | 36        |
|                             | <b>40</b> | <b>36</b> |

**Trade receivables net of allowance for doubtful debts:**

|   | 2016         | 2015         |
|---|--------------|--------------|
|   | £'000        | £'000        |
| Gross value of not impaired receivables | 9,603        | 6,463        |
| Gross value of impaired receivables     | 40           | 36           |
| Allowance for doubtful debts            | (40)         | (36)         |
|   | <b>9,603</b> | <b>6,463</b> |

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

**23 OTHER INVESTMENTS INCLUDING DERIVATIVES**

During 2016 and 2015 the Group entered into a number of foreign currency forward contracts to provide economic hedging for known cash flow transactions. The fair values of the contracts outstanding at the year end are summarised below. In each case the forward contracts were settled during the year with any realised gain or loss recognised in profit and loss.

|  | 2016  | 2015  |
|--|-------|-------|
|  | £'000 | £'000 |
| Fair value of outstanding forward contracts: |       |       |
| Euros to US Dollars                          | -     | 76    |
| Euros to pounds Sterling                     | -     | 147   |
|  | -     | 223   |

## 24 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group:

|                                  | Accelerated<br>tax<br>depreciation<br>£'000 | Share-based<br>payments<br>£'000 | Hedging<br>instrument<br>£'000 | Total<br>£'000 |
|----------------------------------|---|----------------------------------|--------------------------------|----------------|
| <b>Cost</b>                      |   |                                  |                                |                |
| At 1 September 2014              | 530   | -                                | -                              | 530            |
| Credit to profit or loss         | 213   | -                                | -                              | 213            |
| At 31 August 2015                | 743   | -                                | -                              | 743            |
| Debit/(credit) to profit or loss | 153   | (52)                             | -                              | 101            |
| Credit to equity                 | -   | (333)                            | (229)                          | (562)          |
| <b>At 31 August 2016</b>         | <b>896</b>                                  | <b>(385)</b>                     | <b>(229)</b>                   | <b>282</b>     |

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

|                          | 2016       | 2015       |
|--------------------------|------------|------------|
|                          | £'000      | £'000      |
| Deferred tax liabilities | 896        | 743        |
| Deferred tax assets      | (614)      | -          |
|                          | <b>282</b> | <b>743</b> |

## 25 OPERATING LEASE ARRANGEMENTS

|  | Minimum lease payments |       |
|--|------------------------|-------|
|  | 2016                   | 2015  |
|  | £'000                  | £'000 |
| Minimum lease payments under operating leases recognised as an expense during the year | 183                    | 156   |

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

|  | Present value of minimum<br>lease payments |              |
|--|--|--------------|
|  | 2016                                       | 2015         |
|  | £'000                                      | £'000        |
| Within one year                        | 164  | 167          |
| In the second to fifth years inclusive | 650  | 654          |
| After five years                       | 216  | 383          |
|  | <b>1,030</b>                               | <b>1,204</b> |

Operating lease payments typically represent rentals payable by the Group for its office properties and office equipment. Rent reviews and break clauses apply to leased property agreements.

## 26 TRADE AND OTHER PAYABLES

|  | 2016         | 2015         |
|--|--------------|--------------|
|  | £'000        | £'000        |
| Trade payables                             | 6,265        | 5,197        |
| Accrued expenses                           | 2,104        | 2,976        |
| Other taxation and social security payable | 243          | 233          |
|  | <b>8,612</b> | <b>8,406</b> |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 68 days (2015: 66 days). No interest costs have been incurred in relation to trade payables. The Group policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities.

The Directors consider that the carrying amount of trade payables approximates their fair value.

## 27 SHARE CAPITAL

|                                | 2016          | 2015          |
|--------------------------------|---------------|---------------|
|                                | Number        | Number        |
| <b>Issued and fully paid:</b>  |               |               |
| Ordinary shares of £1 each     | -             | -             |
| Ordinary shares of £0.001 each | 58,075,000    | 58,075,000    |
|                                |               |               |
|                                | 2016          | 2015          |
|                                | £             | £             |
| <b>Issued and fully paid:</b>  |               |               |
| Ordinary shares of £0.001 each | 58,075        | 58,075        |
|                                | <b>58,075</b> | <b>58,075</b> |

The Company has one class of ordinary shares which carry no right to fixed income. On 17 September 2014, FAEL undertook a share subdivision of 1,000 £0.001 ordinary shares for each of its £1 ordinary shares. On 4 December 2014, the Company issued 58,074,998 ordinary shares of £0.001 each at par in consideration for 58,075,000 ordinary shares in FAEL.

## 28 OTHER RESERVES

### Merger reserve

|                          | 2016          | 2015          |
|--------------------------|---------------|---------------|
|                          | £'000         | £'000         |
| Balance at 1 September   | 14,595        | -             |
| Share for share exchange | -             | 14,595        |
| Balance at 31 August     | <b>14,595</b> | <b>14,595</b> |

### Merger difference reserve

|                          | 2016            | 2015            |
|--------------------------|-----------------|-----------------|
|                          | £'000           | £'000           |
| Balance at 1 September   | (13,147)        | 1,448           |
| Share for share exchange | -               | (14,595)        |
| Balance at 31 August     | <b>(13,147)</b> | <b>(13,147)</b> |

### Treasury share reserve

|                           | 2016       | 2015       |
|---------------------------|------------|------------|
|                           | £'000      | £'000      |
| Balance at 1 September    | (6)        | -          |
| Shares exercised from EBT | 1          | (6)        |
| Balance at 31 August      | <b>(5)</b> | <b>(6)</b> |

**Translation reserve**

Exchange differences relating to the translation of the net assets of the Group's USA and Hong Kong subsidiaries from its functional currency into the Parent's functional currency are recognised directly in the translation reserve.

|  | 2016<br>£'000 | 2015<br>£'000 |
|--|---------------|---------------|
| Balance at 1 September   | (6)           | (6)           |
| Exchange differences on translating the net assets of foreign operations | 45            | -             |
| <b>Balance at 31 August</b>  | <b>39</b>     | <b>(6)</b>    |

**Hedging reserve**

|   | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Balance at 1 September  | -             | -             |
| Loss on forward foreign exchange contracts designated and effective as a hedging instrument | (1,143)       | -             |
| Tax on hedging instrument   | 229           | -             |
| <b>Balance at 31 August</b>   | <b>914</b>    | <b>-</b>      |

**Deferred tax reserve**

Deferred tax recognised in the deferred tax reserve represents the estimated future tax deduction which exceeds the amount of the related cumulative remuneration expense. The tax deduction, in this case, is deemed to relate to an equity item and therefore should be recognised directly in equity.

|  | 2016<br>£'000 | 2015<br>£'000 |
|--|---------------|---------------|
| Balance at 1 September                     | -             | -             |
| Deferred tax recognised directly in equity | 333           | -             |
| <b>Balance at 31 August</b>                | <b>333</b>    | <b>-</b>      |

**29 RETAINED EARNINGS**

|   | £'000         |
|---|---------------|
| Balance at 1 September 2014   | 11,714        |
| Net profit for the year   | 5,462         |
| Share-based payments  | 122           |
| Dividends   | (314)         |
| <b>Balance at 31 August 2015</b>  | <b>16,984</b> |
| Net profit for the year   | 6,256         |
| Share-based payment current tax deduction in excess of remuneration expense | 363           |
| Shares exercised from EBT   | 171           |
| Share-based payments  | 120           |
| Dividends   | (976)         |
| <b>Balance at 31 August 2016</b>  | <b>22,918</b> |

### 30 NOTES TO THE CASH FLOW STATEMENT

|  | Note | 2016<br>£'000 | 2015<br>£'000 |
|--|------|---------------|---------------|
| Profit for the financial year                            |      | 6,256         | 5,462         |
| Adjustments for:   |      |               |               |
| Income tax expense                                       | 14   | 870           | 1,022         |
| Net interest   | 9,10 | 14            | (164)         |
| (Profit) on disposal of property, plant and equipment    |      | -             | (1)           |
| Amortisation of intangibles                              | 18   | 2,051         | 1,902         |
| Depreciation of property, plant and equipment            | 19   | 521           | 368           |
| Share-based payments charge                              | 31   | 120           | 122           |
| Operating cash flows before movements in working capital |      | 9,832         | 8,711         |
| Increase in trade and other receivables                  |      | (3,487)       | (1,370)       |
| Increase in inventories                                  |      | (2,728)       | (2,037)       |
| Increase in trade and other payables                     |      | 206           | 1,718         |
| Operating cash flows before interest and tax paid        |      | 3,823         | 7,022         |
| Net interest (paid)/received                             |      | (111)         | 6             |
| Income taxes paid  |      | (165)         | (838)         |
| Cash generated by operations                             |      | 3,547         | 6,190         |
| Net foreign exchange movements                           |      | 365           | 53            |
| Net cash from operating activities                       |      | 3,912         | 6,243         |

#### Cash and cash equivalents

|                        | 2016<br>£'000 | 2015<br>£'000 |
|------------------------|---------------|---------------|
| Cash and bank balances | 5,606         | 6,173         |

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

### 31 SHARE-BASED PAYMENTS

#### Equity-settled share option schemes

The Group operates three option schemes: the 2012 EMI Scheme, the 2014 EMI Scheme and an unapproved option scheme ('Share Option Schemes'). Prior to Focusrite Plc's incorporation, its major trading subsidiary, FAEL operated the Share Option Schemes and granted options over its share capital ('Old Options'). The movements in the numbers of the Old Options are set out below.

|                                | 2014<br>Number of<br>options | 2014<br>Weighted<br>average<br>exercise<br>price<br>£ |
|--------------------------------|------------------------------|---|
| Outstanding at start of period | 8,143                        | 58  |
| Cancelled during the period    | (8,143)                      | 58  |
| Outstanding at end of period   | -                            | -   |
| Exercisable at end of period   | -                            | -   |

Following the admission of Focusrite Plc to AIM, the Old Options were rolled over into options over shares in Focusrite Plc and Focusrite Plc has taken over the operation of the Share Option Schemes. Following admission to AIM the total number of ordinary shares under option in Focusrite Plc was 7,382,097 of which 5,085,097 were to be satisfied by non-dilutive ordinary shares that had been issued to the EBT.

1,181,498 options over Focusrite Plc's shares were exercised during the year ended 31 August 2016 (2015: nil). As at 31 August 2016, the total number of ordinary shares under option in Focusrite Plc was 6,385,149 (2015: 7,155,331) of which 4,494,504 (2015: 5,085,097) were to be satisfied by non-dilutive ordinary shares that are held in the EBT.

The remaining number of options will be held by the Directors and would, if exercised, result in the issue of 1,890,645 (2015: 2,297,000) ordinary shares. The options to be held by the Directors are subject to performance-related vesting conditions.

The weighted average share price at the date of exercise for share options exercised during the year ended 31 August 2016 was £186.80. For the share options outstanding at the end of the year, the weighted average remaining contractual life was 3.2 years (2015: 3.2 years).

|  | 2016              |                                      | 2015              |                                      |
|--|-------------------|--------------------------------------|-------------------|--------------------------------------|
|  | Number of options | Weighted average exercise price<br>£ | Number of options | Weighted average exercise price<br>£ |
| Outstanding at start of period                               | 7,155,331         | 0.13                                 | -                 | -                                    |
| Granted during the period:                                   |                   |                                      |                   |                                      |
| 2014 EMI Scheme: D Froker                                    | -                 | -                                    | 1,004,000         | 0.10                                 |
| Unapproved Option Agreement: D Froker                        | -                 | -                                    | 893,000           | 0.10                                 |
| 2014 EMI Scheme: J Wilson                                    | -                 | -                                    | 400,000           | 0.15                                 |
| 2014 EMI Scheme: Other employees                             | -                 | -                                    | 5,085,097         | 0.15                                 |
| 2015 EMI Scheme: Other employees                             | 574,209           | 1.71                                 | -                 | -                                    |
| 2015 Performance Share Plan                                  | -                 | -                                    | 138,876           | 0.00                                 |
| 2016 Performance Share Plan                                  | 139,935           | 0.00                                 | -                 | -                                    |
| Exercised during the year                                    |                   |                                      |                   |                                      |
| 2014 EMI Scheme: Other employees                             | (1,181,496)       | 0.15                                 | -                 | -                                    |
| Cancelled during the period: 2014 EMI Scheme other employees | (302,830)         | 0.15                                 | (365,642)         | 0.15                                 |
| Outstanding at end of year                                   | 6,385,149         | 0.27                                 | 7,155,331         | 0.13                                 |
| Exercisable at end of year                                   | 619,000           | 0.10                                 | 619,000           | 0.10                                 |

|   | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Expense arising from share-based payment transactions | 120           | 122           |

The estimated fair value of the share options was calculated by applying a Black-Scholes model. The model inputs were:

|                              | Grant date<br>1 Dec 2015 | Grant date<br>18 Sept 2014 | Grant date<br>1 Sept 2014 |
|------------------------------|--------------------------|----------------------------|---------------------------|
| Share price at date of grant | £1.76                    | £0.15                      | £1.74-£2.00               |
| Exercise price               | £0.15                    | £0.15                      | £0.001                    |
| Expected volatility          | 37.2%-40.6%              | 51.80%                     | 51.80%                    |
| Dividend yield               | 1.50%                    | 1.50%                      | 1.50%                     |
| Contractual life of option   | 3-5 years                | 3.2 years                  | 3.2 years                 |
| Risk free interest rate      | 1.46%-1.59%              | 0.56%-1.93%                | 1.93%                     |

### 32 RETIREMENT BENEFIT SCHEME

The Group operates a stakeholder retirement benefit scheme which is open to all employees.

Other than amounts that are deducted from employees' remuneration and accrued pending payment to the pension fund, no further obligations fall on the Group as the assets of these arrangements are held and managed by third parties entirely separate from the Group.

The pension charge for the period represents contributions payable to the fund and amounted to £273,000 for the year ended 31 August 2016 (2015: £222,000). Contributions totalling £20,000 (2015: £20,000) were payable to the fund at the balance sheet date and are included in trade and other payables.

### 33 FINANCIAL INSTRUMENTS

#### Capital risk management

The Group manages its capital to ensure entities within the Group are able to continue as going concerns while maximising the return to stakeholders. The Group's overall strategy has evolved in the last five years in response to organic growth opportunities.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained earnings as disclosed in notes 28 to 30.

The Group is not subject to any externally imposed capital requirements. Equity includes all capital and reserves of the Group that are managed as capital.

#### Categories of financial instruments

|  | 2016<br>£'000 | 2015<br>£'000 |
|--|---------------|---------------|
| <b>Financial assets</b>  |               |               |
| Cash and cash equivalents  | 5,606         | 6,173         |
| Forward exchange contracts   | -             | 223           |
| Trade receivables  | 9,603         | 6,464         |
|  | <b>15,209</b> | <b>12,860</b> |
| <b>Financial liabilities</b>   |               |               |
| <b>Designated cash flow hedge relationships</b>  |               |               |
| Derivative financial liabilities designated and effective as cash flow hedging instruments | 1,143         | -             |
| <b>Amortised cost</b>  |               |               |
| Trade payables   | 6,265         | 5,197         |
|  | <b>7,408</b>  | <b>5,197</b>  |

#### Financial risk management objectives

The Group's finance function is responsible for all aspects of corporate treasury. It co-ordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Group through internal reports which analyse exposures by degree and magnitude. The risks reviewed include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provides guidance to the finance function in addressing all risks, including foreign exchange risk, credit risk and the appropriate use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's bankers are party to a debenture which provides for security over the whole of the Company's assets and undertaking. This debenture is in place to support the revolving credit facility, provision of forward contracts and a duty deferment facility.

#### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see below). The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk. Currently the exposure to short-term foreign exchange rate risks is mitigated through the purchase of forward foreign exchange contracts to hedge the exchange rate risk arising on trading with overseas customers.

#### Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the relevant period end dates are as follows:

|                 | Liabilities   |               | Assets        |               |
|-----------------|---------------|---------------|---------------|---------------|
|                 | 2016<br>£'000 | 2015<br>£'000 | 2016<br>£'000 | 2015<br>£'000 |
| US Dollars      | 5,875         | 4,844         | 9,965         | 6,544         |
| Euros           | 22            | 20            | 2,227         | 2,135         |
| Pounds Sterling | 3,359         | 3,947         | 4,638         | 5,232         |
|                 | <b>9,256</b>  | <b>8,811</b>  | <b>16,830</b> | <b>13,911</b> |

### Foreign currency sensitivity analysis

The Group is mainly exposed to the Euro and US Dollar.

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

A negative number below indicates a decline in profits and other equity where Sterling strengthens 10% against the relevant currency. For a 10% weakening of Sterling against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be positive.

|                | Euro impact <sup>1</sup> |       | US Dollar impact <sup>2</sup> |       |
|----------------|--------------------------|-------|-------------------------------|-------|
|                | 2016                     | 2015  | 2016                          | 2015  |
|                | £'000                    | £'000 | £'000                         | £'000 |
| Profit or loss | 221                      | 211   | 409                           | 170   |

1. This is mainly attributable to the exposure outstanding on Euro net payables and receivables at the balance sheet date.

2. This is mainly attributable to the exposure to US Dollar net payables and receivables at the balance sheet date.

In management's opinion, the sensitivity analysis is representative of the inherent foreign exchange risk through the year.

### Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts with the aim that approximately 75% of the foreign exchange exposure is covered. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

For cash flow hedges the following table sets out the periods when the cash flows are expected to occur and when they are expected to affect profit or loss:

|                                   | 2016            |                    |               |                       |              |
|-----------------------------------|-----------------|--------------------|---------------|-----------------------|--------------|
|                                   | Carrying amount | Expected cash flow | Within 1 year | Between 1 and 5 years | Over 5 years |
|                                   | £'000           | £'000              | £'000         | £'000                 | £'000        |
| <b>Forward exchange contracts</b> |                 |                    |               |                       |              |
| <b>Liabilities</b>                | (1,143)         | (1,143)            | (1,143)       | -                     | -            |
| <b>Total</b>                      | (1,143)         | (1,143)            | (1,143)       | -                     | -            |

|                                   | 2015            |                    |               |                       |              |
|-----------------------------------|-----------------|--------------------|---------------|-----------------------|--------------|
|                                   | Carrying amount | Expected cash flow | Within 1 year | Between 1 and 5 years | Over 5 years |
|                                   | £'000           | £'000              | £'000         | £'000                 | £'000        |
| <b>Forward exchange contracts</b> |                 |                    |               |                       |              |
| <b>Liabilities</b>                | -               | -                  | -             | -                     | -            |
| <b>Total</b>                      | -               | -                  | -             | -                     | -            |

### Interest rate risk management

The Group is not currently exposed to interest rate risk because it does not have any external borrowings.

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a well-established system of credit limits and credit insurance, typically covering around 90% of the Group's trade receivables.

The carrying amount recorded for financial assets in the consolidated financial information is net of impairment losses and represents the Group's maximum exposure to credit risk. No guarantees have been given in respect to third parties.

### Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. To counter this risk, the Group operates with a high level of cash and no bank debt. In addition, it benefits from strong cash flow from its normal trading activities.

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

|                                    | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5+ years | Total |
|------------------------------------|--|-------------------|------------|--------------------|-----------|----------|-------|
|                                    | %  | £'000             | £'000      | £'000              | £'000     | £'000    | £'000 |
| <b>2015</b>                        |  |                   |            |                    |           |          |       |
| Non-interest bearing               |  | 4,414             | -          | -                  | -         | -        | 4,414 |
| Variable interest rate instruments | 0.4%                                     | 1,759             | -          | -                  | -         | -        | 1,759 |
|                                    |  | 6,173             | -          | -                  | -         | -        | 6,173 |
| <b>2016</b>                        |  |                   |            |                    |           |          |       |
| Non-interest bearing               |  | 5,606             | -          | -                  | -         | -        | 5,606 |
|                                    |  | 5,606             | -          | -                  | -         | -        | 5,606 |

The maturity of non-derivative financial liabilities, comprising trade payables and other creditors, is less than three months for both of the financial period ends.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the relevant year ends presented above.

### Fair value of financial instruments

#### *Fair value of financial instruments carried at amortised cost*

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

#### *Valuation techniques and assumptions applied for the purposes of measuring fair value*

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

#### *Fair value measurements recognised in the statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. The grouping into Levels 1 to 3 is based on the degree to which their fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial instruments held by the Group that are measured at fair value all relate to financial assets/(liabilities) measured at FVTPL using methods associated with Level 2.

|  | 2016             |                  |                  |                |
|--|------------------|------------------|------------------|----------------|
|  | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
| <i>Financial assets/(liabilities) at FVTPL</i> |                  |                  |                  |                |
| Financial assets designated at FVTPL           | -                | -                | -                | -              |
| Total  | -                | -                | -                | -              |

|  | 2015             |                  |                  |                |
|--|------------------|------------------|------------------|----------------|
|  | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
| <i>Financial assets/(liabilities) at FVTPL</i> |                  |                  |                  |                |
| Financial assets designated at FVTPL           | -                | 223              | -                | 223            |
| Total  | -                | 223              | -                | 223            |

Under IAS 39, all derivative financial instruments not in a hedge relationship are classified as derivatives at fair value through the income statement. The Group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are underpinned by firm orders from customers or to suppliers or where there is a high degree of certainty that orders will be received.

#### 34 CONTINGENT LIABILITIES

The Company and its subsidiaries may, from time to time, be involved in a number of legal proceedings that are incidental to their operations. During the year, the Group incurred one-off litigation costs, which are explained in note 13. In the opinion of the Directors, the Company and its subsidiaries are not involved currently in any other legal proceedings which, at 31 August 2016 and for the period up to the date of approval of these financial statements, have had a significant effect on the financial position or profitability of the Company and its subsidiaries.

Further information is not disclosed on the grounds that it can be expected to seriously prejudice the outcome of the litigation. The Company continues to vigorously defend its position and to seek appropriate legal counsel.

#### 35 RELATED PARTY TRANSACTIONS

Balances and transactions between the Parent Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

#### Remuneration of key management personnel

The key management personnel are the operational Directors of the Group and the remuneration that they have received during the year is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

|   | 2016<br>£'000 | 2015<br>£'000 |
|---|---------------|---------------|
| Short-term employee benefits                      | 1,415         | 1,378         |
| Share-based payments                              | 42            | 15            |
| Pension contributions                             | 150           | 50            |
|   | <b>1,607</b>  | <b>1,443</b>  |
| Aggregate emoluments of the highest paid Director | <b>207</b>    | <b>229</b>    |

#### **Transactions involving Directors and key management personnel**

##### ***Loans to related parties (in the previous period)***

On 25 July 2014 the Company made an unsecured loan of £24,000 to Mr D Froker, a Director of the Company. Interest was charged at 1% above bank base rate and repayment was dependent on the fulfilment of a number of terms, but at the latest, by the date of finalisation of the Company's accounts for the year ended 31 August 2015. The principal terms of the loan are considered by management to be determined on an arm's length basis. The loan, together with accrual interest thereon, was repaid in full on 17 November 2014.

##### ***Other related party transaction***

During the year, the Company continued a commercial lease agreement in Lincoln Road, High Wycombe. Mr P Dudderidge, a Director and shareholder of the Company, is the landlord of the property in Lincoln Road, High Wycombe. The annual rental is £19,750 (2015: £15,000).

# Company Balance Sheet

As at 31 August 2016

|   | Note | 2016<br>£'000 | 2015<br>£'000 |
|---|------|---------------|---------------|
| <b>Assets</b>   |      |               |               |
| <b>Non-current assets</b>                             |      |               |               |
| Investment in subsidiaries                            | 6    | 14,647        | 14,647        |
| <b>Total fixed assets</b>                             |      | <b>14,647</b> | <b>14,647</b> |
| <b>Current assets</b>                                 |      |               |               |
| Trade and other receivables                           | 7    | 4,884         | 1,847         |
| Corporate tax recoverable                             |      | 48            | 38            |
| Cash at bank and in hand                              |      | 90            | 847           |
| <b>Total current assets</b>                           |      | <b>5,022</b>  | <b>2,732</b>  |
| <b>Creditors: amounts falling due within one year</b> |      |               |               |
| Creditors   | 8    | (3)           | -             |
| <b>Net current assets</b>                             |      | <b>5,019</b>  | <b>2,732</b>  |
| <b>Total assets less current liabilities</b>          |      | <b>19,666</b> | <b>17,379</b> |
| <b>Net assets</b>                                     |      | <b>19,666</b> | <b>17,379</b> |
| <b>Capital and reserves</b>                           |      |               |               |
| Share capital   | 9    | 58            | 58            |
| Merger reserve  | 10   | 14,595        | 14,595        |
| Share-based payment reserve                           |      | 382           | -             |
| Treasury share reserve                                | 11   | (5)           | (6)           |
| Retained earnings                                     | 12   | 4,636         | 2,732         |
| <b>Total equity and shareholders' funds</b>           |      | <b>19,666</b> | <b>17,379</b> |

The financial statements were approved by the Board of Directors and authorised for issue on 22 November 2016. They were signed on its behalf by:

**Dave Froker**  
Chief Executive Officer

**Jeremy Wilson**  
Chief Financial Officer

The notes on pages 76 to 79 form part of the financial statements.

# Company Statement of Changes in Equity

For the year ended 31 August 2016

|   | Share capital<br>£'000 | Merger reserve<br>£'000 | Treasury share reserve<br>£'000 | Share-based payment reserve<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 |
|---|------------------------|-------------------------|---------------------------------|--------------------------------------|----------------------------|----------------|
| Balance at 14 November 2014                             | -                      | -                       | -                               | -                                    | -                          | -              |
| Profit for the period                                   | -                      | -                       | -                               | -                                    | 3,046                      | 3,046          |
| Issue of ordinary shares                                | 58                     | 14,595                  | -                               | -                                    | -                          | 14,653         |
| Dividends   | -                      | -                       | -                               | -                                    | (314)                      | (314)          |
| Ordinary shares issued to the EBT                       | -                      | -                       | (6)                             | -                                    | -                          | (6)            |
| Net movement  | 58                     | 14,595                  | (6)                             | -                                    | 2,732                      | 17,379         |
| Balance at 31 August 2015                               | 58                     | 14,595                  | (6)                             | -                                    | 2,732                      | 17,379         |
| Profit for the period                                   | -                      | -                       | -                               | -                                    | 2,709                      | 2,709          |
| Dividends   | -                      | -                       | -                               | -                                    | (976)                      | (976)          |
| Transfer of brought forward share-based payment reserve | -                      | -                       | -                               | 262                                  | -                          | 262            |
| Share-based payment charge                              | -                      | -                       | -                               | 120                                  | -                          | 120            |
| Shares from EBT exercised                               | -                      | -                       | 1                               | -                                    | 171                        | 172            |
| Net movement  | 58                     | 14,595                  | (5)                             | 382                                  | 4,636                      | 19,666         |
| <b>Balance at 31 August 2016</b>                        | <b>58</b>              | <b>14,595</b>           | <b>(5)</b>                      | <b>382</b>                           | <b>4,636</b>               | <b>19,666</b>  |

The notes on pages 76 to 79 form part of the financial statements.

# Company Cash Flow Statement

|   | Note | 2016<br>£'000  | 2015<br>£'000 |
|---|------|----------------|---------------|
| Loss for the financial year                                 |      | (195)          | (148)         |
| Adjustments for:  |      |                |               |
| Share option charge   |      | 382            | -             |
| Income tax expense  |      | (48)           | (38)          |
| Operating cash flows before movements in working capital    |      | 139            | (186)         |
| Increase in trade and other receivables                     |      | (3,047)        | (17)          |
| Increase in trade and other payables                        |      | 3              | 203           |
| Operating cash flows before interest and tax paid           |      | (2,905)        | -             |
| Income taxes received                                       |      | 48             | -             |
| <b>Net cash from operating activities</b>                   |      | <b>(2,857)</b> | <b>-</b>      |
| <b>Investing activities</b>                                 |      |                |               |
| Dividend received   |      | 2,904          | 1,161         |
| <b>Net cash from investing activities</b>                   |      | <b>2,904</b>   | <b>1,161</b>  |
| <b>Financing activities</b>                                 |      |                |               |
| Issue of equity shares                                      |      | 172            | -             |
| Equity dividends paid                                       | 5    | (976)          | (314)         |
| <b>Net cash used in financing activities</b>                |      | <b>(804)</b>   | <b>(314)</b>  |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(757)</b>   | <b>847</b>    |
| <b>Cash and cash equivalents at beginning of year</b>       |      | <b>847</b>     | <b>-</b>      |
| <b>Cash and cash equivalents at end of year</b>             |      | <b>90</b>      | <b>847</b>    |

# Notes to the Company Accounts

## For the year ended 31 August 2016

### **1 AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101**

The Parent Company financial statements of Focusrite plc for the year ended 31 August 2016 were authorised for issue by the Board of Directors on 22 November 2016 and the balance sheet was signed on the Board's behalf by Dave Froker and Jeremy Wilson.

Focusrite Plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on AIM. These financial statements were prepared in accordance with FRS 101.

No profit and loss account is presented by the Company as permitted by section 408 of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 August 2016.

### **2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

These financial statements were prepared in accordance with FRS 101. The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of IFRS, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 August 2016.

#### **Going concern**

The Group's business activities and position in the market are described in the Strategic Report. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertainties within the global economy. The Group has considerable financial resources, recurring revenue streams and a broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further detail is contained in the Strategic Report on pages 1 to 23.

#### **Investments in subsidiaries**

Investments in subsidiaries are stated at cost less any provision for impairment.

#### **Cash**

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

#### **Income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exception:

- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed at each balance sheet date.

Deferred income tax assets and liabilities are offset only if a legally enforced right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

#### **Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

#### **Equity-settled share-based payments**

The Company issues equity-settled payments to certain employees (including Directors). All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and a simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to the 'other reserves'.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium account.

The share option charge related to the grant by the Company of options over its equity instruments to the employees of subsidiary undertakings is subsequently recharged to the relevant employing subsidiary.

### **3 DIRECTORS' REMUNERATION**

|   | 2016       | 2015  |
|---|------------|-------|
| Directors' emoluments:                        | £'000      | £'000 |
| Salaries, bonuses and other employee benefits | <b>656</b> | 449   |
| Social security costs                         | <b>76</b>  | 58    |
| Pension costs                                 | <b>3</b>   | 3     |
|   | <b>735</b> | 510   |

The comparative period, 2015, represents the period from the incorporation of the Company on 14 November 2014 to 31 August 2015.

During the year retirement benefits were accruing to three Directors (2015: three) in respect of defined contribution pension schemes. The highest paid Director received remuneration of £220,000 (2015: £156,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £2,000 (2015: £nil). During the year, no share options were exercised by Directors (2015: nil).

The Directors' remuneration for the year:

|                                |             | Salary/fees<br>£'000 | Other<br>taxable<br>benefits<br>£'000 | Annual<br>bonus<br>£'000 | Pension<br>contribution<br>£'000 | Total<br>£'000 |
|--------------------------------|-------------|----------------------|---------------------------------------|--------------------------|----------------------------------|----------------|
| <b>Executive Directors</b>     |             |                      |                                       |                          |                                  |                |
| Dave Froker                    | FY15        | 115                  | 2                                     | -                        | 1                                | 118            |
|                                | <b>FY16</b> | <b>168</b>           | <b>3</b>                              | <b>47</b>                | <b>2</b>                         | <b>220</b>     |
| Jeremy Wilson                  | FY15        | 124                  | -                                     | 30                       | 2                                | 156            |
|                                | <b>FY16</b> | <b>168</b>           | <b>2</b>                              | <b>38</b>                | <b>1</b>                         | <b>209</b>     |
| Phil Dudderidge                | FY15        | 126                  | -                                     | -                        | -                                | 126            |
|                                | <b>FY16</b> | <b>168</b>           | <b>3</b>                              | <b>-</b>                 | <b>-</b>                         | <b>171</b>     |
| <b>Non-executive Directors</b> |             |                      |                                       |                          |                                  |                |
| David Bezem                    | FY15        | 26                   | -                                     | -                        | -                                | 26             |
|                                | <b>FY16</b> | <b>36</b>            | <b>-</b>                              | <b>-</b>                 | <b>-</b>                         | <b>36</b>      |
| Paul Dean                      | FY15        | 26                   | -                                     | -                        | -                                | 26             |
|                                | <b>FY16</b> | <b>36</b>            | <b>-</b>                              | <b>-</b>                 | <b>-</b>                         | <b>36</b>      |

#### 4 STAFF COSTS

Staff costs, including Directors' remuneration, were as follows:

|                       | 2016<br>£'000 | 2015<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | <b>714</b>    | 563           |
| Social security costs | <b>84</b>     | 71            |
| Other pension costs   | <b>99</b>     | 17            |
|                       | <b>897</b>    | 651           |

The average monthly number of employees, including the Directors, during the year was as follows:

|                               | 2016<br>Number | 2015<br>Number |
|-------------------------------|----------------|----------------|
| Management and administration | <b>7</b>       | 7              |
|                               | <b>7</b>       | 7              |

#### 5 DIVIDENDS

The following equity dividends have been declared:

|  | 2016<br>£'000 | 2015<br>£'000 |
|--|---------------|---------------|
| Dividend per qualifying ordinary share | <b>1.95p</b>  | 1.80p         |

#### 6 INVESTMENTS IN SUBSIDIARIES

|                         | 2016<br>£'000 | 2015<br>£'000 |
|-------------------------|---------------|---------------|
| At 1 September          | <b>14,647</b> | -             |
| Additions in the period | -             | 14,647        |
| At 31 August            | <b>14,647</b> | 14,647        |

The investments in subsidiaries comprise:

| Name   | Country of registration or incorporation | Principal activity           | Class of shares | 2016 % | 2015 % |
|--|--|------------------------------|-----------------|--------|--------|
| Focusrite Audio Engineering Limited          | England and Wales                        | Manufacture and distribution | Ordinary        | 100    | 100    |
| Focusrite Novation Inc <sup>1</sup>          | United States of America                 | Marketing services           | Ordinary        | 100    | 100    |
| Focusrite Novation Asia Limited <sup>1</sup> | Hong Kong                                | Marketing services           | Ordinary        | 100    | 100    |

<sup>1</sup> Owned indirectly through FAEL.

## 7 DEBTORS

|                                    | 2016<br>£'000 | 2015<br>£'000 |
|------------------------------------|---------------|---------------|
| Other debtors                      | 10            | 17            |
| Amounts owed by Group undertakings | 4,874         | 1,830         |
|                                    | <b>4,884</b>  | <b>1,847</b>  |

The amounts owed by Group undertakings are interest free and repayable on demand.

## 8 CREDITORS

|                 | 2016<br>£'000 | 2015<br>£'000 |
|-----------------|---------------|---------------|
| Other creditors | 3             | -             |
|                 | <b>3</b>      | <b>-</b>      |

## 9 SHARE CAPITAL

|                               | 2016<br>Number    | 2015<br>Number    |
|-------------------------------|-------------------|-------------------|
| <b>Issued and fully paid:</b> |                   |                   |
| Ordinary shares of £0.01 each | 58,075,000        | 58,075,000        |
|                               | <b>58,075,000</b> | <b>58,075,000</b> |

|                               | 2016<br>£     | 2015<br>£     |
|-------------------------------|---------------|---------------|
| <b>Issued and fully paid:</b> |               |               |
| Ordinary shares of £0.01 each | 58,075        | 58,075        |
|                               | <b>58,075</b> | <b>58,075</b> |

The Company has one class of ordinary shares which carry no right to fixed income. On 4 December 2014 the Company issued 58,074,998 ordinary shares of £0.01 each at par in consideration for 58,075,000 ordinary shares in FAEL.

## 10 MERGER RESERVE

|                           | 2016<br>£'000 | 2015<br>£'000 |
|---------------------------|---------------|---------------|
| At 1 September            | 14,595        | -             |
| Transferred in the period | -             | 14,595        |
| At 31 August              | <b>14,595</b> | <b>14,595</b> |

The merger reserve represents the difference between the cost of the investment in FAEL (and its subsidiary, Focusrite Novation Inc.) of £14,647,000 and the nominal value of the ordinary shares issued in exchange of £52,000.

## 11 TREASURY RESERVE

|                           | 2016  | 2015  |
|---------------------------|-------|-------|
|                           | £'000 | £'000 |
| At 1 September            | (6)   | -     |
| Transferred in the period | -     | (6)   |
| Shares exercised from EBT | 1     | -     |
| At 31 August              | (5)   | (6)   |

## 12 RETAINED EARNINGS

|                           | 2016  | 2015  |
|---------------------------|-------|-------|
|                           | £'000 | £'000 |
| At 1 September            | 2,732 | -     |
| Net profit for the period | 2,709 | 3,046 |
| Dividend                  | (976) | (314) |
| Shares from EBT exercised | 171   | -     |
| At 31 August              | 4,636 | 2,732 |

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Parent Company's profit for the year was £2,709,000 (2015: £3,046,000).

# Advisers

**Registered Office**

Windsor House  
Turnpike Road  
High Wycombe  
Buckinghamshire  
HP12 3FX

**Company number**

09312676

**Auditor**

KPMG LLP  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

**Nominated adviser and broker**

Panmure Gordon (UK) Limited  
One New Change  
London  
EC4M 9AF

**Legal adviser**

Stephenson Harwood  
1 Finsbury Circus  
London  
EC2M 7SH

**Registrar**

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

**Financial public relations**

Belvedere Communications Limited  
43 Manchester Street  
London  
W1U 7LP

**Company Secretary**

Prism Cosec Limited

**Focusrite Plc**

Windsor House  
Turnpike Road  
High Wycombe  
Buckinghamshire HP12 3FX  
United Kingdom  
T: +44 1494 462246

[www.focusriteplc.com](http://www.focusriteplc.com)