

# Gooch & Housego PLC

Company number 00526832

ANNUAL REPORT and ACCOUNTS  
for the year ended 30 September 2015

MONDAY



\*A4M8D5NS\*

A08

14/12/2015

#14

COMPANIES HOUSE

# Contents

<b>Financial Highlights</b>	<b>2</b>
<hr/>	
<b>Strategic report</b>	
Chairman's Statement 2015	3
Chief Executive Officer's Statement 2015	4
Market Overview	8
Financial and Operating Review	12
Strategy Overview	18
Principal Risks and Uncertainties	19
<hr/>	
<b>Governance</b>	
Board of Directors	20
Directors' Report	22
Audit Committee Report	27
Nomination Committee Report	28
Remuneration Committee Report	29
<hr/>	
<b>Financial statements</b>	
Independent Auditors' Report - Group	34
Group Accounts	36
Notes to the Group Cash Flow Statement	41
Notes to the Financial Statements	42
Independent Auditors' Report - Company	69
Company Balance Sheet	71
Notes to the Company Financial Statements	72
<hr/>	
<b>Shareholder information</b>	
Company information	81
Notice of Annual General Meeting	82
<hr/>	

## Financial Highlights

Year ended 30 September	2015	2014	Change
Revenue (£m)	78.7	70.1	12.3%
Adjusted profit before tax (£m)*	12.9	11.5	12.2%
Adjusted basic earnings per share (pence)*	39.5	35.6	11.0%
Statutory profit before tax (£m)	10.1	7.9	27.8%
Basic earnings per share (pence)	30.9	22.5	37.3%
Total dividend per share (pence)	8.2	7.2	13.9%
Net cash (£m)	17.3	8.7	98.9%

\*adjusted figures are stated after excluding the amortisation of acquired intangible assets, gain on bargain purchase and exceptional items being restructuring costs and impairment of goodwill.

### Operating & Strategic Highlights

- Strong performance from industrial laser and telecommunication products
- Melbourne site closure completed and products transferred to other G&H sites
- Performance improvement initiatives underway
- Investment in R&D up 14.2%

### Financial Highlights

- Adjusted profit before tax up 12.2%
- Strong cash performance delivering net cash of £17.3m at year end (2014: £8.7m)
- Solid order book of £36.3m, up 11% from 30 September 2014
- 13.9% growth in full year dividend

### Mark Webster, Chief Executive Officer, commented

"During 2015 Gooch & Housego has made good progress in executing on its strategic objectives, met management's expectations for revenue and profit growth and made a number of significant investments in line with our strategic vision for the business.

The near and long term benefits of these strategic initiatives, combined with a solid year end order book, mean the Board believes Gooch & Housego remains well positioned to deliver further progress in 2016 and beyond."

#### For further information please contact:

<b>Gooch &amp; Housego PLC</b>	Mark Webster / Andrew Boteler	01460 256440
<b>Investec Bank plc (Nomad &amp; Broker)</b>	Patrick Robb / David Anderson	020 7597 5970
<b>Buchanan</b>	Mark Court / Gabriella Clinkard	020 7466 5000

## Chairman's Statement 2015

“Gooch & Housego is well positioned, with a strengthened management team and enhanced capabilities, to exploit exciting growth opportunities in photonics.”

I am pleased to report that your company performed well in 2015, achieving encouraging growth in revenues and profits. In parallel, significant management and operational changes were implemented to support the long-term development of the business.

The year was characterised by generally benign market conditions supplemented by high levels of demand for a number of key products for which Gooch & Housego is the market leader. Although this demand presented significant challenges in terms of manufacturing capacity, the sites responded well and were able to keep pace with customer requirements. While some softening in the Chinese microelectronics market has subsequently been experienced, demand from other sectors and geographies has been maintained, illustrating that the Company's strategy of diversification is proving to be effective in smoothing out the swings of these traditionally cyclical markets.

2015 saw further increases in investment in Research & Development (R&D) and Business Development, including several senior appointments, in support of the Company's other key strategic objective of delivering growth and margin improvement by moving up the value chain. Several of the initiatives commenced in 2015 are already showing promise, and have the potential to generate revenue in the coming year.

Enhancing the quality, efficiency and capacity of the Company's manufacturing facilities, while reducing operational costs and complexity, has been a long term objective of the board. During 2015 the Melbourne site was closed, following the successful transfer of business to Ilminster and Palo Alto, work was started on major improvements to the Cleveland facility, and work is well advanced with the relocation of Palo Alto operations to a new, larger facility in nearby Fremont.

In January this year I was pleased to hand over the role of CEO to Mark Webster and take over the position of Chairman on the retirement of Julian Blogh. I would like to record my thanks to Julian for his support and guidance over the years. In November 2014, Alex Warnock joined the Board as Chief Operating Officer. Mark and Alex bring additional skills and experience to Gooch & Housego and, together with the other executives, constitute a leadership team that can take the Company to the next level. I am pleased to report that the transition went smoothly, with no loss of continuity. I would also like to welcome Brian Phillipson, who joined as a non-executive director on 1 September 2015. Brian brings a wealth of Aerospace & Defence industry experience to the Board.

The new executive team has already made considerable progress in delivering a more efficient, effective and focussed Gooch & Housego. Initiatives to instil a culture of continuous improvement are already well advanced. Specialist teams operating across all sites have been established to ensure operational excellence in critical business functions. R&D has been refocused on fewer key projects, and experienced project managers hired to deliver them.

In summary, 2015 has been a positive year of growth and change for Gooch & Housego. With a strong balance sheet, good cash flow and enhanced facilities, processes and systems, the Company is well positioned to exploit exciting growth opportunities in photonics. I would like to thank my fellow directors and employees of Gooch & Housego for making 2015 another successful year for the Company.

Gareth Jones  
Chairman

## Chief Executive Officer's Statement 2015

“During 2015 Gooch & Housego has made good progress in executing on its strategic objectives, met management's expectations for revenue and profit growth and made a number of significant investments in line with our strategic vision for the business.”

### *Overview of 2015*

Gooch & Housego (“G&H”) made good progress towards its aim of driving higher organic growth from its portfolio of world leading products and technologies. Revenue growth of 12% (8% on a constant currency basis) and the consequent contribution has enabled us to meet our profit targets and fund further investment in line with our stated strategic goals during 2015.

Our strategy is based around a continued commitment to the twin pillars of diversification and moving up the value chain. Further progress has been made against these goals resulting in a more balanced and vertically integrated business that is more robust and means we are less exposed to the cyclical nature of some of our core markets.

This was evident during 2015 where the use of lasers in microelectronic manufacturing, modulator systems for telecommunications and amplifiers for undersea cabling were the primary growth drivers for the first half of the year. In the second half of the year there was some softening of demand for microelectronic manufacturing in China, but this was largely offset by stronger demand elsewhere in the business, most notably high reliability fibre couplers used in amplifiers for undersea cabling.

The Systems Technology Group (STG), based in Torquay, which is dedicated to helping G&H move up the value chain, has continued to expand and now has 24 engineers and scientists. They bring a wide range of skills in areas such as electronic, software and mechanical engineering, which are necessary to design, engineer and deliver a complete sub-system or system to our customers.

The STG has been successful at securing grant funding for most of its projects, in particular for Space Satellite Communications (“SatCom”) where we have funding from the European Space Agency, UK Space Agency and European Union. Our goal is to establish a medium term leadership position in the new and exciting area of space photonics. We are expecting to generate SatCom commercial income in 2016, which is far earlier than originally anticipated.

The new management team has made good progress with G&H's performance improvement programme, which is focused on operational excellence, business development and research and development (R&D). Our aim is to move to a more unified global business, where the skills, expertise and technology across our sites are better leveraged throughout G&H and our customers are presented with a more complete and professional offering.

The accompanying organisational changes and upgrading of the broader group of senior managers' skills and competencies has taken a significant step forward this year and is part of an ongoing process carrying on into 2016 and beyond.

During 2015:

- The operations group has established a number of globally focused teams representing the key manufacturing disciplines. Lean Manufacturing principles are now being introduced to all of our sites.
- Experienced Aerospace & Defence (“A&D”) business development executives have been hired on both sides of the Atlantic. Two of our current key R&D projects would not have been possible without the expertise and contacts these executives brought with them. The next stage will be the hiring of experienced Life Sciences business development executives.

## Chief Executive Officer's Statement 2015

- A more targeted R&D approach has been adopted, where fewer but better resourced projects are selected on the basis of the highest return on investment. The projects are now run by a new global R&D group, whose aim is to leverage our skills and technology across the whole company.

G&H's cash position has significantly strengthened over 2015 and, when taken in conjunction with our debt financing facilities, puts us in a strong position to make strategic acquisitions as and when the right opportunities become available.

### *Markets and Applications - Industrial*

The Industrial sector represents 59% of G&H's revenue and is composed of a diverse range of industrial applications aligned to our world class photonic technologies, which include microelectronic manufacturing, semiconductor manufacturing and test, remote sensing, metrology and telecommunications. Revenue growth of £6.2 million, which is 15.7% higher than the previous year is reflective of positive trends across most of the sector.

The ongoing shift towards the use of fibre optics in general, and fibre lasers in particular, is something we see continuing into the foreseeable future. Fibre lasers are being used in an ever-widening number of applications and are proving to be more versatile than conventional solid-state lasers.

As the world leader in acousto-optic products for industrial lasers G&H anticipated this trend and is well positioned to take advantage. Acousto-optic components for fibre lasers, such as the 'Fibre Q' already represent a greater share of our business than the traditional 'Q-Switches' for water or conduction cooled solid state lasers. Further investment in new products and cost reduction initiatives should enable us to retain a market leading position in this area.

The semiconductor manufacturing and test market showed particularly strong growth in 2015. The need for laser technology to enhance miniaturisation and speed in this fast moving sector means we anticipate that this will be a good growth driver for G&H over the medium term.

Free space and fibre lasers are being used increasingly in sensor applications and G&H has strengthened its position in this area over the last year.

The need to meet government, industry and consumer demand for more data capacity has driven an especially strong telecommunications performance over the last year. G&H products for modulation systems and high reliability fibre optics for undersea cabling have performed particularly well. We expect this trend for more data capacity to continue into 2016.

### *Markets and Applications - Aerospace & Defence*

A&D represented 25% of G&H's revenue during 2015, which was £1.0 million higher than the previous year. This reflects a sector that has recovered some of its confidence, is now placing new orders and initiating new engineering contracts and also the investment G&H has made in people and new products in this market.

Despite the revenue growth there was a year on year drop in adjusted profit due to the loss of a 'one time' contract and price pressure on a long standing contract at our Orlando and Moorpark sites respectively, coupled with the incremental investment in A&D experts. However, our new products, combined with exciting opportunities in space photonics and the application of existing capabilities to surveillance, displays and secure communications, mean we continue to believe this is a market with good growth prospects for Gooch & Housego.

Product quality, reliability and performance are paramount in this sector and that plays to G&H's strengths, along with our commitment to provide value. We have strong, well established positions in target designation and range finding, ring laser and fibre optic gyroscope navigational systems, infrared and RF countermeasures and space photonics, with the major A&D companies in both Europe and the USA.

# Chief Executive Officer's Statement 2015

Our fibre and infrared optic capabilities reflect the technological 'direction of travel' for this sector. Some of our current A&D customers prefer us to provide sub-systems and systems rather than just high quality components. We believe more of our major A&D customers will follow in their footsteps, as we establish further capability and capacity. The continued expansion of the STG and the hiring of experienced A&D executives should provide us with the critical mass to support further sub-system and system growth in this important sector.

The exciting potential of our space photonics business has been documented in the Overview section.

## *Markets and Applications - Life Sciences*

Life Sciences represented 11% of G&H's revenue during 2015, which was £1.7 million higher than the previous year. The principal applications are in optical coherence tomography (OCT), laser surgery and microscopy. OCT is widely used in ophthalmology and G&H has developed a strong position with the main participants in this market. The potential for OCT medical diagnostic techniques to be used in other areas is high and we have programmes with medical diagnostic companies designed to exploit these new markets.

Laser surgery is a fast growing area particularly for ophthalmological, prostate and aesthetic treatments and has been a key driver of 2015 growth. We believe there is further potential for both current and new areas of laser surgery.

G&H has an established sub-system and system presence with a number of our Life Sciences customers and we see further potential for moving up the value chain in this area during 2016.

## *Markets and Applications - Scientific Research*

For G&H the Scientific Research market is dominated by a small number of 'Big Science' projects in the fields of nuclear fusion research and synchrotron radiation sources. This is a prestigious and profitable sector for G&H, but we are not relying on this area for significant future growth. Revenue was marginally down year on year by £0.3m.

## *Operations*

The planned closure of our Melbourne, Florida site was completed in December 2014, with the transfer of the business to our other acousto-optic sites in Palo Alto, California and Ilminster.

We expect the relocation of our site in Palo Alto to nearby Fremont to be complete in the calendar year 2015. This will provide us with an improved facility and extra space for expansion.

An upgrade of our Cleveland, Ohio site commenced in 2015 and we expect it to be substantially complete by the end of the calendar year 2016. This is a key site, where our crystal growth takes place and the improvements will ensure it meets our anticipated future requirements.

Investment in our Torquay site which provided both an upgrade to, and an expansion of, the facility was substantially completed in 2015.

# Chief Executive Officer's Statement 2015

## *Outlook*

During 2015 Gooch & Housego has made good progress in executing on its strategic objectives, met management's expectations for revenue and profit growth and made a number of significant investments in line with our strategic vision for the business.

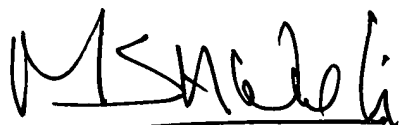
A good start has been made on the organisational changes required to make G&H a more unified global company and this process will continue into the next financial year.

The upgrading and expansion of key sites will continue in 2016. Our continued commitment to the principles of lean manufacturing will ensure they are further embedded in the business. This should result in an improved manufacturing performance.

Investment in A&D business development is starting to pay off and our intention is to make a similar investment in Life Sciences.

R&D spending has increased and a more focused use of G&H's resources should enable us to deliver our selected high return projects more efficiently to our customers over the next few years.

These strategic initiatives combined with a solid year end order book mean the Board remains confident that Gooch & Housego is well positioned to deliver further progress in 2016 and beyond.

A handwritten signature in black ink, appearing to read 'M Webster', written over a horizontal line.

Mark Webster  
Chief Executive Officer

# Market Overview

## Industrial

Revenue	£46.1m (2014: £39.8m)
Adjusted Operating Profit*	£9.6m (2014: £8.1m)
Percentage of Revenue	59% (2014: 57%)

### *Applications, products and markets*

- **Industrial Lasers** ... for materials processing applications. Gooch & Housego supplies Q-switches and other *acousto-optic, electro-optic and fibre optic* products. The end users for industrial lasers are extensive due to the ubiquitous adoption of this technology in manufacturing. The microelectronics industry represents the largest end market. The move towards fibre lasers is continuing with fibre lasers proving to be more versatile than the traditional solid state lasers. Fibre laser components already represent a greater part of our business than the traditional solid state 'Q-switches' for water or conduction cooled lasers. During 2015 this sector represented a substantial growth area, though in the latter part of the year we saw some softening in the microelectronic manufacturing sector in China.
- **Telecommunications** ... specifically for high reliability and high performance applications. The products supplied into this market are based upon the Group's *fibre optic, crystal growth and precision optics technologies*. The end users of these products are typically global telecommunication equipment companies for applications such as undersea and long haul telecommunication networks and tuneable lasers. The demand for more data from government, industry and the consumer has driven especially strong growth in this sector, something we see continuing into 2016.
- **Metrology** ... for laser-based, high-precision, non-contact measurement systems. The Group principally supplies its *precision optics and acousto-optics* into this market, where customers are typically blue-chip OEMs.
- **Remote sensing** ... for applications including asset protection, perimeter security, strain, temperature and pressure sensing. Gooch & Housego supplies *fibre optic and acousto-optic components and sub-assemblies*, including the recently developed Fibre-Q. Manufacturers of these systems address diverse end markets such as wind energy and oil and gas.
- **Semiconductor** ... for lithography and test and measurement applications. The products supplied into this market are *precision optics and acousto-optics*. Customers are typically global semiconductor equipment manufacturers. This market is closely aligned with the microelectronics industry.

### **Growth Strategy**

- To continue to invest in R&D and engineering to bring new products to existing markets and to keep products at the cutting edge of their technology. During 2015 Gooch & Housego introduced nine new products that address its Industrial market, five of which were designed to address the microelectronic manufacturing sector.
- To focus on niche markets that play to the strengths of Gooch & Housego. These are principally those that demand high levels of quality, reliability and survivability in harsh environments.
- To expand into and develop new geographical markets that offer high growth opportunities, through leveraging and expanding the Group's global sales organisation.
- To continue to focus energies and investment to make the transition from a components supplier to a manufacturer of sub-assemblies, instruments and systems. In the wider industrial space, the sensing market presents opportunities for our instrumentation business.
- To invest in longer term R&D projects.
- To make strategic acquisitions. Gooch & Housego will continue to seek high quality acquisitions as a route to grow its Industrial business should the opportunity arise.

\*Excluding restructuring costs

## Market Overview continued

### Aerospace & Defence

Revenue	£19.8m (2014: £18.8m)
Adjusted Operating Profit*	£2.1m (2014: £2.7m)
Percentage of Revenue	25% (2014: 27%)

#### *Applications, products and markets*

- **Target designation and range finding** ... used on both land-based and airborne systems. The products supplied into this market are based upon our *precision optics and electro-optics technologies*. Our customers are US and European defence contractors.
- **Guidance and navigation** ... components for ring laser gyroscope and fibre optic gyroscope inertial navigation systems. The products supplied into this market are based upon our *fibre optic and precision optics technologies*. Gooch & Housego navigation components are used in a variety of end markets, including civil and military aircraft, missiles, satellites and space exploration. The customers are US and European avionic, defence and space organisations.
- **Countermeasures** ... for ground based systems and airborne platforms. The products supplied into this market are based upon *fibre optic, acousto-optic and non-linear optics technologies*. The customers are US and European defence contractors.
- **Space Photonics** ... the business is leveraging its heritage of ultra-high reliability components for space applications in order to address the next generation requirement for fibre optics on satellites. Gooch & Housego is working with both the European Space Agency and commercial organisations to develop and deploy sub-systems for inter-satellite and satellite to ground communications, radio over fibre and optically inter-connected on-board processors within telecommunications satellites.
- **Surveillance, Displays and Secure Communications** ... product and application opportunities are being actively pursued to see wider application of capabilities from across G&H into these important A&D growth areas.

Aerospace & Defence represents a large potential market for Gooch & Housego. Following recent investment and acquisitions the Group now has a unique range of world leading photonic products and is beginning to be recognised as a key supplier to the Aerospace & Defence industry. Although 2015 saw a drop in adjusted profit for this sector for the reasons outlined in the CEO's statement, the technological 'direction of travel' in this area is towards fibre optics and infrared which puts G&H in a strong position, especially when coupled with our new expertise and enhanced STG capability.

In order to fully exploit this growth market, the business has invested significantly in business development in 2015.

#### **Growth Strategy**

- To continue to focus energy and investment to move from being a components supplier to a sub-systems provider. Our Aerospace & Defence customers are moving their own business models away from sub-system manufacture and are looking for companies such as Gooch & Housego that are capable of providing a full service in this area.
- To continue to invest in manufacturing processes and engineering in order to meet the exacting expectations of this sector, which is becoming increasingly cost sensitive.
- To make strategic acquisitions. Gooch & Housego will continue to seek high quality acquisitions as a route to grow its Aerospace & Defence business should the opportunity arise.
- To introduce new products. During 2015 Gooch & Housego introduced seven new products that address its Aerospace & Defence market.

\*Excluding restructuring costs

## Market Overview continued

### Life Sciences

<b>Revenue</b>	<b>£9.0m (2014: £7.3m)</b>
<b>Adjusted Operating Profit*</b>	<b>£1.6m (2014: £1.0m)</b>
<b>Percentage of Revenue</b>	<b>11% (2014: 10%)</b>

#### *Applications, products and markets*

- **Optical Coherence Tomography (OCT)** ... primarily used in retinal imaging for the diagnosis of glaucoma and macular degeneration. Gooch & Housego provides a family of *fibre optic* products in this market, ranging from discrete components to full optical systems. Customers include most of the world's leading manufacturers of OCT retinal imaging systems.
- **Laser surgery** ... used in a wide range of applications including prostate surgery, scar correction, cataract surgery, freckle, mole and tattoo removal as well as wrinkle reduction and teeth whitening. The products supplied into this market are based upon *electro-optic, fibre optic and acousto-optic technologies*. The customers in this market include both laser system manufacturers and biomedical equipment manufacturers.
- **Microscopy** ... modern, laser-based techniques are revolutionising the field of microscopy. Gooch & Housego's *acousto-optic devices and hyperspectral imaging systems* are used to control the multiple laser sources and analyse complex images. The end customers are typically medical equipment manufacturers.

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

OCT has been used primarily for Ophthalmological applications, but the technology has the capacity to be used in a range of other areas and we have collaborations with medical diagnostics companies designed to exploit these new opportunities.

In 2015 sales of components for laser surgery were strong, resulting in a 23% increase year on year.

#### **Growth Strategy**

- To continue to invest in longer term R&D projects and grow by bringing new products to the market. During 2015 Gooch & Housego introduced two new products that address its Life Sciences market.
- To make strategic acquisitions. Gooch & Housego will continue to seek high quality acquisitions as a route to grow its Life Sciences business should the opportunity arise.

\*Excluding restructuring costs

## Market Overview continued

### Scientific Research

Revenue	£3.9m (2014: £4.1m)
Adjusted Operating Profit*	£0.7m (2014: £0.4m)
Percentage of Revenue	5% (2014: 6%)

#### *Applications, products and markets*

- **Nuclear fusion research & energy** ... laser technology is being used to recreate the conditions found in the core of the sun. At these temperatures and pressures isotopes of hydrogen fuse to form helium and in doing so release huge amounts of energy – the energy that powers the sun and stars. One of the most exciting potential applications of this research is using laser fusion to provide limitless quantities of clean, carbon-free energy to meet the world's growing needs. The products supplied into this market utilise a wide range of the Company's technologies including crystal growth, precision optics, thin-film coatings and fibre optics. Gooch & Housego supplies many of the world's leading nuclear fusion energy research facilities. Gooch & Housego is sole supplier of many critical optical components used in the world's most powerful laser system at the National Ignition Facility (NIF) at Lawrence Livermore National Laboratory.
- **Instrumentation** ... for applications in agricultural, solar, marine and industrial research. An example of an industrial research application is the development of Light Emitting Diode (LED) illumination systems. Instrumentation products are supplied from our Orlando facility and include *photometers, radiometers, spectroradiometers* and their associated *calibration services*. The customer base ranges from universities and research institutes to Government agencies and national standards laboratories.

A small number of "Big Science" projects, which are reliant on government funding, dominate this market.

The products supplied into this market span the complete breadth of the Company's technology portfolio. Many of Gooch & Housego's current products have evolved from early stage collaborations with universities and it is an area the Company continues to focus on.

#### **Growth Strategy**

- To maintain and develop the business's capabilities in crystal growth and ultra-precision optics for nuclear fusion research and energy, university research and "Big Science" projects. Gooch & Housego is the custodian of some of the world's most advanced optical technologies.
- To continue to invest in R&D to develop and commercialise the next generation of Instrumentation products.

\*Excluding restructuring costs

# Financial and Operating Review

## Performance Overview

The business has once again delivered double digit growth for both revenue and adjusted profit.

The Company has delivered an excellent cash performance in the year, increasing its net cash position from £8.7m at 30 September 2014 to £17.3m at 30 September 2015. During 2015, Gooch & Housego invested £3.2m net in property, plant and equipment and intangible assets and continued to review certain acquisition opportunities.

Group revenue for the year was a record £78.7m. This represents all organic growth and is an increase of £8.6m, or 12% over the previous year of £70.1m. On a constant currency basis revenue was 8% higher than the previous year as a result of a generally beneficial foreign exchange environment.

### REVENUE

Year ended 30 September	2015		2014	
	£'000	%	£'000	%
Industrial	<b>46,054</b>	<b>59%</b>	39,813	57%
Aerospace & Defence (A&D)	<b>19,804</b>	<b>25%</b>	18,786	27%
Life Sciences	<b>8,978</b>	<b>11%</b>	7,318	10%
Scientific Research	<b>3,866</b>	<b>5%</b>	4,139	6%
<b>Group Revenue</b>	<b>78,702</b>	<b>100%</b>	70,056	100%

In the financial year under review, adjusted operating margins were 16.6%, compared to 17.1% in 2014. The deterioration to margin was a result of a lower than expected performance from the Instrumentation business and additional costs from the investment in R&D, the drive for lean manufacturing and investment in business development in Aerospace & Defence.

In our Industrial segment, revenue grew by 15.7% from £39.8m last year to £46.1m this year. Revenue in our Aerospace & Defence business grew by 5.4%, from £18.8m to £19.8m, and similarly, our Life Sciences business grew from £7.3m to £9.0m, an increase of 22.7%. Sales into our smallest segment, Scientific Research, fell by 6.6%.

A more detailed analysis of revenues by market is shown in the Market Analysis section, earlier in this report.

### GROUP EARNINGS PERFORMANCE

All amounts in £'000 Year ended 30 September	Adjusted		Reported	
	2015	2014	2015	2014
Operating profit	<b>13,102</b>	11,974	<b>10,294</b>	8,395
Net finance costs	<b>(188)</b>	(514)	<b>(188)</b>	(514)
Profit before taxation	<b>12,914</b>	11,460	<b>10,106</b>	7,881
Taxation	<b>(3,380)</b>	(2,951)	<b>(2,647)</b>	(2,482)
Profit for the year	<b>9,534</b>	8,509	<b>7,459</b>	5,399
Basic earnings per share (p)	<b>39.5p</b>	35.6p	<b>30.9p</b>	22.5p

## Financial and Operating Review

The Group adjusted profit before tax amounted to £12.9m (2014: £11.5m) and represented a return on revenue of 16.4% which is consistent with the previous year. Statutory profit before tax was £10.1m compared with £7.9m last year, including the remaining one-off costs associated with the closure of our Melbourne facility and the Palo Alto facility move.

The adjusted effective rate of tax was 26.2% (2014: 25.8%). The effective rate of tax of 26.2% (2014: 31.5%) was lower due to the effect of non-taxable exceptional items and the write-off of deferred tax assets due to the closure of the Melbourne site in 2014. The rate reflects a combination of the varying tax rates applicable throughout the countries in which the Group operates, principally the UK and the USA. The effect of the reduction of the UK corporation tax rate was more than offset by a greater proportion of the Group's profit being taxed in the US.

The introduction of the patent box tax regime from April 2013 has not contributed to a lower tax rate in 2015 and will not in 2016 due to the Group historically filing patents in the USA rather than in the UK or Europe. Current policy is to file patents in the UK when possible. The effective rate of tax should benefit in the future from further reductions in the UK tax rate, although the increased percentage of profit generated in the USA, where tax rates are higher, will mitigate this benefit.

Adjusted earnings per share (EPS) increased from 35.6p to 39.5p. Basic EPS was 30.9p compared with 22.5p last year.

### RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

Year ended 30 September	Operating Profit		Net finance costs		Taxation		Earnings per share	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 pence	2014 pence
Reported	10,294	8,395	(188)	(514)	(2,647)	(2,482)	30.9p	22.5p
Amortisation of acquired intangible assets	1,604	1,525	-	-	(419)	(381)	4.9p	4.8p
Gain on bargain purchase	-	(1,039)	-	-	-	-	-	(4.3p)
Impairment of goodwill	-	1,538	-	-	-	-	-	6.4p
Restructuring costs	1,204	1,555	-	-	(314)	(88)	3.7p	6.2p
<b>Adjusted</b>	<b>13,102</b>	<b>11,974</b>	<b>(188)</b>	<b>(514)</b>	<b>(3,380)</b>	<b>(2,951)</b>	<b>39.5p</b>	<b>35.6p</b>

### NON GAAP MEASURES

The Company uses a number of non GAAP measures which are shown in the table above and in the segmental analysis. These measures are used to illustrate the impact of non-recurring and non-trading items on the Company's financial results. These are the impact of the amortisation of acquired intangible assets and costs associated with restructuring activities and also include the gain on bargain purchase of Spanoptic and impairment of goodwill in 2014. The Company also uses the term EBITDA (Earnings before interest, taxation, depreciation and amortisation), which is a commonly used measure of operating performance and cash flow.

# Financial and Operating Review

## SEGMENTAL ANALYSIS

### *Industrial*

Our Industrial business grew strongly during the year, with revenues of £46.1m, compared with £39.8m last year. Revenue from the Group's traditional Q-switch product increased marginally compared to 2014, although it continues to fall as a percentage of the business, as anticipated, and now represents 9.9% of total group revenue (2014: 10.2%). We believe this reflects the continuing shift towards the use of fibre lasers in materials processing applications. Once again this appears to be supported by the significant increase in sales of fibre laser components experienced by Gooch & Housego in 2015. Telecommunications revenues were up significantly in the year due to increased demand for our high reliability fibre components for under-sea telecommunications applications.

After adjusting for the Melbourne site restructuring costs and the costs associated with the Palo Alto facility move, operating profit for the Industrial sector as a whole was 18.9% higher at £9.6m, compared with £8.1m last year. This reflects a combination of the growth in our telecommunications business and operational gearing resulting from additional volume flowing through our Palo Alto facility.

### *Aerospace & Defence (A&D)*

A&D revenue increased by 5.4% from £18.8m to £19.8m in 2015. The business continues to provide both components and sub-systems to the Company's European and US A&D customers. This business continues to represent a growth opportunity for Gooch & Housego, as optical technologies continue to be increasingly deployed in this market sector. Operating margins in this sector fell as a result of investment in business development resources, some one-off revenue in 2014 not recurring in 2015 and tighter margins on our navigation components business.

### *Life Sciences*

In 2015 Life Sciences revenue grew by over 22%. Sales of electro-optic products into the laser surgery market and of fibre optic assemblies for Optical Coherence Tomography were both strong. Adjusted operating profit in this sector was up by 57% as a result of this. We continue to believe this market offers a significant growth opportunity.

### *Scientific Research*

Our activities in the Scientific Research market are dominated by a small number of large, long-term programmes. This market was marginally weaker for Gooch & Housego in 2015 as a result of softness in the general research market. However, due to a product mix benefit, adjusted operating profit improved to £0.7m, compared to £0.4m in 2014.

## RESEARCH & DEVELOPMENT (R&D)

Gooch & Housego continues to invest in R&D in all areas of the business and regards this as fundamental to the continued growth of the company. There were eighteen product releases in 2015, together with two new patents granted.

Expenditure on R&D in the year to 30 September 2015 increased by 14.2% from £5.6m to £6.4m. A proportion of this increase was funded through UK and European grant funding. R&D expenditure represented 8.0% of revenue (2014: 8.1%). The Group capitalised £0.7m (2014: £0.5m) of development expenditure.

# Financial and Operating Review

## SITE PERFORMANCE

The decision was made in 2014 to close the Melbourne, Florida, operation and to transfer the business to the Company's Ilminster, UK, and Palo Alto, California, facilities. This process is now complete. All product lines have been transferred, the site has been closed and the property sold. The closure of the Melbourne site entailed a cash cost of \$0.8 million and is expected to deliver annual cash savings of \$1.0 million.

As reported at the half year, the Company is in the process of moving its Palo Alto site to nearby Fremont, which will provide improved facilities and room for further growth. This transfer was delayed and is now expected to be completed by the end of the calendar year. This move has given rise to an exceptional cost of £0.8m in 2015. It is expected that a further £0.2m will be incurred to finalise this move in the new financial year.

In addition to its two core strategies, in 2015 the business has identified three areas of focus as part of a performance improvement programme. These are: a) ensuring a consistent level of operational excellence across all sites, b) developing deeper ties with key target customers and c) ensuring we have a balanced R&D portfolio that meets the business's strategic goals. As part of this initiative, the Company has committed to upgrading its Cleveland, Ohio facility. This facility houses the business's world leading crystal growth capabilities, is a key contributor to current and future profitability and will benefit from some modernisation. The refurbished facility will help drive much needed operational efficiency as well as showcasing our capabilities to customers. The upgrade is expected to be a two-year programme costing in the region of \$5m.

## RESTRUCTURING COSTS

Restructuring costs of £1.2m (2014: £1.6m) related to the Melbourne site closure (£0.4m) and the Palo Alto site move (£0.8m). The costs primarily include the write off of leasehold improvements, staff costs and legal expenses.

# Financial and Operating Review

## BALANCE SHEET

The Group's shareholders' funds at the end of the year were £78.4m, an increase of £8.4m over the prior year. This increase comprised £0.2m due to the issue of share capital, £1.8m due to foreign exchange and £6.4m from retained earnings.

Additions to property, plant and equipment totalled £4.2m. The main additions related to investment in plant and machinery and the expansion of our Torquay facility and the Palo Alto facility move.

Working capital was 20.8% of revenue in the current year compared to 22.0% in 2014.

As part of the preparations for moving its Palo Alto site to nearby Fremont, the business has built inventory levels to satisfy expected customer requirements while the new facility is brought on line. The planned inventory build, together with the impact of exchange rates and positive trading patterns, has resulted in inventory levels increasing by £1.4 million to £16.0 million since the previous year end. Once the impact of currency and the inventory build are removed, the underlying inventory fell by £0.8m, or 5.6%, in the year.

Trade and other receivables have increased by £1.4m from £13.0m in 2014 to £14.4m at this year-end.

Cash balances at 30 September 2015 were £22.6m, compared with £17.1m at 30 September 2014. Net cash flows from operating activities generated £13.6m, compared with £13.7m last year. During the year the business moved from a net cash position of £8.7m as at 30 September 2014 to a net cash position of £17.3m.

## MOVEMENT IN NET CASH

All amounts in £m	Gross Cash	Gross Debt	Net Cash
<b>At 1 October 2014</b>	<b>17.1</b>	<b>(8.4)</b>	<b>8.7</b>
Operating cash flows	15.9	-	15.9
Debt repayment (net of drawdown)	(3.5)	3.5	-
Net capital expenditure	(3.2)	-	(3.2)
Working capital	(1.2)	-	(1.2)
Proceeds from share issue	0.1	-	0.1
Interest, tax and dividends	(3.1)	-	(3.1)
Exchange movement	0.5	(0.4)	0.1
<b>At 30 September 2015</b>	<b>22.6</b>	<b>(5.3)</b>	<b>17.3</b>

## ORDER BOOK

As at 30 September 2015, the Group order book stood at £36.3m, compared to £32.8m at the end of the 2014 financial year, an 11% increase. On a constant currency basis the order book was 6% higher. Book to bill ratios for the business as a whole were 1.08 times (six month rolling average) as at 30 September 2015.

## STAFF

The Group workforce increased from 664 at 30 September 2014 to 700 at the end of September 2015, an increase of 36. This is a net position and therefore reflects both the reductions in staffing resulting from the work the business has done in integration and rationalisation of sites and processes, temporary staff required to meet high peak demand at specific sites and the additional investment that the business has made in engineering, business development and management.

# Financial and Operating Review

## DIVIDENDS

The Directors propose a final dividend of 5.2p per share making a total dividend per share for the year of 8.2p (2014: 7.2p), an increase of 13.9%. The final dividend, if approved, will be payable on 3 March 2016 to shareholders on the Company's share register as at the close of business on 18 December 2015.

## KEY PERFORMANCE INDICATORS (KPIs)

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

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

<b>Total revenue growth</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
At actual exchange rates	12%	11%	4%
At constant exchange rates	8%	16%	3%

The Board is focused on driving revenue growth by investing both organically and through acquisitions. The Group business has delivered underlying growth, whilst experiencing variable demand patterns within its core markets.

<b>Target market revenue</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Aerospace & Defence (£m)	19.8	18.8	17.3
Life Sciences (£m)	9.0	7.3	7.4

The Group target markets of Aerospace & Defence and Life Sciences provide a route to sustainable growth, and a more diversified revenue base. These markets also provide significant opportunities for Gooch & Housego to migrate up the value-chain from materials and components to higher value sub-assemblies, modules and systems in response to the trend for our larger customers to outsource increasingly complex parts of their business. The business has made good progress in addressing its target markets of Aerospace & Defence and Life Sciences which, in aggregate, have increased by 10.3% in the 2015 financial year.

<b>Net cash analysis</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net cash (£m)	17.3	8.7	5.7

In order to balance business risk with the investment needs of the Company, management closely monitors and manages net cash. This year the business increased its net cash position from £8.7m to £17.3m, putting the business in a strong position both in terms of headroom for further investment and from the perspective of managing its business risk.

<b>Earnings per share (EPS)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Adjusted diluted EPS (pence)	38.9p	35.2p	30.5p

As a result of a strong trading performance, the business has been able to deliver growth in adjusted diluted EPS of 10.5%, from 35.2p to 38.9p in 2015.

The revenue, cash and earnings per share targets for the year were met.

# Strategy Overview

Gooch & Housego's strategy is built around the twin pillars of diversification and moving up the value chain. In order to ensure its strategic goals are met management considers investment in R&D, acquisitions and strategic partnerships.

## STRATEGIES

### DIVERSIFICATION:

*To develop, through R&D and acquisition, a presence in new markets that offer the potential for significant growth as a result of their adoption of photonic technology, while also reducing our exposure to cyclicity in any particular sector.*

Progress:

- a) Diversification within the Industrial market. In 2015, Gooch & Housego grew its business in the areas of:
  - Industrial lasers
  - Telecommunications
  - Semiconductor manufacturing and test
- b) Aerospace & Defence.
  - Revenue increased by 5% in this market segment in 2015
- c) Life Sciences
  - Revenue increased by 23% in this segment in 2015

### MOVING UP THE VALUE CHAIN:

*To leverage our excellence in materials and components to move up the value-chain to more complex sub-assemblies and systems.*

Progress:

- Continued expansion of the Systems Technology Group to further focus the business's drive up the value chain.

### ORGANIC RESEARCH & DEVELOPMENT:

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

Progress:

- In 2015 the company's organic research & development programmes have delivered eighteen new products. In addition, two new patents have been awarded.
- Expansion of the STG via recruitment.
- Completion of a dedicated facility for the STG.
- The Group continues to invest in longer term R&D projects in all of its key markets. Investment in R&D increased by 14.2% in 2015.

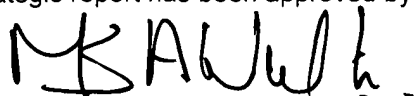
# Principal Risks and Uncertainties

Gooch & Housego adopts a formal risk identification and management process designed to ensure that risks are properly identified, prioritised, evaluated and mitigated to the extent possible. A formal group wide risk register is maintained and approved by the Board on an annual basis.

The following risks are, in the opinion of the Board, the principal risks which affect Gooch & Housego.

Risk	Mitigation
<p><b>Retention of key personnel</b> The Group recognises the importance of retaining and developing its highly skilled management team and workforce in order to achieve its strategic objectives.</p>	<p>The Group maintains development and reward schemes to encourage individuals to play a long term role in the future development of the Group.</p>
<p><b>Future trading levels and order book</b> Adverse changes in the major markets in which the Group operates can have a significant impact on the Group's performance.</p>	<p>Gooch &amp; Housego PLC has seen significant growth in its business in recent years. Through its strategies of market diversification and moving up the value chain, the Group seeks to provide routes to new markets and reduce the dependence on any one market sector. Whilst the continued growth in the business is difficult to predict, the year-end order book was 10% higher than the previous year.</p>
<p><b>Financing</b> Although currently in a net cash position, management expects to require debt financing in order to achieve the Group's growth strategy. Any restriction in the availability of such financing could affect the Group's strategy.</p>	<p>As at 30 September 2015, the Company was in a net cash position of £17.3m (2014: net cash of £8.7m). The Group operates within certain banking covenants which it has reported under and complied with during the financial year. The Group undertakes detailed and regular financial planning and forecasting reviews to minimise any financial risk due to changing market conditions.</p> <p>The Group's banking facilities were renewed in November 2014. Further details are given in note 22.</p>
<p><b>Research and Development</b> The Group invests heavily in research and development, to develop new products and maintain long term growth. The development of new processes and products involves risks such as development timescales, which may take longer than originally forecast and hence involve more cost. There are also technical risks associated with development programmes that mean expected results may not be delivered.</p>	<p>Expenditure is only capitalised once the commercial and technical feasibility of a product is proven. These risks are minimised by operating managed research and development programmes which are reviewed against cost and technical progress expectations.</p> <p>During the year, £0.7m of product development costs have been capitalised.</p>
<p><b>Foreign exchange</b> The business is exposed to the impact of foreign currency variances on trading transactions and on the translation of the net assets of overseas subsidiaries. This exposure is principally to the US Dollar.</p>	<p>Monthly cash management reporting and forecasting is in place to facilitate management of this risk.</p> <p>The exposure is partially naturally hedged because a significant proportion of operating costs are denominated in US Dollars. The Group does not undertake speculative foreign currency transactions.</p>
<p><b>Quality</b> The Group prides itself on the highest standards of product quality and customer satisfaction. In doing this, it recognises that a failure to maintain such standards would be detrimental to its future trading performance.</p>	<p>An ongoing emphasis is placed on quality control and customer communication. During 2015, two senior quality managers were appointed.</p>

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



Mark Webster, Chief Executive Officer

1 December 2015

# Board of Directors

<b>Executive Directors:</b>	Mark Webster Chief Executive Officer	Alex Warnock Chief Operating Officer
	Andrew N Boteler Chief Financial Officer	
<b>Non-executive Directors:</b>	Gareth Jones Chairman	Paul Heal
	Dr Peter Bordui	Brian Phillipson

## Director Biographies

### Executive Directors

#### **Mark Webster**

#### **Chief Executive Officer**

*(Appointed January 2015. Mark was appointed as a Non-Executive Director from February 2012 and subsequently Deputy Chief Executive Officer from August 2014)*

Mark was previously Chief Executive Officer of Bio Products Laboratory. He has extensive experience in the Healthcare industry, holding a number of senior leadership roles, such as Senior Vice President, Bayer Healthcare, Head of Global Strategic Marketing and M&A/Business Development, Shire Pharmaceuticals and Vice President, Abbott Laboratories.

Mark was a non-executive Director of Gooch & Housego PLC before becoming an Executive Officer. He has also been a non-executive Director at Abcam PLC.

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

#### **Andrew Boteler**

#### **Chief Financial Officer**

*(Appointed August 2009)*

Andrew Boteler is a Chartered Accountant, having trained with Ernst & Young and qualified in 1993. He has an honours degree from Exeter University.

In 2002 Andrew was part of the team that bought out the US telecommunications components group JDSU's UK fibre optics business, to establish SIFAM Fibre Optics Ltd. There, he held the position of Finance Director until the company was acquired by Gooch & Housego PLC in May 2007.

Between 2007 and 2009 Andrew held the positions of Head of Finance for Europe, Middle East and Africa and Acting Chief Financial Officer for Gooch & Housego PLC, before joining the Board in August 2009.

#### **Alex Warnock**

#### **Chief Operating Officer**

*(Appointed November 2014)*

Alex Warnock is a Chartered Engineer and member of the Institute of Engineering & Technology and Institute of Directors. Prior to joining Gooch & Housego PLC, Alex held senior positions at Optos PLC, most recently Chief Operating Officer. He has also worked in senior roles at Johnson & Johnson and Pace Micro Technology Inc. Alex has an honours degree in Electrical and Electronic Engineering. He has lived and worked in the USA and Germany.

## Board of Directors continued

### Non-executive Directors

#### **Gareth Jones**

#### **Non-Executive Chairman**

*(Appointed January 2015. Gareth was formerly Chief Executive Officer from January 2003)*

Gareth Jones has an honours degree in Physics from Imperial College and is a Fellow of the Institute of Physics. He joined Gooch & Housego in 1978 and was instrumental in the development of new products and capabilities that helped transform the business from a craft-based optical engineering company into today's global technology business.

Gareth became Technical Director in 1985 and Managing Director in 1995. In 1997 he was a member of the team that led Gooch & Housego's IPO on the Alternative Investment Market. In 2000, he left Gooch & Housego to become a Partner in a leading UK venture capital firm. He re-joined Gooch & Housego in 2003 as Chief Executive Officer.

#### **Paul Heal**

*(Appointed January 2008)*

Paul Heal retired from his position as a client service Partner with PricewaterhouseCoopers at the end of 2007, leaving a role he had held for 20 years. Based in their Bristol office, he was primarily responsible for middle market clients ranging from smaller listed companies (market cap <£250m) to venture capital backed and privately owned businesses. Gooch & Housego PLC was a client of Paul's prior to September 2003 and he advised the company through the preparation for IPO, and acted as reporting accountant for the flotation in 1997.

Paul is a non-executive Director of a number of other commercial and charitable organisations. Commercial directorships include Andrews and Partners (Estate Agents) and the West of England Trust (including Jordans Limited and Jordan Publishing Limited). He is a Trustee of The Theatre Royal, Bath and The Andrews Charitable Trust.

#### **Dr Peter Bordui**

*(Appointed February 2012)*

Peter Bordui has twenty five years' experience in the photonics industry in senior leadership roles within Bookham, NewFocus, JDSU and Crystal Technology (at the time a subsidiary of Siemens) and has held a number of additional non-executive director roles. He is currently a non-executive director of M-Squared Lasers Limited and Media Lario International S.A. He is also a governing trustee of a private charitable foundation and a director of the non-profit organisation American Citizens Abroad.

Peter has bachelors, masters and PhD degrees from MIT.

#### **Brian Phillipson**

*(Appointed 1 September 2015)*

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

Brian holds an MA (Hons) in Engineering from Cambridge University.

# Directors' Report

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2015.

A review of the development and performance of the Group during the year and its future prospects is set out in the Financial Highlights on page 2 and in the Financial and Operating Review on pages 12 to 17. An outline of the business's principal activities, strategy and the Group's progress in the year towards these strategies is given in the Strategic Report on pages 3 to 19. An analysis of the segmental information by market sector is given on pages 8 to 11.

## Key financial performance indicators ("KPIs")

The Group uses a selection of KPIs to monitor and review the performance of the business. These are detailed from page 17 of the Financial and Operating Review.

## Dividends

During the year ended 30 September 2015 a final dividend of 4.6p per share was paid for the previous financial year. The final 2013 dividend of 4.0p per share was paid in the year ended 30 September 2014. A further interim dividend of 3.0p per share was paid for the half year ended 31 March 2015 (2014: 2.6p).

For the year ended 30 September 2015, the Directors propose that a final dividend of 5.2p per share be paid.

## Substantial shareholdings

As at 13 November 2015, the following shareholders had notified the Company that they held an interest in 3% or more of its issued ordinary share capital:

Shareholder	Number	% holding
Octopus Investments	2,774,670	11.5
Schroder Investment Management	2,296,281	9.5
BlackRock Investment Management	2,108,340	8.8
Investec Wealth & Investment	1,952,138	8.1
Standard Life	1,713,242	7.1
Gooch & Virgin Family Trust	1,377,090	5.7
Franklin Templeton Investment Management	1,085,000	4.5
GVQ Investment Management	1,039,479	4.3

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

# Directors' Report

## Directors

The Directors in office during the year and up to the date of signing the financial statements and their beneficial interests in the issued ordinary share capital of the Company were as follows:

	<u>Number of shares at 30 September 2015</u>	<u>Number of shares at 30 September 2014</u>
<b>Non-executive Directors</b>		
Gareth Jones	55,401	45,468
Paul Heal	13,085	17,085
Dr Peter Bordui	-	-
Brian Phillipson	-	-
<b>Executive Directors</b>		
Mark Webster	-	-
Andrew N Boteler	26,181	26,181
Alex Warnock	-	-

Paul Heal sold 4,000 shares on 3 March 2015 for 705p per share.

Details of Directors' interests in options to subscribe for shares of the Company are given in the Remuneration Committee Report.

## Treasury Policies

The Group's treasury policies are designed to manage financial risk to the Group that arises from operating in a number of foreign currencies and to maximise interest income on cash deposits, whilst maintaining the security of these deposits. As an international group of companies, the main exposure is in respect of foreign currency risk on the trading transactions undertaken by group companies and on the translation of the net assets of overseas subsidiaries. This exposure is principally to the US dollar.

Monthly cash management reporting and forecasting is in place to facilitate management of this currency risk. The operations of group treasury take place at head office.

All balances not immediately required for group operations are placed on short-term deposit with leading international highly rated financial institutions.

At a transactional level, the Group seeks to offset its exposure to foreign exchange movements by contracting with significant supply partners in US Dollars and undertakes regular financial reviews to assess whether it would be appropriate for the Group to enter into currency hedging contracts to mitigate the currency risk. During the year there were no forward contracts in place.

The Group's bank borrowings are denominated in US Dollars, which acts as a partial hedge of a net investment against its US Dollar denominated companies within the Group.

## Research and Development

The Group has a continuing commitment to a high level of research and development. This commitment is to actively develop new technologies and capabilities that will become a key part of the Group's future product portfolio and revenue.

## Directors' Indemnities

The Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

## Employee Involvement

The Group is committed to including all employees in the performance and development of the business. An established employee appraisal and reward scheme is in operation and employees are appraised regularly with relevant development support provided by the Group.

# Directors' Report

The Group attaches considerable importance to informing and involving its employees on matters which concern them and in the achievement of its business objectives. The Group has a formal employee communication plan involving regular meetings between management and employees and the provision of a comprehensive employee handbook.

## **Statement on Equal Employment Opportunities**

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

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

## **Corporate Governance**

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

The Board currently comprises three executive and four non-executive Directors. The directors holding office during the period of this report and their biographies are detailed from page 20 and are also available on our website; [www.gochandhousego.com](http://www.gochandhousego.com)

The Board focuses on formulation of strategy, management of effective business controls and review of business performance. The Board is specifically responsible for the approval of annual and interim results and interim management statements, acquisitions and disposals, major capital expenditure, borrowings, director and company secretary appointments and removals, any material litigation, strategic forecasting and major development projects.

A framework of delegated authorities is in place that details the structure of delegation below Board level and includes matters reserved to the Board.

All the non-executive Directors are considered by the Board to be independent in character and judgement.

In accordance with the Company's Articles of Association all directors will retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

The Board has three formally constituted committees, the Audit committee, the Remuneration committee and the Nomination committee.

# Directors' Report

Board membership and meeting attendance is presented in the following table.

## Executive Directors

Mark Webster	7/7
Andrew Boteler	7/7
Alex Warnock	7/7

## Non-executive Directors

Gareth Jones	7/7
Paul Heal	7/7
Peter Bordui	7/7
Brian Phillipson	1/1

## Risk management and internal control

The Directors acknowledge that they are responsible for the Group's system of internal financial control. The system can provide only reasonable, and not absolute, assurance against material misstatements and losses.

There are defined lines of responsibility and delegation of authorities. There are also internal financial controls in existence which are centrally maintained and documented and provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business.

The Group does not have an internal audit department, but senior finance staff perform a formal, annual review of all the sites' internal controls.

Annual budgets and three year strategic plans are prepared for each company. Financial and operational reports enable the Board to compare performance against budget and to take action where appropriate.

During the year the Group continued to develop its risk management policy, which is reviewed on a regular basis. Gooch & Housego has also developed and published its policies in relation to the Bribery Act and fraud.

## Environmental Policy

The policy of the Group is to meet the statutory environmental requirements placed upon it and to apply good environmental practice in its operations while recognising that it is contractually obliged to meet its customer requirements.

# Directors' Report

## Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

So far as each Director is aware, there is no relevant audit information of which the Company's and Group's auditors are unaware. Each Director has taken all the steps that he ought to have taken in his duty as a Director to make himself aware of any relevant audit information and to establish that the Company's and Group's auditors are aware of that information.

## Going Concern

Based on Management's operating projections and cash flow forecasts, the Directors believe that the Group will generate sufficient cash and have access to working capital facilities to enable it to meet its funding requirements for at least the next 12 months and comply with its banking covenants.

Accordingly, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

## Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company and the Group will be proposed at the Annual General Meeting.

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



Mark Webster

Director

1 December 2015

# Audit Committee Report

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly monitored, controlled and reported. The Audit Committee consists of the Chairman and three Independent Non-executive Directors and it has an appropriate balance between those individuals with finance or accounting training and those from a general business background.

The Committee has met with the external auditors on three occasions during the year, together with the Chief Financial Officer and the Chief Executive Officer. At meetings attended by the external auditors, time is allowed for the Audit Committee to discuss issues with the external auditors without the Executive Directors being present.

There were no material changes in the reporting standards that affect our financial statements in 2015.

## Role of the Committee

The Audit Committee operates under formal terms of reference which are reviewed annually. The Committee considers that it has discharged its responsibilities as set out in its terms of reference to the extent appropriate in the year. The Audit Committee:

- Monitors the integrity of the Company's financial statements and reviews significant financial reporting judgements.
- Reviews the effectiveness of financial and regulatory compliance controls and systems.
- Oversees the relationship with the external auditors including agreeing their fee, scope of any non-audit services and fee and assessing their independence and effectiveness.

## Areas of focus for the Audit Committee

The following have been areas of focus during 2015:

- Financial reporting at the half year and full year
- Performance of the external audit, including meeting with the auditors at the planning and completion stages of their work for both the half and full year
- Governance policies and procedures
- Assessments of the effectiveness of the external audit process and effectiveness of the Audit Committee
- Review of significant accounting policies and internal financial control systems.
- Review of the Group's risk register
- Appropriateness of the Group's non-audit service policy

## Membership and attendance at meetings held in 2015

### Non-executive Directors

Gareth Jones	3/3
Dr Peter Bordui	3/3
Paul Heal	3/3
Brian Phillipson	1/1

### Executive Directors

Mark Webster	3/3
Andrew Boteler	3/3
Alex Warnock	2/3

### Paul Heal

Chairman of the Audit Committee

1 December 2015

# Nomination Committee Report

The Nomination Committee, which consists of the Chief Executive Officer and all four Non-Executive Directors, is responsible for the composition of the Board.

## Role of the Committee

- Reviews the composition of the Board and its committees.
- Identifies and recommends for Board approval suitable candidates to be appointed to the Board.
- Considers succession planning for Directors and other senior executives and in doing this considers diversity, experience, knowledge and skills.

## Areas of focus for the Nomination Committee

- Succession Planning
- Search for senior executives

## Advisors

In 2015 the Committee appointed Edward Drummond, an external search agency, to assist with the identification of suitable Non-Executive Director candidates following the recent Board changes.

As disclosed last year, the Committee also appointed Warren Partners Limited to assist with the identification of suitable candidates for the role of Chief Operating Officer during the year.

## Appointment Process

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

Following these interviews, the Nomination Committee recommended to the Board, which duly approved, the appointment of Brian Phillipson as Non-Executive Director. The Nomination Committee also recommended to the Board, which duly approved, the appointment of Alex Warnock as Chief Operating Officer during the year.

## Membership and attendance at meetings held in 2015

### Non-executive Directors

Gareth Jones	1/1
Paul Heal	1/1
Dr Peter Bordui	1/1
Brian Phillipson	-

### Executive Directors

Mark Webster	1/1
--------------	-----

### Gareth Jones

Chairman of the Nomination Committee

1 December 2015

# Remuneration Committee Report

## Introduction

It is an objective of the Group to attract and retain Directors of high calibre and reward them in a way which encourages the creation of value for shareholders. The Committee undertakes the determination of executive Directors' annual remuneration packages and these are reviewed with effect from 1 October each year. No executive Director plays a part in the discussion about their remuneration.

Although not a member of the committee, the Chief Executive Officer submits a report outlining proposals and is usually requested to present the report to the committee. After presenting the report he withdraws from the meeting and does not participate in the decision making or voting processes.

Executive Directors are paid a basic salary together with annual bonus payments based on the achievement of Group profitability and cash targets. In addition, executive Directors participate in a share option scheme and receive benefits in kind, including medical expenses and insurance.

Non-executive directors are paid a fee to attend board meetings and to serve as members of the Audit, Nomination and Remuneration committees. Further payments may be made in respect of additional services provided at the request of the Company.

## Membership and attendance at meetings held in 2015

### Non-executive Directors

Gareth Jones	2/2
Dr Peter Bordui	2/2
Paul Heal	2/2
Brian Phillipson	1/1

### 2015 performance

Gooch & Housego has continued to perform well in 2015, delivering strong financial performance and continuing to make progress in its key strategic goals of diversification and moving up the value chain.

In terms of financial performance, adjusted profit before tax increased by 12.2% to £12.9m. Once again a strong cash performance resulted in the Group reporting a net cash position of £17.3m, up from £8.7m in the prior year. The increasing strength of the balance sheet meant that the Company was able to recommend a 13.9% increase in the total dividend for the year.

Diversification and delivering growth have continued to be the principal strategic themes of the business. The trend towards a more balanced spread of business across the Company's principal market sectors has continued. New product development at both the operational sites and within the Systems Technology Group continues to deliver with eighteen new products being launched in 2015. The business has made progress on its drive for operational efficiency, through its continued adoption of lean principles. Finally the business has strengthened its A&D Business Development capability which is expected to deliver growth for the business in the short to medium term.

The Executive Directors' 2015 bonus outcomes were 70% of maximum, reflecting the strong results for the year.

### 2016 proposals

Gooch & Housego's objective is to set salaries for its Directors within a range and also uses variable remuneration mechanisms to ensure that individuals only receive substantial remuneration for exceptional performance.

We continue to review the remuneration framework to ensure that it is appropriate to attract and retain executives of the right calibre.

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

# Remuneration Committee Report

## Remuneration Policy Table

The table below summarises our policy for 2015/16

Element of remuneration	Purpose and link to strategy	Policy and approach	Opportunity	Planned changes
<b>Base Salary</b>	<p>Takes into account experience and personal contribution to the company's strategy</p> <p>Attracts and retains executives of the quality required to deliver the company's strategy</p>	<ul style="list-style-type: none"> <li>Reviewed annually with changes effective from 1 October if applicable</li> <li>Consideration given to individual and company performance</li> <li>General pay increases across the wider workforce are also taken into consideration</li> <li>Where the company considers it appropriate and necessary, larger increases may be awarded in exceptional circumstances</li> </ul>	Base salary increases are applied in line with the outcome of the annual review	No
<b>Annual Bonus</b>	Incentivise achievement of short-term financial targets that the Committee considers to be critical drivers of business growth	<ul style="list-style-type: none"> <li>Awarded annually</li> <li>Award level is based upon level of normalised diluted earnings per share and operating cash flow against internal targets</li> <li>50% of the maximum bonus is payable for reaching threshold targets</li> <li>Maximum bonus is achieved for reaching 10% over threshold targets</li> </ul>	Maximum of 100% of base salary	No
<b>Pension</b>	Provide employees with market competitive pension scheme	<ul style="list-style-type: none"> <li>Defined contribution personal pension plan</li> <li>Company contributes 10% of salary</li> </ul>	10% of base salary. The Committee keeps the benefit policy and benefit levels under regular review	No
<b>Benefits</b>	Provide employees with market competitive benefits	<ul style="list-style-type: none"> <li>Executive Directors receive private health insurance, life assurance and long term disability insurance</li> </ul>	The Committee keeps the benefit policy and benefit levels under regular review	No
<b>Long Term Incentive Plan (LTIP)</b>	Incentivise executive performance over the longer term. Performance measures linked to the long-term strategy of the business and the creation of shareholder value over the longer term.	<ul style="list-style-type: none"> <li>Award levels are determined by reference to an individual's position and performance prior to grant</li> <li>Awards vest after three years subject to achievement of performance conditions (as set out later in the report)</li> </ul>	Maximum award of 120% of base salary	No

# Remuneration Committee Report

## Directors' Remuneration

2015	Performance				Sub-total 2015 £000	Share Options £000	Total 2015 £000
	Basic pay £000	Related Bonus £000	Benefits in kind £000	Pension contribution £000			
<b>Executive</b>							
M Webster	275	175	19	-	469	-	469
A Boteler	152	123	5	40	320	-	320
A Warnock*	192	134	54	18	398	-	398
<b>Non-executive</b>							
G Jones**	85	-	6	39	130	-	130
P Heal	39	-	-	-	39	-	39
Dr P Bordui	18	-	-	-	18	-	18
B Phillipson***	3	-	-	-	3	-	3
Dr J Blogh****	18	-	-	-	18	-	18
	782	432	84	97	1,395	-	1,395
2014	Performance				Sub-total 2014 £000	Share Options £000	Total 2014 £000
	Basic pay £000	Related Bonus £000	Benefits in kind £000	Pension contribution £000			
<b>Executive</b>							
G Jones	216	29	8	27	280	-	280
M Webster*****	29	3	-	-	32	-	32
A Boteler	150	20	4	24	198	-	198
T Scribbins	116	-	6	9	131	80	211
<b>Non-executive</b>							
Dr J Blogh	72	-	-	-	72	-	72
P Heal	43	-	-	-	43	-	43
Dr P Bordui	18	-	-	-	18	-	18
M Webster	32	-	-	-	32	-	32
	676	52	18	60	806	80	886

The above disclosure has been audited.

\* A Warnock was appointed on 10 November 2014.

\*\* G Jones was Chief Executive Officer until 31 December 2014.

\*\*\* B Phillipson was appointed on 1 September 2015.

\*\*\*\* Dr J Blogh retired on 31 December 2014.

\*\*\*\*\* Mark Webster was a Non-Executive Director until 18 August 2014 when he was appointed Deputy Chief Executive Officer. He was appointed as Chief Executive Officer on 1 January 2015.

The basic pay of the previous Chief Executive Officer increased 2.4% on 1 October 2014. This compared to an increase of 3% for the Company as a whole.

### Directors' Pension Arrangements

During the year the Company contributed to a money purchase pension scheme on behalf of the executive Directors. The number of Directors who are currently accruing benefits under a pension scheme is 2 (2014: 3). Contributions to a scheme on behalf of continuing Directors amount to 10% of the Director's basic salary. Both Gareth Jones and Andrew Boteler have sacrificed part of their salary in exchange for increased company pension contributions. Mark Webster has sacrificed his entitlement to company pension scheme contributions in exchange for an increase to his salary of an equal amount.

### Benefits in kind

The benefits in kind for Mark Webster and Alex Warnock include relocation expenses of £14,000 and £50,000 respectively.

### Directors' Contracts

The Executive Directors have rolling service contracts that are subject to either six or twelve months' notice. The Chairman and non-executive Directors do not have contracts of service.

### Directors' interest in shares of the Company

The Directors' interests in the shares of the Company are set out in the Directors' Report on page 23.

# Remuneration Committee Report

## Share Options Exercised

2015	Scheme	Number of Share Options	Market Price	Exercise Price	Exercise Date	Total Gain
Executive		No.	p	p		£'000
G C W Jones	VCP	50,000	685.0	0.0	09/12/14	343
G C W Jones	VCP	62,500	685.0	0.0	15/01/15	428
G C W Jones	VCP	62,900	705.0	0.0	03/03/15	443
G C W Jones	CSOP	9,933	925.0	151.0	29/06/15	77

## 2014

Executive		No.	p	p		£'000
G C W Jones	VCP	190,347	655.0	0.0	19/12/13	1,247
G C W Jones	VCP	50,000	660.0	0.0	25/09/14	330
A N Boteler	VCP	132,648	700.0	0.0	08/01/14	929
A N Boteler	CSOP	9,933	700.0	151.0	09/01/14	55
T Scribbins	VCP	132,648	700.0	0.0	09/01/14	929
T Scribbins	CSOP	9,933	700.0	151.0	08/01/14	55
T Scribbins	LTIP	12,328	648.0	0.0	16/06/14	80

The VCP and CSOP exercises in the above table include options disclosed in the Directors' Remuneration table for the year ended 30 September 2013. The LTIP exercise for T Scribbins is disclosed in the Directors' Remuneration table for the year ended 30 September 2014 on page 31.

# Remuneration Committee Report

## Share option schemes-

At 30 September 2015 Gooch & Housego had two active share based incentive schemes. These are detailed below:

### Gooch & Housego 2010 Value Creation Plan

On 7 January 2010, the Company introduced a Value Creation Plan (the "2010 VCP") under which key employees were granted a one-off award of units from an agreed total. These units had no intrinsic value on grant but gave participants an opportunity to be awarded Company shares proportionate to the value created for shareholders above the threshold value at the third anniversary of the plan.

In accordance with the rules of the plan, on the third anniversary, being 7 January 2013, value created during the life of the plan over and above a pre-determined threshold value based on a share price of £2.00, was calculated. A share of that value (approximately 12%) was distributed amongst the participating members of senior management of the Group in the form of nil-cost share options (UK participants) and share awards (US participants). Half of the awards made were exercisable immediately and the balance after twelve months, subject to certain conditions.

Directors' share options are listed below:

	Date of grant	Exercise price	----- Number of ordinary shares under option -----			
			At 01.10.2014	Awarded in year	Exercised in year	At 30.09.2015
G C W Jones	07.01.2013	151.0p	9,933	-	(9,933)	-
G C W Jones	07.01.2013	0.0p	175,400	-	(175,400)	-
			185,333	-	(185,333)	-

### The Gooch & Housego 2013 Long Term Incentive Plan

The Gooch & Housego 2013 LTIP was adopted on 9 April 2013. Under the plan, awards will be made annually to key employees based on a percentage of salary. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Company three years after the grant date, with the exception of the April 2013 grant which will vest in December 2015. The exercise price of all awards is nil.

	Date of grant	At 01.10.2014	----- Number of ordinary shares under option -----				Expiry Date
			Awarded in year	Exercised in year	Lapsed	At 30.09.2015	
<b>Executive</b>							
M Webster	17.12.2014	-	91,496	-	-	91,496	17.12.2018
A Warnock	17.12.2014	-	69,355	-	-	69,355	17.12.2018
A N Boteler	09.04.2013	35,076	-	-	-	35,076	16.12.2016
A N Boteler	01.12.2013	25,911	-	-	-	25,911	16.12.2017
A N Boteler	17.12.2014	-	28,226	-	-	28,226	17.12.2018
<b>Non Executive</b>							
G C W Jones	09.04.2013	56,876	-	-	-	56,876	16.12.2016
G C W Jones	01.12.2013	39,822	-	-	-	39,822	16.12.2017

The Gooch & Housego 2013 Long Term Incentive Plan specifies that the Company will operate within the standard dilution limit of 10% of the Company's issued share capital over a 10 year period, but excluding the dilution arising from the 2010 Value Creation Plan.

During the year to 30 September 2015, £485,000 (2014: £361,000) was charged to the income statement in respect of the IFRS 2 share based payments charge on all share option schemes (valued using the Monte Carlo option pricing model) and £122,000 (2014: £223,000) in respect of employer's national insurance contributions, based on a year end share price of £8.33 (2014: £6.74).

**Paul Heal**

Chairman of the Remuneration Committee

1 December 2015

# Independent Auditors' Report to the Members of Gooch & Housego PLC

## Report on the group financial statements

---

### Our opinion

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

- give a true and fair view of the state of the group's affairs as at 30 September 2015 and of its profit and cash flows for the year then ended;
  - have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
  - have been prepared in accordance with the requirements of the Companies Act 2006.
- 

### What we have audited

The financial statements, included within the Annual Report & Accounts (the "Annual Report"), comprise:

- the Group Balance Sheet as at 30 September 2015;
- the Group Income Statement and the Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

---

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

---

In our opinion, the 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.

### Other matters on which we are required to report by exception

---

#### Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

---

#### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

---

### Responsibilities for the financial statements and the audit

---

#### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving

# Independent Auditors' Report to the Members of Gooch & Housego PLC

these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

---

## What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

---

## Other matter

We have reported separately on the company financial statements of Gooch and Housego PLC for the year ended 30 September 2015.



Colin Bates (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol  
1 December 2015

# Group Income Statement

For the year ended 30 September 2015

		2015	2014
	Note	£000	£000
<b>Revenue</b>	7	<b>78,702</b>	70,056
Cost of revenue		<u>(47,659)</u>	<u>(41,706)</u>
<b>Gross profit</b>		<b>31,043</b>	28,350
Research and Development		(5,712)	(5,160)
Sales and Marketing		(5,626)	(4,498)
Administration		(10,353)	(10,026)
Other income and expenses	9	<u>942</u>	<u>(271)</u>
<b>Operating profit</b>	11	<b>10,294</b>	8,395
Finance income	12	26	8
Finance costs	12	<u>(214)</u>	<u>(522)</u>
<b>Profit before income tax expense</b>		<b>10,106</b>	7,881
Income tax expense	13	<u>(2,647)</u>	<u>(2,482)</u>
<b>Profit for the year</b>		<u><b>7,459</b></u>	<u>5,399</u>
<b>Basic earnings per share</b>	15	<b>30.9p</b>	22.5p
<b>Diluted earnings per share</b>	15	<u><b>30.4p</b></u>	<u>22.3p</u>

## Reconciliation of operating profit to adjusted operating profit:

	2015	2014
	£000	£000
<b>Operating profit</b>	<b>10,294</b>	8,395
Amortisation of acquired intangible assets	1,604	1,525
Restructuring costs	1,204	1,555
Gain on bargain purchase of Spanoptic Limited	-	(1,039)
Impairment of goodwill	-	1,538
<b>Adjusted operating profit</b>	<u><b>13,102</b></u>	<u>11,974</u>

# Group Statement of Comprehensive Income

For the year ended 30 September 2015

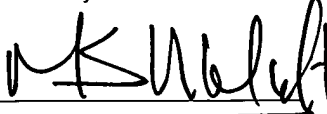

		2015	2014
	Note	£000	£000
<b>Profit for the year</b>		<b>7,459</b>	<b>5,399</b>
<b>Other comprehensive income – items that may be reclassified subsequently to profit or loss</b>			
Fair value adjustment of interest rate swap net of tax		21	58
Currency translation differences	26	1,800	90
<b>Other comprehensive income for the year net of tax</b>		<b>1,821</b>	<b>148</b>
<b>Total comprehensive income for the year attributable to the shareholders of Gooch &amp; Housego PLC</b>		<b>9,280</b>	<b>5,547</b>

# Group Balance Sheet

As at 30 September 2015

		2015	2014
	Note	£000	£000
<b>Non-current assets</b>			
Property, plant and equipment	16	24,915	24,140
Intangible assets	17	20,155	20,668
Deferred income tax assets	24	2,552	3,114
		<b>47,622</b>	<b>47,922</b>
<b>Current assets</b>			
Inventories	18	16,013	14,663
Income tax assets		854	487
Trade and other receivables	19	14,394	13,005
Cash and cash equivalents	20	22,556	17,094
		<b>53,817</b>	<b>45,249</b>
<b>Current liabilities</b>			
Trade and other payables	21	(14,059)	(11,829)
Borrowings	22	(39)	(8,048)
Income tax liabilities		(411)	(244)
Provision for other liabilities and charges	23	(342)	(447)
		<b>(14,851)</b>	<b>(20,568)</b>
<b>Net current assets</b>		<b>38,966</b>	<b>24,681</b>
<b>Non-current liabilities</b>			
Borrowings	22	(5,189)	(360)
Deferred income tax liabilities	24	(3,032)	(2,306)
		<b>(8,221)</b>	<b>(2,666)</b>
<b>Net assets</b>		<b>78,367</b>	<b>69,937</b>
<b>Shareholders' equity</b>			
Called up share capital	25	4,818	4,774
Share premium account	26	15,530	15,420
Merger reserve	26	2,671	2,671
Hedging reserve	26	-	(21)
Cumulative translation reserve	26	1,030	(770)
Retained earnings	26	54,318	47,863
<b>Total equity</b>		<b>78,367</b>	<b>69,937</b>

The financial statements for Gooch & Housego PLC, registered number 00526832, on pages 36 to 68 were approved by the Board of Directors on 1 December 2015 and signed on its behalf by:

 <hr/> Mark Webster Director	 <hr/> Andrew N Boteler Director
---	---

# Group Statement of Changes in Equity

For the year ended 30 September 2015

	Note	Called up share capital £000	Share premium account £000	Merger reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 1 October 2013		4,620	15,213	2,671	(79)	42,514	64,939
Profit for the financial year		-	-	-	-	5,399	5,399
Other comprehensive income for the year		-	-	-	58	90	148
<b>Total comprehensive income for the year</b>		-	-	-	58	5,489	5,547
Dividends	14	-	-	-	-	(1,569)	(1,569)
Proceeds from shares issued		154	207	-	-	(149)	212
Fair value of employee services		-	-	-	-	361	361
Tax credit relating to share option schemes		-	-	-	-	447	447
<b>Total contributions by and distributions to owners of the parent recognised directly in equity</b>		154	207	-	-	(910)	(549)
<b>At 30 September 2014</b>		<b>4,774</b>	<b>15,420</b>	<b>2,671</b>	<b>(21)</b>	<b>47,093</b>	<b>69,937</b>
At 1 October 2014		4,774	15,420	2,671	(21)	47,093	69,937
Profit for the financial year		-	-	-	-	7,459	7,459
Other comprehensive income for the year		-	-	-	21	1,800	1,821
<b>Total comprehensive income for the year</b>		-	-	-	21	9,259	9,280
Dividends	14	-	-	-	-	(1,823)	(1,823)
Proceeds from shares issued		44	110	-	-	(38)	116
Fair value of employee services		-	-	-	-	485	485
Tax credit relating to share option schemes		-	-	-	-	372	372
<b>Total contributions by and distributions to owners of the parent recognised directly in equity</b>		44	110	-	-	(1,004)	(850)
<b>At 30 September 2015</b>		<b>4,818</b>	<b>15,530</b>	<b>2,671</b>	<b>-</b>	<b>55,348</b>	<b>78,367</b>

# Group Cash Flow Statement

For the year ended 30 September 2015

	2015 £000	2014 £000
<b>Cash flows from operating activities</b>		
Cash generated from operations	14,692	15,298
Income tax paid	(1,067)	(1,625)
Net cash generated from operating activities	<u>13,625</u>	<u>13,673</u>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries, net of cash acquired	-	(5,532)
Purchase of property, plant and equipment	(3,053)	(1,909)
Sale of property, plant and equipment	635	26
Purchase of intangible assets	(793)	(852)
Interest received	26	8
Net cash used in investing activities	<u>(3,185)</u>	<u>(8,259)</u>
<b>Cash flows from financing activities</b>		
Drawdown of borrowings	5,168	4,832
Repayment of borrowings	(8,777)	(3,196)
Proceeds from issues of share capital	115	105
Dividends paid to ordinary shareholders	(1,823)	(1,569)
Interest paid	(189)	(569)
Net cash used in financing activities	<u>(5,506)</u>	<u>(397)</u>
<b>Net increase in cash and cash equivalents</b>	<b>4,934</b>	<b>5,017</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>17,094</b>	<b>12,088</b>
Exchange gains / (losses) on cash	528	(11)
<b>Cash and cash equivalents at the end of the year</b>	<u><b>22,556</b></u>	<u><b>17,094</b></u>

# Notes to the Group Cash Flow Statement

For the year ended 30 September 2015

## Reconciliation of cash generated from operations

	2015 £000	2014 £000
<b>Profit before income tax</b>	<b>10,106</b>	<b>7,881</b>
<b>Adjustments for:</b>		
- Amortisation of acquired intangible assets	1,604	1,525
- Amortisation of other intangible assets	301	164
- Gain on bargain purchase of Spanoptic Limited	-	(1,039)
- Impairment of goodwill	-	1,538
- Depreciation	2,715	2,644
- Loss on disposal of property, plant and equipment	508	21
- Share based payment obligations	485	361
- Finance income	(26)	(8)
- Finance costs	214	522
<b>Total</b>	<b>5,801</b>	<b>5,728</b>
<b>Changes in working capital</b>		
- Inventories	(729)	(538)
- Trade and other receivables	(1,101)	2,097
- Trade and other payables	615	130
<b>Total</b>	<b>(1,215)</b>	<b>1,689</b>
<b>Cash generated from operating activities</b>	<b>14,692</b>	<b>15,298</b>

## Reconciliation of net cash inflow to movements in net cash

	2015 £000	2014 £000
Increase in cash in the year	4,934	5,017
Drawdown of borrowings	(5,168)	(4,832)
Repayment of borrowings	8,777	3,196
Changes in net cash resulting from cash flows	8,543	3,381
Finance leases acquired	-	(257)
Translation differences	99	(157)
Movement in net cash in the year	8,642	2,967
Net cash at 1 October	8,686	5,719
Net cash at 30 September	17,328	8,686

## Analysis of net cash

	At 1 Oct 2014 £000	Cash flow £000	Exchange movement £000	Non cash movement £000	At 30 Sep 2015 £000
Cash at bank and in hand	17,094	4,934	528	-	22,556
Debt due within 1 year	(7,992)	8,720	(728)	-	-
Debt due after 1 year	(320)	(5,168)	299	-	(5,189)
Finance leases	(96)	57	-	-	(39)
Net cash	8,686	8,543	99	-	17,328

# Notes to the Financial Statements

For the year ended 30 September 2015

## 1. General information

Gooch & Housego PLC (the "Company") is incorporated and domiciled in the United Kingdom. The Company is listed on the Alternative Investment Market ("AIM Market") of the London Stock Exchange. The address of the registered office of the Company is given on page 81.

The consolidated financial statements of the Group for the year ended 30 September 2015 comprise the Company, Gooch & Housego PLC, and its subsidiaries (together referred to as the "Group"). A listing of the Company's subsidiaries is set out on page 74.

The Group is a manufacturer of specialist optoelectronic components, materials and systems and specialist instrumentation and life sciences devices. The Group has facilities in the United Kingdom, Germany and the United States.

## 2. Basis of preparation

These financial statements have been prepared under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) at fair value and in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRIC Interpretations in issue at 30 September 2015, and with those parts of the Companies Act 2006 applicable to companies preparing financial statements in accordance with IFRS.

## 3. Application of IFRS

### Adoption of new standards

There has been no material impact from the adoption of new standards or revised standards or interpretations which are relevant to the Group:

- IAS 36 Impairments of Assets (effective for periods beginning on or after 1 January 2014).

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 October 2015 or later periods but which the Group has chosen not to adopt early. These include the following which are relevant to the Group:

- IFRS 15 Revenue from contracts with customers (effective for periods beginning on or after 1 January 2017);
- IFRS 9 Financial instruments (effective for periods beginning on or after 1 January 2018); and
- Annual improvements 2011-2013 (effective 1 July 2014) (endorsed for 1 Jan 2015)

The group does not expect that these standard and interpretations, issued but not yet effective, will have a material impact on results or net assets of the Group.

## 4. Accounting policies

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

### Consolidation

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

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

# Notes to the Financial Statements

For the year ended 30 September 2015

Transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## Segment reporting

A business segment is a grouping of operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A market segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments.

The chief operating decision maker in determining a business or operating segment is the Board of Directors.

## Foreign currency translation

### a. Functional and presentation currency

The consolidated financial statements are presented in Pounds Sterling, which is the Group's presentation currency. Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

### b. Transactions and balances

Foreign currency transactions are translated into an entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

### c. Subsidiaries

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# Notes to the Financial Statements

For the year ended 30 September 2015

## Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

No depreciation is charged on freehold land or capital work in progress. Certain plant used in the manufacturing process which is constructed from precious metals is not depreciated.

Depreciation on other assets is calculated to allocate their cost over their estimated useful lives, as follows:

• Freehold buildings	2-3%	Straight line
• Leasehold property	over term of lease	Straight line
• Plant and machinery	10-20%	Straight line
• Fixtures, fittings and computers	10-33%	Straight line
• Motor vehicles	25%	Reducing balance

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Where an asset's carrying amount is greater than its estimated recoverable amount, the asset's carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or an asset's value in use.

## Intangible assets

### a. Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the net identifiable assets of the acquired business. Goodwill arising from business combinations is included in 'intangible assets'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment testing requires an estimation of the 'value in use' of the Cash-generating unit (the "CGU") to which goodwill is allocated using appropriately discounted cash flow projections. Any impairment is recognised immediately as an expense to the income statement and is not subsequently reversed.

For the purpose of impairment testing a CGU is defined as either a business segment or an operating entity, as appropriate.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### b. Patents, Trademarks and Licenses

Internally incurred costs associated with the filing and perfection of patents and trademarks are capitalised and carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over their useful economic lives and are charged to Research and Development in the income statement.

Acquired patents, trademarks and licences are shown at historical cost. Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over their useful economic lives.

### c. Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are capitalised and recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Capitalised software costs are amortised using the straight line method over their estimated useful lives of up to 5 years and charged to Administration in the income statement.

### d. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Development costs incurred after the point at which the commercial and technical feasibility of the product have been proven, and the decision to complete the development has been taken and resources made available, are

# Notes to the Financial Statements

For the year ended 30 September 2015

capitalised. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development costs are amortised using the straight line method over their estimated useful life lives, which is typically 7 years, and are charged to Research and Development in the income statement.

## e. Acquired intangibles

Other acquired intangible assets are stated at fair value less accumulated amortisation and impairment losses.

The useful life of each of these assets is assessed based on the differing natures of each of the intangible assets acquired. Amortisation is charged on a straight-line basis over the estimated useful life of the assets acquired and charged to administration in the Income Statement.

- Customer relationships up to 5 years
- Brand names up to 5 years
- Acquired patents, trademarks and licences up to 3 years

## Government grants

Government grants are accounted for on an accruals basis. Grants are credited to the income statement over the life of the project. Where grants are used to fund the acquisition of property, plant and equipment, the grant is initially credited to deferred income then credited to the income statement over the estimated economic life of the asset.

## Impairment of non-financial assets

The Group assesses at each balance sheet date whether an asset may be impaired. If any such indicator exists, the Group tests for impairment by estimating the recoverable amount which is the higher of the value in use and the fair value less costs to sell. If the recoverable amount is less than the carrying value of the asset, the asset is impaired and the carrying value is reduced to its recoverable amount. In addition to this, assets with indefinite lives are tested for impairment annually. Non-financial assets other than goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months from the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

## Inventories

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

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

## Trade receivables

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

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

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income

# Notes to the Financial Statements

For the year ended 30 September 2015

statement within 'Administration costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'Administration costs' in the income statement.

## Cash and cash equivalents

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

## Trade payables

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

## Borrowings

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

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

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

## Financial instruments

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

## Taxation

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

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

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

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

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

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

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

In the UK and US, the Company is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share options" below, a compensation expense is recorded in the Company's income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases, a deferred income tax asset is recorded. The deferred income tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation recorded in the income

# Notes to the Financial Statements

For the year ended 30 September 2015

statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity.

## Employee benefits

### a. Pension obligations

The Group operates money purchase pension schemes for UK employees and Section 401(k) plans for US employees. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### b. Profit share and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a *constructive obligation*.

### c. Share options

The Group operates a number of share option schemes. In accordance with IFRS 2 the fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

Employer's National Insurance in the United Kingdom and equivalent taxes in other jurisdictions are payable on the exercise of certain share options. In accordance with IFRS 2, this is treated as a cash-settled transaction. A provision is made, calculated using the fair value of the Company's shares at the balance sheet date, pro-rated over the vesting period of the options.

At each balance sheet date, for awards with non market vesting conditions, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The fair value of the options under the Gooch & Housego 2013 Long Term Incentive Plan are determined by using the Monte Carlo option pricing model.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

## Provisions

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

The Group monitors and assesses its warranty provision requirement on a continuing basis. The provision for other liabilities and charges provides for the anticipated cost of repair and rectification of products under warranty, based on historical repair and replacement costs. In addition the Directors will also assess expected changes in future costs based on current information.

## Exceptional items

Transactions are classified as exceptional where they relate to an event that falls outside the ordinary activities of the business and where individually or in aggregate they have a material impact on the financial statements.

# Notes to the Financial Statements

## For the year ended 30 September 2015

### Leases

Leases which transfer substantially all the risks and rewards of ownership of an asset are treated as a finance lease. Assets held under a finance lease are capitalised at their fair value at the inception of the lease and depreciated over the estimated useful economic life of the asset or lease term if shorter.

Finance charges associated with the finance lease are expensed in proportion to the capital amount outstanding.

All other leases are classified as operating leases. Operating lease rentals are expensed in equal annual amounts over the lease term.

### Share capital

Ordinary shares are classified as equity.

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

### Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

#### a. Sale of goods

Revenue is recognised when the risks and rewards of the underlying sale have been transferred to the customer, and when collectability of the related receivable is reasonably assured. Depending on the terms of business, this occurs either on the dispatch/delivery of the goods supplied or on acceptance by the customer.

#### b. Long term contracts

Revenue is recognised on long term contracts by reference to the stage of completion of the contract activity at the balance sheet date. Revenue and profits are determined by estimating the outcome of the contract and determining the costs and profit attributable to the stage of completion.

Where the outcome of the contract cannot be reliably estimated, contract costs are recognised as an expense when incurred and revenue is recognised to the extent of the costs incurred that are expected to be recoverable. In both cases, any expected contract loss is recognised immediately.

#### c. Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

### Dividend distribution

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

# Notes to the Financial Statements

For the year ended 30 September 2015

## 5. Financial risk management

### Capital risk management

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

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

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

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

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

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

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

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

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

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

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

### Financial risks

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

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Where considered appropriate, the Company will use derivative financial instruments to hedge risk exposures during the year.

#### i. Market risk

##### a. Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar.

Foreign exchange risk arises from

- future commercial transactions;
- recognised assets and liabilities; and
- net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

No financial derivatives have been entered into to manage foreign exchange exposure.

# Notes to the Financial Statements

For the year ended 30 September 2015

As a significant amount of the Group's profit is earned by its US subsidiaries, the Group's profit is sensitive to movements in the US Dollar exchange rate. If the average US Dollar exchange rate for the year had been consistent with the closing exchange rate at 30 September 2014, with all other variables constant, post tax profits for the year would have been £207,000 lower (2014: £88,000 higher) as a result of the translation in US Dollars.

Equity is more sensitive to movement in the US Dollar exchange rate as a significant amount of the Group's net assets are held in the Group's US subsidiaries. If the US Dollar weakened by 10% against Pound Sterling with all other variables held constant, the net assets of the Group would be £3,600,000 lower (2014: £4,284,000 lower). If the US Dollar strengthened by 10% against Pound Sterling with all other variables held constant, the net assets of the Group would be £4,900,000 higher (2014: £5,239,000 higher).

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

The Group has cash balances of £22.6m which are held in interest bearing current accounts. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from its revolving credit facility. A 1% increase in the cost of borrowing would have resulted in an annualised increase in interest expense of £51,000 (2014: £46,000) had the Group's borrowings been in place throughout the year.

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. The Group uses an interest rate swap to hedge a proportion of the interest rate risk. During 2014 and 2015, the Group's borrowings at variable interest rates were denominated in Pound Sterling and US Dollars as detailed in Note 22.

## **ii. Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's trade receivables.

### **a. Trade and other receivables**

The management of credit risk exposure is the responsibility of each business unit which has credit policies in place to mitigate the risk. The credit policies seek to verify a customer's credit worthiness prior to trading and maintain the level of trading within agreed credit limits. Changes to credit limits require authorisation in accordance with internal control policies.

The Group is exposed to concentration of credit risk. The Group's top ten customers in 2015 accounted for 28% of the Group's revenue (2014: 28%). No individual customer made up more than 6% of revenue in either the current or prior year.

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

### **b. Cash**

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

## **iii. Liquidity risk**

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

The Company's facilities comprise a committed revolving credit facility of \$15m of which \$8m is drawn and an uncommitted flexible acquisition facility of \$20m, both available until 30 April 2019. These are analysed in Notes 22 and 29.

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

## **6. Critical accounting estimates and judgments**

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

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

# Notes to the Financial Statements

For the year ended 30 September 2015

## Provisions for income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

## Impairment of goodwill

The Group tests goodwill for impairment at least annually. This requires an estimation of the value in use of the Cash Generating Units (the "CGUs") to which goodwill is allocated. As set out in Note 17, estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present values of those cash flows.

## Provision for impairment of trade receivables

The Group assesses trade receivables for impairment which requires an estimation of the likelihood of payment forfeiture by customers. In making this assessment, the Directors will consider the payment history of the customer as well as the customer's future viability.

## Inventory provision

The Group continually monitors and assesses the provision for old and slow moving inventory. Factors considered by the Directors include the expected future usage and the potential obsolescence and deterioration of the Inventory.

## Warranty provision

The Group monitors and assesses its warranty provision requirement on a continuing basis. In addition to considering historical repair and replacement costs, the Directors will also assess expected changes in future costs based on current information.

## Going Concern

The Directors are required to make an assessment of the Group's ability to continue to trade as a going concern. In making this assessment the Directors make critical estimates and judgements in respect of expected future revenues, costs, investment requirements and debt servicing obligations. The Directors have given this matter due consideration and have concluded that it is appropriate to prepare the Group financial statements on a going concern basis. The two main considerations were as follows:

- **Group cash flow** – During the year ended 30 September 2015, the Group was highly cash generative due to a strong trading performance. The Group expects to continue generating cash from operating activities.
- **Bank Facilities** – The Group maintains a regular and ongoing constructive dialogue with its bankers and keeps them advised of Group developments and progress against its business plan. The Royal Bank of Scotland plc has committed significant facilities to the Group which are available until 30 April 2019.

At 30 September 2015, the Group had available cash resources, based on translating the revolving credit facility at the closing exchange rate for the US Dollar to Pound Sterling, of £27.2m (2014: £22.0m).

# Notes to the Financial Statements

For the year ended 30 September 2015

## Share options

In accordance with IFRS 2, share options are measured at fair value at the date of grant. The fair value determined is then expensed in the Group income statement on a straight line basis over the vesting period, with a corresponding adjustment in equity. The fair value of the options under the Gooch & Housego 2010 Value Creation Plan and the Gooch & Housego 2013 Long Term Incentive Plan were measured by using the Monte Carlo option pricing model. The valuation of share options requires several judgements to be made in respect of the number of options that are expected to be exercised. Details of the assumptions included in the valuation of options are disclosed in Note 27.

## 7. Segmental analysis

The Company's segmental reporting reflects the information that management uses within the business. The business is divided into four market sectors, being Aerospace & Defence, Life Sciences, Industrial and Scientific Research, together with the Corporate cost centre.

The industrial business segment primarily comprises the industrial laser market for use in the semiconductor and microelectronic industries, but also includes other industrial applications such as metrology and telecommunications. Scientific Research covers academic and government funded research including major multi-national projects.

	Aerospace & Defence	Life Sciences	Industrial	Scientific Research	Corporate	Total
	£000	£000	£000	£000	£000	£000
For year ended 30 September 2015						
<b>Revenue</b>						
Total revenue	19,880	8,978	51,892	3,866	-	84,616
Inter and intra-division	(76)	-	(5,838)	-	-	(5,914)
<b>External revenue</b>	<b>19,804</b>	<b>8,978</b>	<b>46,054</b>	<b>3,866</b>	<b>-</b>	<b>78,702</b>
Divisional expenses	(17,112)	(7,067)	(35,885)	(3,058)	(783)	(63,905)
<b>EBITDA<sup>1</sup></b>	<b>2,692</b>	<b>1,911</b>	<b>10,169</b>	<b>808</b>	<b>(783)</b>	<b>14,797</b>
EBITDA %	13.6%	21.3%	22.1%	20.9%	-	18.8%
Depreciation and amortisation	(572)	(322)	(1,746)	(129)	(130)	(2,899)
<b>Operating profit before amortisation of acquired intangible assets</b>	<b>2,120</b>	<b>1,589</b>	<b>8,423</b>	<b>679</b>	<b>(913)</b>	<b>11,898</b>
Amortisation of acquired intangible assets	-	-	-	-	(1,604)	(1,604)
<b>Operating profit</b>	<b>2,120</b>	<b>1,589</b>	<b>8,423</b>	<b>679</b>	<b>(2,517)</b>	<b>10,294</b>
Operating profit margin %	10.7%	17.7%	18.3%	17.6%	-	13.1%
Add back restructuring costs	20	23	1,156	5	-	1,204
Operating profit excluding restructuring costs	2,140	1,612	9,579	684	(2,517)	11,498
Adjusted profit margin %	10.8%	18.0%	20.8%	17.7%	-	14.6%
Finance costs	-	-	-	-	(188)	(188)
<b>Profit before income tax expense</b>	<b>2,120</b>	<b>1,589</b>	<b>8,423</b>	<b>679</b>	<b>(2,705)</b>	<b>10,106</b>

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

Management have added back the restructuring costs in the above analysis. This has been shown because the Directors consider the analysis to be more meaningful excluding the impact of this non-recurring expense.

# Notes to the Financial Statements

For the year ended 30 September 2015

## 7. Segmental analysis (continued)

	Aerospace & Defence	Life Sciences	Industrial	Scientific Research	Corporate	Total
	£000	£000	£000	£000	£000	£000
For year ended 30 September 2014						
<b>Revenue</b>						
Total revenue	18,786	7,318	44,248	4,139	-	74,491
Inter and intra-division	-	-	(4,435)	-	-	(4,435)
<b>External revenue</b>	<b>18,786</b>	<b>7,318</b>	<b>39,813</b>	<b>4,139</b>	<b>-</b>	<b>70,056</b>
Divisional expenses	(15,612)	(6,083)	(31,207)	(3,713)	(214)	(56,829)
<b>EBITDA<sup>1</sup></b>	<b>3,174</b>	<b>1,235</b>	<b>8,606</b>	<b>426</b>	<b>(214)</b>	<b>13,227</b>
EBITDA %	16.9%	16.9%	21.6%	10.3%	-	18.9%
Depreciation and amortisation	(522)	(270)	(1,702)	(152)	(162)	(2,808)
<b>Operating profit before amortisation of acquired intangible assets</b>	<b>2,652</b>	<b>965</b>	<b>6,904</b>	<b>274</b>	<b>(376)</b>	<b>10,419</b>
Amortisation of acquired intangible assets, gain on bargain purchase and impairment of goodwill	-	-	-	-	(2,024)	(2,024)
<b>Operating profit</b>	<b>2,652</b>	<b>965</b>	<b>6,904</b>	<b>274</b>	<b>(2,400)</b>	<b>8,395</b>
Operating profit margin %	14.1%	13.2%	17.3%	6.6%	-	12.0%
Add back Melbourne closure costs	79	59	1,155	91	-	1,384
Operating profit excluding Melbourne closure costs	2,731	1,024	8,059	365	(2,400)	9,779
Adjusted profit margin %	14.5%	14.0%	20.2%	8.8%	-	14.0%
Finance costs	-	-	-	-	-	(514)
<b>Profit before income tax expense</b>	<b>2,652</b>	<b>965</b>	<b>6,904</b>	<b>274</b>	<b>(2,914)</b>	<b>7,881</b>

Management have added back the cost of the Melbourne site closure in the above analysis. This has been shown because the Directors consider the analysis to be more meaningful excluding the impact of this non-recurring expense.

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

### Analysis of net assets / (liabilities) by location:

	2015 Assets £000	2015 Liabilities £000	2015 Net Assets £000	2014 Assets £000	2014 Liabilities £000	2014 Net Assets £000
United Kingdom	49,345	(7,754)	41,591	38,387	(12,388)	25,999
USA	51,207	(14,924)	36,283	54,282	(10,345)	43,937
Continental Europe	872	(389)	483	486	(497)	(11)
Asia Pacific	15	(5)	10	16	(4)	12
	<b>101,439</b>	<b>(23,072)</b>	<b>78,367</b>	<b>93,171</b>	<b>(23,234)</b>	<b>69,937</b>

For the year to 30 September 2015 non-current asset additions were £2.0m (2014: £1.7m) for the UK and for the USA £2.1m (2014: £0.6m). There were no additions to non-current assets in respect of Europe (2014: £0.5m) or the Asia Pacific region (2014: £nil). The value of non-current assets in the USA was £24.4m (2014: £26.4m), the United Kingdom £23.3m (2014: £20.8m) and Europe £0.4m (2014: £0.5m). There were no non-current assets in the Asia-Pacific region.

# Notes to the Financial Statements

For the year ended 30 September 2015

## 7. Segmental analysis (continued)

### Analysis of revenue by destination:

	2015 £000	2014 £000
United Kingdom	14,897	14,412
USA	34,762	29,657
Continental Europe	16,890	14,425
Asia Pacific and Other	12,153	11,562
<b>Total revenue</b>	<b>78,702</b>	<b>70,056</b>

## 8. Expenses by nature

	2015 £000	2014 £000
Raw materials and consumables	23,749	15,200
Changes in stocks of finished goods and work in progress	(1,701)	(277)
Employee costs	35,697	30,281
Other operating charges	6,985	11,354
Depreciation	2,715	2,644
Amortisation of acquired intangible assets	1,604	1,525
Amortisation of other intangible assets	301	164
Gain on bargain purchase – Spanoptic Limited	-	(1,039)
Impairment of goodwill	-	1,538
Other income and expenses	(942)	271
	<b>68,408</b>	<b>61,661</b>

## 9. Other income and expenses

	2015 £000	2014 £000
Grants receivable	1,404	1,076
Loss on disposal of property, plant and equipment	(453)	(21)
Other income / (expense)	76	(130)
Restructuring costs	(85)	(1,196)
	<b>942</b>	<b>(271)</b>

## Notes to the Financial Statements

For the year ended 30 September 2015

### 10. Employee costs

	2015 £000	2014 £000
Wages and salaries	28,899	24,334
Social security costs	2,602	2,151
Share based payment charge	485	361
Medical and other insurance	2,501	2,446
Other pension costs	1,210	989
	<b>35,697</b>	<b>30,281</b>

The monthly average number of employees during the year was:

	2015 Number	2014 Number
Manufacturing	464	448
Sales, finance and administration	210	176
	<b>674</b>	<b>624</b>

### Key management compensation

	2015 £000	2014 £000
Salaries and other short-term benefits	4,426	3,877
Share based payments	485	361
Other pension costs	256	201
	<b>5,167</b>	<b>4,439</b>

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

Director's remuneration, including the highest paid Director, has been included on page 31 of the Remuneration Committee Report. These disclosures have been audited.

### 11. Operating profit

Operating profit is stated after charging / (crediting):

	2015 £000	2014 £000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	44	43
Fees payable to the Company's auditors and its associates for other services:		
- audit of the Company's subsidiaries pursuant to legislation	89	87
- taxation compliance services	57	56
- taxation advisory services	11	10
- due diligence services related to grant funding	-	23
Net (gains) / losses on foreign exchange	(214)	215
Operating lease rentals	1,571	1,240

Restructuring costs of £1,204,000 were incurred in the year (2014: £1,555,000). These related to the Palo Alto site move (£800,000) and the Melbourne site closure (£404,000). The costs, which include the write off of leasehold improvements, staff costs, property costs and legal expenses have been included in the income statement within cost of revenue, administration costs and other income and expenses as appropriate.

## Notes to the Financial Statements

For the year ended 30 September 2015

### 12. Finance income and costs

	2015 £000	2014 £000
Finance income comprises:		
- Bank interest	26	8
Finance costs comprise:		
- Bank interest	210	513
- Finance lease interest	4	9
	<b>214</b>	<b>522</b>

# Notes to the Financial Statements

## For the year ended 30 September 2015

### 13. Income tax expense

Analysis of tax charge in the year

	2015 £000	2014 £000
<b>Current taxation</b>		
UK Corporation tax	1,480	1,446
Overseas tax	724	630
Adjustments in respect of prior year tax charge	(983)	(165)
<b>Total current tax</b>	<b>1,221</b>	<b>1,911</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	274	49
Adjustments in respect of prior year deferred tax	1,152	504
Impact of UK tax rate change to 20% (2014: 20%)	-	18
<b>Total deferred tax</b>	<b>1,426</b>	<b>571</b>
<b>Income tax expense per income statement</b>	<b>2,647</b>	<b>2,482</b>

The taxation expense for the year is higher (2014: higher) than the standard rate of corporation tax in the UK. An explanation of the differences is detailed below:

	2015 £000	2014 £000
<b>Profit before income tax expense</b>	<b>10,106</b>	<b>7,881</b>
Profit at the effective standard rate of tax of 20.5% for the year (2014: 22%)	2,072	1,734
Permanent differences	(215)	1
Adjustments in respect of foreign tax rates	621	390
Adjustments in respect of prior year tax charge	(983)	(165)
Impact of UK tax rate change to 20% on deferred tax	-	18
Adjustments in respect of prior year deferred tax	1,152	504
<b>Total tax expense</b>	<b>2,647</b>	<b>2,482</b>

### Factors affecting the future tax charge

Overseas tax losses of £3.3m (2014: £3.1m) and UK tax losses of £0.8m (2014: £0.8m) are available to offset against future profits of the Group. The utilisation of these losses is not sufficiently certain to recognise a deferred tax asset.

The changes to the main rate of corporation tax for companies announced in the July 2015 budget were substantively enacted for financial reporting purposes on 26 October 2015. The main changes in corporation tax rates, that will have accounting implications for deferred tax are as follows:

- The main rate of corporation tax will reduce from 20% to 19% from 1 April 2017; and
- The main rate of corporation tax will further reduce to 18% from 1 April 2020.

The Group operates internationally; as a result, it is subject to various overseas tax rules and regulations. A change in the assessment of their implementation could result in an increase in G&H's tax liability, though no such change is currently considered necessary.

## Notes to the Financial Statements

### For the year ended 30 September 2015

#### 14. Dividends

	2015 £000	2014 £000
Final 2014 dividend paid in 2015: 4.6p per share (Final 2013 dividend paid in 2014: 4.0p per share)	1,101	950
2015 Interim dividend paid: 3.0p per share (2014: 2.6p)	722	619
	<b>1,823</b>	<b>1,569</b>

The Directors propose a final dividend of 5.2p per share making the total dividend paid and proposed in respect of the 2015 financial year 8.2p (2014: 7.2p).

#### 15. Earnings per share

The calculation of earnings per 20p Ordinary Share is based on the profit for the year using as a divisor the weighted average number of Ordinary Shares in issue during the year. The weighted average number of shares for the year ended 30 September is given below:

	2015	2014
Number of shares used for basic earnings per share	24,115,878	23,984,536
Dilutive shares	405,311	213,581
Number of shares used for dilutive earnings per share	24,521,189	24,198,117

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

	2015		2014	
	£000	pence per share	£000	pence per share
<b>Basic earnings per share</b>	<b>7,459</b>	<b>30.9p</b>	5,399	22.5p
Amortisation of acquired intangible assets (net of tax)	1,184	4.9p	1,144	4.8p
Goodwill impairment	-	-	1,538	6.4p
Gain on bargain purchase	-	-	(1,039)	(4.3p)
Restructuring costs (net of tax)	891	3.7p	1,467	6.2p
Total adjustments net of income tax expense	2,075	8.6p	3,110	13.1p
<b>Adjusted basic earnings per share</b>	<b>9,534</b>	<b>39.5p</b>	8,509	35.6p
<b>Basic diluted earnings per share</b>	<b>7,459</b>	<b>30.4p</b>	5,399	22.3p
<b>Adjusted diluted earnings per share</b>	<b>9,534</b>	<b>38.9p</b>	8,509	35.2p

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

## Notes to the Financial Statements

### For the year ended 30 September 2015

#### 16. Property, plant and equipment

	Capital work in progress £000	Freehold land and buildings £000	Leasehold property £000	Plant and machinery £000	Fixtures, fittings and computers £000	Motor vehicles £000	Total £000
<b>Cost or valuation</b>							
At 1 October 2013	963	8,975	3,455	20,482	2,531	42	36,448
Additions	578	45	178	991	117	-	1,909
Acquisitions	-	886	-	2,655	21	31	3,593
Disposals	(20)	-	-	(630)	(77)	(13)	(740)
Reclassification	(269)	-	83	131	6	-	(49)
Exchange rate differences	(2)	(1)	(2)	(25)	(2)	-	(32)
<b>At 30 September 2014</b>	<b>1,250</b>	<b>9,905</b>	<b>3,714</b>	<b>23,604</b>	<b>2,596</b>	<b>60</b>	<b>41,129</b>
Additions	2,564	5	16	1,282	296	-	4,163
Disposals	-	(959)	(784)	(258)	(90)	(11)	(2,102)
Reclassification	(151)	-	-	125	26	-	-
Exchange rate differences	50	50	217	698	40	1	1,056
<b>At 30 September 2015</b>	<b>3,713</b>	<b>9,001</b>	<b>3,163</b>	<b>25,451</b>	<b>2,868</b>	<b>50</b>	<b>44,246</b>
<b>Accumulated depreciation</b>							
At 1 October 2013	-	1,397	959	11,147	1,458	31	14,992
Charge for the year	-	198	301	1,935	200	10	2,644
Disposals	-	-	-	(600)	(74)	(4)	(678)
Exchange rate differences	-	1	4	26	-	-	31
<b>At 30 September 2014</b>	<b>-</b>	<b>1,596</b>	<b>1,264</b>	<b>12,508</b>	<b>1,584</b>	<b>37</b>	<b>16,989</b>
Charge for the year	-	182	299	2,043	184	7	2,715
Disposals	-	(327)	(308)	(233)	(90)	(10)	(968)
Exchange rate differences	-	20	80	444	50	1	595
<b>At 30 September 2015</b>	<b>-</b>	<b>1,471</b>	<b>1,335</b>	<b>14,762</b>	<b>1,728</b>	<b>35</b>	<b>19,331</b>
<b>Net book value</b>							
At 1 October 2013	963	7,578	2,496	9,335	1,073	11	21,456
At 30 September 2014	1,250	8,309	2,450	11,096	1,012	23	24,140
<b>At 30 September 2015</b>	<b>3,713</b>	<b>7,530</b>	<b>1,828</b>	<b>10,689</b>	<b>1,140</b>	<b>15</b>	<b>24,915</b>

At 30 September 2015, plant and machinery purchased under a hire purchase or finance lease agreement had a cost of £258,000 (2014: £286,000) and net book value of £83,000 (2014: £122,000).

No interest was capitalised in the year (2014: £Nil).

## Notes to the Financial Statements

### For the year ended 30 September 2015

#### 17. Intangible assets

	Goodwill £000	Acquired intangible assets £000	Capitalised R&D, Patents and licences £000	Software and other intangibles £000	Total £000
<b>Cost</b>					
At 1 October 2013	21,469	8,259	668	1,570	31,966
Additions	248	2,958	847	77	4,130
Reclassification	-	-	-	(13)	(13)
Exchange rate differences	(29)	(28)	7	(1)	(51)
<b>At 30 September 2014</b>	<b>21,688</b>	<b>11,189</b>	<b>1,522</b>	<b>1,633</b>	<b>36,032</b>
Additions	-	-	870	83	953
Disposals	-	-	(35)	-	(35)
Exchange rate differences	347	282	47	17	693
<b>At 30 September 2015</b>	<b>22,035</b>	<b>11,471</b>	<b>2,404</b>	<b>1,733</b>	<b>37,643</b>
<b>Accumulated amortisation and impairment</b>					
At 1 October 2013	4,116	6,257	570	1,202	12,145
Charge for the year	1,538	1,525	32	132	3,227
Disposals	-	-	-	(10)	(10)
Exchange rate differences	-	25	(17)	(6)	2
<b>At 30 September 2014</b>	<b>5,654</b>	<b>7,807</b>	<b>585</b>	<b>1,318</b>	<b>15,364</b>
Charge for the year	-	1,604	172	129	1,905
Disposals	-	-	(35)	-	(35)
Exchange rate differences	-	229	7	18	254
<b>At 30 September 2015</b>	<b>5,654</b>	<b>9,640</b>	<b>729</b>	<b>1,465</b>	<b>17,488</b>
<b>Net book value</b>					
At 1 October 2013	17,353	2,002	98	368	19,821
At 30 September 2014	16,034	3,382	937	315	20,668
<b>At 30 September 2015</b>	<b>16,381</b>	<b>1,831</b>	<b>1,675</b>	<b>268</b>	<b>20,155</b>

Goodwill is allocated according to each operating site as follows: Cleveland (£2.1m), Ilminster (£1.5m), Torquay (£1.5m), Moorpark (£5.5m), Boston (£4.8m) and Palo Alto (£0.9m).

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment testing requires an estimation of the 'value in use' of the CGU. The value in use calculations use pre-tax cash flow projections based on the latest projections approved by the Board for year one. For the purposes of the impairment review, the following key assumptions were made in respect of the cash flows beyond year one:

- Projected gross profit margins of 22% to 44%
- Average growth in EBITDA to 2020 of up to 10%, and 2% thereafter
- 7.9% post tax discount rate used to discount cash flows

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

The Boston cash generating unit exceeded its budgeted EBITDA in the year, continues to contribute to the Group's Space Photonics activities and management expect activity levels to increase further. The impairment calculation for the Boston cash generating unit utilises a specific set of growth assumptions based on forecast revenue streams resulting in an average annual forecast EBITDA of £0.6m in the period to 30 September 2020. The headroom on the impairment calculation (of £1.8m) would be reduced to zero if the average annual EBITDA were to reduce to £0.5m or if the discount rate were increased to 9.7%. The Directors are satisfied that no impairment is necessary following the impairment made in the year ended 30 September 2014, although should the forecast results not be met an impairment may become necessary in the future.

## Notes to the Financial Statements

### For the year ended 30 September 2015

The impairment calculation for the Moorpark cash generating unit is based on an average annual forecast EBITDA to 2020 of £0.8m. The headroom on the calculation (of £1.7m) would be reduced to zero if the average annual EBITDA to 2020 were reduced by £0.1m or the discount rate increased to 9.6%. The Directors are satisfied that no impairment is necessary.

#### 18. Inventories

	2015 £000	2014 £000
Raw materials	5,200	4,311
Work in progress	6,615	7,070
Finished goods	4,198	3,282
	<u>16,013</u>	<u>14,663</u>

The cost of inventories recognised as an expense and included in cost of revenue amounted to £49.0m (2014: £41.4m).

The movement in the inventories provision is as follows:

	2015 £000	2014 £000
At 1 October	4,195	3,831
Acquired	-	100
(Utilisation of) / Increase in provision	(778)	266
Exchange rate movement	165	(2)
<b>At 30 September</b>	<u>3,582</u>	<u>4,195</u>

#### 19. Trade and other receivables

	2015 £000	2014 £000
Trade receivables	11,730	11,018
Other receivables	891	671
Grant funding held in trust account	1,259	768
Prepayments	514	548
	<u>14,394</u>	<u>13,005</u>

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

	2015 £000	2014 £000
Pound Sterling	3,530	3,558
US Dollar	8,712	7,721
Euro	2,148	1,722
Yen	4	4
	<u>14,394</u>	<u>13,005</u>

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

	2015 £000	2014 £000
Current	9,383	8,511
1 to 3 months	2,295	2,202
Over 3 months	235	505
	<u>11,913</u>	<u>11,218</u>
Less provision for impairment	(183)	(200)
<b>Net trade receivables</b>	<u>11,730</u>	<u>11,018</u>

## Notes to the Financial Statements

For the year ended 30 September 2015

### 19. Trade and other receivables (continued)

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

	2015 £000	2014 £000
At 1 October	200	159
Utilisation of provision	(26)	(10)
Increase in provision	-	64
Release of provision no longer required	-	(14)
Exchange rate movement	9	1
<b>At 30 September</b>	<b>183</b>	<b>200</b>

### 20. Cash and cash equivalents

	2015 £000	2014 £000
Cash at bank and on hand	22,556	17,094

### 21. Trade and other payables

	2015 £000	2014 £000
Trade payables	4,917	3,275
Other taxation and social security	691	1,154
Grant funding held in trust account	1,259	768
Accruals	7,192	6,632
	<b>14,059</b>	<b>11,829</b>

### 22. Borrowings

	2015 £000	2014 £000
<b>Current:</b>		
Bank borrowings	-	7,992
Finance leases	39	56
	<b>39</b>	<b>8,048</b>
<b>Non-current:</b>		
Bank borrowings	5,189	320
Finance leases	-	40
	<b>5,189</b>	<b>360</b>
<b>Total borrowings</b>	<b>5,228</b>	<b>8,408</b>

The carrying values of the bank borrowings and finance leases are not materially different from their fair values.

# Notes to the Financial Statements

For the year ended 30 September 2015

## 22. Borrowings (continued)

Gooch & Housego's primary lending bank is The Royal Bank of Scotland plc. The Group's facilities were refinanced in the year ended 30 September 2015 and now comprise a \$15m dollar revolving credit facility and a \$20m flexible acquisition facility. At 30 September 2015, the balance drawn on the revolving credit facility was \$8m.

The facilities above are committed until 30 April 2019 and attract an interest rate of between 0.9% and 1.8% above LIBOR dependent upon the Company's leverage ratio.

Gooch & Housego (Florida) LLC, a US subsidiary, had a US Dollar loan of \$573,000 at 30 September 2014. This loan was repaid in full in the year ended 30 September 2015.

### Maturity profile of bank and other borrowings

	2015 £000	2014 £000
Within one year	39	8,048
Between two and five years	5,189	172
More than five years	-	188
	<b>5,228</b>	<b>8,408</b>

## 23. Provision for other liabilities and charges

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

	2015 £000	2014 £000
At 1 October	447	271
Acquired with Spanoptic Limited	-	41
Utilised during year	(118)	-
Charged to the income statement	-	132
Exchange movements	13	3
<b>At 30 September</b>	<b>342</b>	<b>447</b>

The Group provision for other liabilities and charges provides for the anticipated cost of repair and rectification of products under warranty, based on known exposures and historical occurrences.

## 24. Deferred tax assets and liabilities

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

	2015 £000	2014 £000
At 1 October	808	2,500
Charged to the income statement	(1,426)	(571)
Acquired with Spanoptic Limited	-	(138)
Arising on acquired intangible assets	-	(585)
Credited / (debited) directly to equity	78	(399)
Exchange movements	60	1
<b>Net (liability) / asset at 30 September</b>	<b>(480)</b>	<b>808</b>

# Notes to the Financial Statements

For the year ended 30 September 2015

## 24. Deferred tax assets and liabilities (continued)

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

	2015 £000	2014 £000
<b>Deferred income tax assets</b>		
Intangible assets	905	654
Share options	528	660
Provisions	1,114	1,794
Other timing differences	5	6
	<u>2,552</u>	<u>3,114</u>
<b>Deferred income tax liabilities</b>		
Property, plant and equipment	(1,975)	(1,432)
Intangible assets	(1,057)	(874)
	<u>(3,032)</u>	<u>(2,306)</u>
<b>Deferred tax balance at 30 September</b>	<u>(480)</u>	<u>808</u>

Overseas tax losses of £3.3m (2014: £3.1m) and UK tax losses of £0.8m (2014: £0.8m) are available to offset against future profits of the Group. The Group has not recognised a deferred income tax asset of £1.3m (2014: £1.2m) in respect of these losses due to uncertainty as to whether they would be utilised within the foreseeable future.

No deferred tax has been provided in relation to unremitted earnings from overseas subsidiaries on the basis that no incremental tax charge is currently anticipated to arise upon remittance of these earnings to the UK.

## 25. Called up share capital

	2015 Number	2014 Number	2015 £000	2014 £000
<b>Issued and fully paid</b>				
At 1 October	23,871,210	23,098,864	4,774	4,620
Shares issued and fully paid	219,908	772,346	44	154
At 30 September	<u>24,091,118</u>	<u>23,871,210</u>	<u>4,818</u>	<u>4,774</u>

During the year 204,482 shares (2014: 757,965 shares) were allotted under share option schemes. The remaining 15,426 shares were issued as part of the deferred consideration for the acquisition of Constelex Technology Enablers Limited which occurred in the year ended 30 September 2014.

# Notes to the Financial Statements

For the year ended 30 September 2015

## 26. Reserves

	Share premium account £000	Merger reserve £000	Hedging reserve £000	Cumulative translation reserve £000	Retained earnings £000
At 1 October 2014	15,420	2,671	(21)	(770)	47,863
Profit for the financial year	-	-	-	-	7,459
Dividends paid	-	-	-	-	(1,823)
Shares issued	110	-	-	-	(38)
Fair value of share options	-	-	-	-	485
Tax credit relating to share options	-	-	-	-	372
Change in fair value of interest rate swap	-	-	21	-	-
Currency translation differences	-	-	-	1,800	-
<b>At 30 September 2015</b>	<b>15,530</b>	<b>2,671</b>	<b>-</b>	<b>1,030</b>	<b>54,318</b>

## 27. Share options

The Company operates the Gooch & Housego 2010 Value Creation Plan (the "2010 VCP") and the Gooch & Housego 2013 Long Term Incentive Plan (the "2013 LTIP").

### The Gooch & Housego 2010 Value Creation Plan

Under the 2010 VCP, key employees were granted a one-off award of units from an agreed total. Three executive Directors were awarded 44 units out of the total pool of 64 units and eight key employees hold the remaining 20 units. These units had no intrinsic value on grant but gave participants an opportunity to be awarded Company shares proportionate to the value created for shareholders above the threshold value at the third anniversary of the plan.

In accordance with the rules of the plan, on the third anniversary, being 7 January 2013, value created during the life of the plan, over and above a pre-determined threshold value based on a share price of £2.00, was calculated. A share of that value (approximately 12%) was distributed amongst the participating members of senior management of the Group in the form of nil-cost share options (UK participants) and share awards (US participants). Half of the awards made were exercisable immediately and the balance after twelve months, subject to certain conditions.

Details of the award are as follows:-

Total number of market value (151p) Company Share Option Plan (CSOP) options awarded:	158,936
Total number of nil-cost share options awarded:	1,380,566

Out of the total options, the executive Directors were awarded 59,601 CSOP share options and 981,339 Nil-cost share options. The Remuneration Committee report provides further details on the share options awarded and exercised during the financial year.

The 2010 VCP award was valued using the Monte Carlo option pricing model. The expected volatility of 73.5% used in the model was based on the historical volatility of the Company's share price over the three years prior to 7 January 2010. A risk free rate of 2.1% was used. The total fair value of all the units granted to the participants in the 2010 VCP was £1,614,640.

## Notes to the Financial Statements

For the year ended 30 September 2015

### 27. Share options (continued)

#### The Gooch & Housego 2013 Long Term Incentive Plan

On 9 April 2013, a new Long Term Incentive Plan was adopted. Under the plan, awards will be made annually to key employees based on a percentage of salary. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Company three years after the grant date.

Three awards have been made under the 2013 LTIP plan to a number of key employees, including the three executive Directors of the Company. The remuneration report provides further details on the share options awarded and exercised during the financial year.

The 2013 Long Term Incentive Plan Awards were valued using the Monte Carlo option pricing model. The expected volatility used in the model was based on the historical volatility of the Company's share price over the three years prior to the grant date.

	Grant date		
	17 Dec 2014	1 Dec 2013	9 Apr 2013
No. of options granted	260,193	144,875	179,150
Expected volatility	29%	33%	43%
Risk free rate	0.8%	0.9%	2.7%
Fair value (£)	878,475	441,252	429,795

A reconciliation of total share option movements is shown below:

	2015		2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	490,589	3.1p	1,195,292	17.0p
Awarded	260,193	-	144,875	-
Exercised	(204,482)	9.0p	(799,010)	13.1p
Lapsed	-	-	(50,568)	-
Outstanding at 30 September	546,300	-	490,589	3.1p
Exercisable at 30 September	26,741	-	229,460	-

The weighted average fair value of options granted in the year was 338.0p per option (2014: 371.0p per option). For the options exercised, the average market price was 709.1p per share.

# Notes to the Financial Statements

For the year ended 30 September 2015

## 27. Share options (continued)

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

	Expiry date	Exercise price per share option	Number of share options	
			2015	2014
2010 VCP	6-Jan-2020	0.0p	26,741	219,717
2010 CSOP	6-Jan-2020	151.0p	-	9,933
2013 LTIP	8-Apr-2023	0.0p	519,559	260,939
			<b>546,300</b>	<b>490,589</b>

The total charge for the year relating to share options was £485,000 (2014: £361,000), all of which related to equity-settled share based payment transactions.

## 28. Operating leases

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

	2015 £000	2014 £000
Within one year	797	1,135
Between two to five years	2,291	2,560
	<b>3,088</b>	<b>3,695</b>

## 29. Financial instruments

The Group's financial instruments comprise bank borrowings, cash at bank, finance leases and various items such as trade receivables and trade payables that directly arise from its operations. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk.

The Board's policy on these risks is set out in note 5.

Operations are financed through a mixture of retained profits, cash reserves, bank borrowings and finance leases. Other than finance leases the Board's policy is to use variable rate borrowings whenever possible.

The currency profile for the Group's financial assets and liabilities are set out below.

	Financial assets		Financial liabilities	
	2015 £000	2014 £000	2015 £000	2014 £000
Pound Sterling	8,764	6,622	39	1,624
US Dollars	12,571	8,667	5,189	6,784
Euro	1,208	1,789	-	-
Yen	13	16	-	-
	<b>22,556</b>	<b>17,094</b>	<b>5,228</b>	<b>8,408</b>

The financial assets listed in the above table are subject to floating rates of interest. The interest rates on the financial liabilities are provided in Note 22. The financial assets include cash at bank but exclude short-term receivables, prepayments and other receivables. The financial liabilities includes bank borrowings and finance leases. Other short-term payables are excluded from this disclosure.

## Notes to the Financial Statements

For the year ended 30 September 2015

### 30. Derivative financial instruments

	2015 £000	2014 £000
Interest rate swap	-	27
Current portion	-	27
Non-current portion	-	-
Total liability	-	27

The swap expired on 1 April 2015 and was not renewed. The notional principal amount of the outstanding interest swap contract at 30 September 2014 was \$4.5 million.

### 31. Capital commitments

	2015 £000	2014 £000
Authorised and contracted but not provided for	4,367	14

All capital commitments relate to property, plant and equipment.

### 32. Related party transactions

In addition to duties performed in his role as a non-executive director, Dr Peter Bordui has provided additional consultancy services at the request of the company. Fees during the year to 30 September 2015 amounted to £18,720 (2014: £18,360). At the balance sheet date the balance outstanding totalled £4,680 (2014: £4,590). The transactions are performed in the normal course of business on an arm's length basis and the outstanding balance is unsecured.

No other material contracts or arrangements have been entered into during the year, nor existed at the end of the year, in which a director or key manager had a material interest.

Details of key management compensation are given in note 10.

# Independent Auditors' Report

## to the Members of Gooch & Housego PLC

### Report on the company financial statements

---

#### Our opinion

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

- give a true and fair view of the state of the company's affairs as at 30 September 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

---

#### What we have audited

The financial statements, included within the Annual Report & Accounts (the "Annual Report"), comprise:

- the Company Balance Sheet as at 30 September 2015; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

---

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

In our opinion, the 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.

---

#### Other matters on which we are required to report by exception

##### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

---

#### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

---

#### Responsibilities for the financial statements and the audit

##### Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 28, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Independent Auditors' Report

## to the Members of Gooch & Housego PLC

---

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

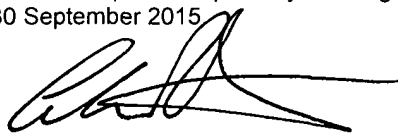
We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

---

### Other matter

We have reported separately on the group financial statements of Gooch and Housego PLC for the year ended 30 September 2015



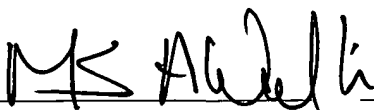
Colin Bates (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol  
1 December 2015


**Gooch & Housego PLC**  
**Company number 00526832**

**Company Balance Sheet**  
**As at 30 September 2015**

	Note	2015		2014	
		£000	£000	£000	£000
<b>FIXED ASSETS</b>					
Investments	5		19,170		19,170
Tangible assets	6		8,233		8,677
			27,403		27,847
<b>CURRENT ASSETS</b>					
Debtors	7	5,425		4,241	
Cash at bank and in hand		8,126		4,925	
		13,551		9,166	
<b>CREDITORS: amounts falling due within one year</b>	9	(1,995)		(3,130)	
<b>NET CURRENT ASSETS</b>			11,556		6,036
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			38,959		33,883
Provision for liabilities	8		-		(44)
<b>NET ASSETS</b>			38,959		33,839
<b>CAPITAL AND RESERVES</b>					
Called up share capital	11		4,818		4,774
Share premium account	12		15,530		15,420
Revaluation reserve	12		233		238
Profit and loss account	12		18,378		13,407
<b>TOTAL SHAREHOLDERS' FUNDS</b>	13		38,959		33,839

The financial statements on pages 71 to 80, were approved by the Board of Directors on 1 December 2015 and signed on its behalf by:

  
 Mark Webster  
 Director

  
 Andrew N Boteler  
 Director

# Notes to the Company Financial Statements

For the year ended 30 September 2015

## 1. Company accounting policies

### Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of certain fixed assets and have been prepared in accordance with applicable United Kingdom Accounting Standards and the Companies Act 2006.

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

### Pension schemes

The Company operates a money purchase pension scheme for Directors and staff. The assets of the scheme are held in separately administered funds. The pension charge represents contributions payable to the funds during the year. Expenses under the plan are charged to the profit and loss account as incurred.

### Share options

The Company operates the Gooch & Housego 2010 Value Creation Plan (the "2010 VCP") and the Gooch & Housego 2013 Long Term Incentive Plan (the "2013 LTIP").

These plans are subject to both market and non-market related vesting conditions. Option grants are measured at fair value which is then charged to the profit and loss account on a straight line basis over the vesting period. Adjustments are made to reflect expected and actual forfeiture during the vesting period due to failure to satisfy service conditions or non-market performance conditions. The fair value is determined using the Monte Carlo option pricing model for the Gooch & Housego 2010 Value Creation Plan and the Gooch & Housego PLC 2013 Long Term Incentive Plan.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

### Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date. Exchange differences which arise on the settlement of transactions and on the translation of other monetary assets and liabilities are dealt with in the profit and loss account.

### Tangible fixed assets

Tangible fixed assets are stated at historical purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write down the cost or valuation of the fixed assets, over their useful lives, at the following annual rates:

Freehold buildings	2-3%	Straight line
Plant and machinery	10-20%	Straight line
Fixtures, fittings and computers	10-33%	Straight line
Capitalised software and licences	25-33%	Straight line

### Investments

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

### Deferred taxation

Deferred taxation is provided in full on all material timing differences. Deferred tax assets are recognised where their recovery is more likely than not. Deferred tax assets and liabilities have not been discounted.

### Financial liabilities

Finance costs associated with financial liabilities are charged to the profit and loss account over the life of the instrument. Issue costs are accounted for as a deduction against the gross borrowings received and are amortised over the life of the instrument.

### Dividend distribution

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

# Notes to the Company Financial Statements

## For the year ended 30 September 2015

### Financial instruments

The Company has not used derivative financial instruments to hedge its exposure to currency risk. The Company's interest rate swap expired in the year ended 30 September 2015 and has not been renewed.

### Share capital

Ordinary shares are classified as equity.

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

## 2. Company profit and loss account

Gooch & Housego PLC has taken advantage of section 408(3) of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's profit after tax was £5,970,000 (2014: £8,291,000 profit).

Fees payable to the Company auditors for the statutory audit for the year amounted to £16,000 (2014: £15,800).

## 3. Directors' emoluments

	2015 £000	2014 £000
Directors' remuneration	1,214	728
Relocation allowance	64	-
Medical and other insurances	20	18
Directors' pension scheme contributions	97	60
	<u>1,395</u>	<u>806</u>

The aggregate emoluments of the highest paid Director including gain on exercise of share options were £1,421,000 (2014: £1,857,000). Further information is included in the Remuneration Committee report on page 31.

The aggregate gain on Directors' share option exercises in the year was £1,291,000 (2014: £3,725,000).

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 2 (2014: 3).

These disclosures have been audited.

## 4. Dividends

	2015 £000	2014 £000
Final 2014 dividend paid in 2015: 4.6p per share. (Final 2013 dividend paid in 2014: 4.0p per share)	1,101	950
2015 Interim dividend paid: 3.0p per share (2014: 2.6p)	722	619
	<u>1,823</u>	<u>1,569</u>

The Directors propose a final dividend of 5.2p per share making the total dividend paid and proposed in respect of the 2015 financial year 8.2p (2014: 7.2p). Should the final dividend be approved at the Company Annual General Meeting, cut-off dates for payment are:

- Record date	18 December 2015
- Payment date	3 March 2016

# Notes to the Company Financial Statements

For the year ended 30 September 2015

## 5. Investments

	2015 £000	2014 £000
Cost and net book value at 1 October	19,170	12,025
Additions	-	7,145
Cost and net book value at 30 September	19,170	19,170

The subsidiary companies at 30 September 2015, all of which are wholly owned either directly or indirectly, are listed below:

<u>Company Name</u>	<u>% ownership of ordinary shares</u>	<u>Location and country of incorporation</u>	<u>Activity</u>
Gooch & Housego (UK) Limited	100%	Ilminster, UK	Manufacturer of acousto-optic products and precision optics
Gooch & Housego (Torquay) Limited	100%	Torquay, UK	Manufacturer of fibre-optic products
Spanoptic Limited	100%	Glenrothes, UK	Manufacturer of precision optics
Gooch & Housego (Deutschland) GmbH	100%	Norderstedt, Germany	Provider of sales and customer service functions
Constelex Technology Enablers Limited	100%	Athens, Greece	Designer and manufacturer of advanced photonic systems
Gooch & Housego (Ohio) LLC	100%	Cleveland, USA	Manufacturer of electro-optic products and crystals
Gooch & Housego (California) LLC	100%	Moorpark, USA	Manufacturer of precision optics
Gooch & Housego (Florida) LLC	100%	Melbourne, USA	Manufacturer of acousto-optic products
Optronic Laboratories LLC	100%	Orlando, USA	Manufacturer of instruments for measuring optical radiation
EM4 Inc.	100%	Boston, USA	Manufacturer of fibre optics products
Gooch & Housego (Palo Alto) LLC	100%	Palo Alto, USA	Manufacturer of acousto-optic, electro-optic and fibre optic components and systems
Gooch & Housego Japan KK	100%	Nagoya, Japan	Provider of sales and customer service functions
G&H (Property) Holdings Limited	100%	Ilminster, UK	Property holding company
G&H (US Holdings) Limited	100%	Ilminster, UK	Holding company
G&H Holdings (Delaware) Inc.	100%	Delaware, USA	Holding company
G&H Capital Holdings (Florida) Inc.	100%	Florida, USA	Holding company

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

# Notes to the Company Financial Statements

For the year ended 30 September 2015

## 6. Tangible assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and computers £000	Capitalised Computer Software and licences £000	Total £000
<b>Cost or valuation</b>					
At 1 October 2014	6,178	3,966	3,197	541	13,882
Additions	5	21	5	142	173
<b>At 30 September 2015</b>	<b>6,183</b>	<b>3,987</b>	<b>3,202</b>	<b>683</b>	<b>14,055</b>
<b>Accumulated depreciation</b>					
At 1 October 2014	1,031	1,525	2,203	446	5,205
Charge for the year	108	265	173	71	617
<b>At 30 September 2015</b>	<b>1,139</b>	<b>1,790</b>	<b>2,376</b>	<b>517</b>	<b>5,822</b>
<b>Net book value</b>					
At 30 September 2014	5,147	2,441	994	95	8,677
<b>At 30 September 2015</b>	<b>5,044</b>	<b>2,197</b>	<b>826</b>	<b>166</b>	<b>8,233</b>

## 7. Debtors

	Note	2015 £000	2014 £000
Amounts owed by group undertakings		3,533	2,912
Prepayments and accrued income		84	92
Group tax relief receivable		1,414	1,237
Deferred tax asset	8	394	-
		<b>5,425</b>	<b>4,241</b>

Amounts owed by group undertakings are unsecured and due within one year. Non-trading amounts owed by US group undertakings are charged interest at the US LIBOR rate applicable for the year. Non-trading amounts owed by UK group undertakings are charged interest at the UK LIBOR rate applicable for the year.

## Notes to the Company Financial Statements

### For the year ended 30 September 2015

#### 8. Deferred tax

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

	2015 £000	2014 £000
At 1 October	(44)	256
Charge to profit and loss account	66	(87)
Credited / (charged) to reserves	372	(213)
At 30 September	394	(44)

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

	2015 £000	2014 £000
Property, plant and equipment	(82)	(171)
Share options	372	-
Other timing differences	104	127
	394	(44)

#### Factors affecting the future tax charge

The changes to the main rate of corporation tax for companies announced in the July 2015 budget were substantively enacted for financial reporting purposes on 26 October 2015. The main changes in corporation tax rates, that will have accounting implications for deferred tax are as follows:

- The main rate of corporation tax will reduce from 20% to 19% from 1 April 2017; and
- The main rate of corporation tax will further reduce to 18% from 1 April 2020.

#### 9. Creditors: Amounts falling due within one year

	Note	2015 £000	2014 £000
Bank loans and overdrafts	10	-	1,529
Trade creditors		168	108
Amounts owed to group undertakings		145	126
Taxation and Social Security		387	378
Accruals and deferred income		1,295	989
		1,995	3,130

Amounts owed to group undertakings are unsecured and due within one year. Non-trading amounts owed to US group undertakings are charged interest at the US LIBOR rate applicable for the year. Non-trading amounts owed to UK group undertakings are charged interest at the UK LIBOR rate applicable for the year.

# Notes to the Company Financial Statements

## For the year ended 30 September 2015

### 10. Bank borrowings

At 30 September 2014, the Sterling facility was to be repaid by a final instalment of £1,550,000 in April 2015. This facility was repaid in full in November 2014 when the Group refinanced its banking facilities.

	2015 £000	2014 £000
<b>Maturity profile of bank borrowings</b>		
Within one year	-	1,529
	-	1,529
<b>Currency profile of bank borrowings</b>		
Pound sterling	-	1,529

### 11. Called up share capital

	2015 Number	2014 Number	2015 £000	2014 £000
<b>Allotted, issued and fully paid</b>				
At 1 October	23,871,210	23,098,864	4,774	4,620
Shares issued and fully paid	219,908	772,346	44	154
At 30 September	24,091,118	23,871,210	4,818	4,774

During the year 204,482 shares (2014: 757,965 shares) were allotted under share option schemes. The remaining 15,426 shares were issued as part of the consideration for the acquisition of Constelex Technology Enablers Limited, which occurred in the year ended 30 September 2014.

### 12. Reserves

	Share Premium account £000	Revaluation reserve £000	Profit and loss account £000
At 1 October 2014	15,420	238	13,407
Profit for the financial year	-	-	5,970
Tax credit on share options	-	-	372
Transferred to profit and loss account	-	(5)	5
Fair value of employee services	-	-	485
Shares issued	110	-	(38)
Dividends paid	-	-	(1,823)
<b>At 30 September 2015</b>	<b>15,530</b>	<b>233</b>	<b>18,378</b>

# Notes to the Company Financial Statements

For the year ended 30 September 2015

## 13. Reconciliation of movements in shareholders' funds

	2015 £000	2014 £000
Profit for the financial year	5,970	8,291
Taxation credited to reserves	372	609
Shares issued and fully paid	116	209
Fair value of employee services	485	361
Dividends paid	(1,823)	(1,569)
Net addition to shareholders' funds	5,120	7,901
<b>Opening shareholders' funds</b>	<b>33,839</b>	<b>25,938</b>
<b>Closing shareholders' funds</b>	<b>38,959</b>	<b>33,839</b>

## 14. Share options

The Company operates the Gooch & Housego 2010 Value Creation Plan (the "2010 VCP") and the Gooch & Housego 2013 Long Term Incentive Plan (the "2013 LTIP").

### The Gooch & Housego 2010 Value Creation Plan

Under the 2010 VCP, key employees were granted a one-off award of units from an agreed total. Three executive Directors were awarded 44 units out of the total pool of 64 units and eight key employees hold the remaining 20 units. These units had no intrinsic value on grant but gave participants an opportunity to be awarded Company shares proportionate to the value created for shareholders above the threshold value at the third anniversary of the plan.

In accordance with the rules of the plan, on the third anniversary, being 7 January 2013 value created during the life of the plan, over and above a pre-determined threshold value based on a share price of £2.00, has been calculated. A share of that value (approximately 12%) was distributed amongst the participating members of senior management of the Group in the form of nil-cost share options (UK participants) and share awards (US participants). Half of the awards made are exercisable immediately and the balance after twelve months, subject to certain conditions.

Details of the award are as follows:-

Total number of market value (151p) Company Share Option Plan (CSOP) share options awarded:	158,936
Total number of nil-cost share options awarded:	1,380,566

Out of the total options, the executive Directors' were awarded 59,601 CSOP share options and 981,339 Nil-cost share options. The Remuneration Committee report provides further details on the share options awarded and exercised during the financial year.

The 2010 VCP award was valued using the Monte Carlo option pricing model. The expected volatility of 73.5% used in the model is based on the historical volatility of the Company's share price over the three years prior to 7 January 2010. The risk free rate of 2.1% was used. The total fair value of all the units granted to the participants in the 2010 VCP was £1,614,640.

# Notes to the Company Financial Statements

For the year ended 30 September 2015

## 14. Share options (continued)

### The Gooch & Housego 2013 Long Term Incentive Plan

On 9 April 2013 a new Long Term Incentive Plan was adopted. Under the plan, awards will be made annually to key employees based on a percentage of salary. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Company three years after the grant date.

On 9 April 2013, 178,960 options were awarded under the 2013 LTIP new plan to a number of key employees, including the three executive Directors of the Company. On 1 December a further 144,875 options were awarded. The remuneration report provides further details on the share options awarded and exercised during the financial year.

The 2013 Long Term Incentive Plan Awards were valued using the Monte Carlo option pricing model. The expected volatility used in the model was based on the historical volatility of the Company's share price over the three years prior to the grant date.

	Grant date		
	17 Dec 2014	1 Dec 2013	9 Apr 2013
No. of options granted	260,193	144,875	179,150
Expected volatility	29%	33%	43%
Risk free rate	0.8%	0.9%	2.7%
Fair value (£)	878,475	441,252	429,795

A reconciliation of total share option movements is shown below:

	2015		2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 October	490,589	3.1p	1,195,292	17.0p
Awarded	260,193	-	144,875	-
Exercised	(204,482)	9.0p	(799,010)	13.1p
Lapsed	-	-	(50,568)	-
Outstanding at 30 September	546,300	-	490,589	3.1p
Exercisable at 30 September	26,741	-	229,460	-

The weighted average fair value of options granted in the year was 338.0p (2014: 371.0p). For the options exercised, the average market price was 709.1p per share.

# Notes to the Company Financial Statements

## For the year ended 30 September 2015

### 14. Share options (continued)

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

	Expiry date	Exercise price per share option	Number of share options	
			2015	2014
2010 VCP	6-Jan-2020	0.0p	26,741	219,717
2010 CSOP	6-Jan-2020	151.0p	-	9,933
2013 LTIP	8-Apr-2023	0.0p	519,559	260,939
			<b>546,300</b>	<b>490,589</b>

The total charge for the year relating to share options was £485,000 (2014: £361,000), all of which related to equity-settled share based payment transactions.

### 15. Related party disclosures

In addition to duties performed in his role as a non-executive director Dr Peter Bordui has provided additional consultancy services at the request of the company. Fees during the year to 30 September 2015 amounted to £18,720 (2014: £18,360), at the balance sheet date the balance outstanding totalled £4,680 (2014: £4,380). The transactions are performed in the normal course of business on an arm's length basis and that the outstanding balance is unsecured.

No other material contracts or arrangements have been entered into during the year, nor existed at the end of the year, in which a director or key manager had a material interest.

The company has taken advantage of the exemption allowed under FRS 8 'Related Party Disclosures' not to disclose related party transaction with other group companies as consolidated financial statements in which the company is included are publicly available.

## Shareholder Information

### Company information

#### Nominated Adviser and Broker

Investec Bank plc  
2 Gresham Street  
London  
EC2V 7QP

#### Independent Auditors

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

#### Legal Advisers

Burges Salmon LLP  
One Glass Wharf  
Bristol  
BS2 0ZX

#### Registrars

Capita Registrars Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## Company Secretary and Registered Office

**Company Secretary** Gareth J Crowe

**Register Office** Dowlish Ford  
Ilminster  
Somerset  
TA19 0PF  
United Kingdom

**Company Number** 00526832

## Expected Financial Calendar

Annual General Meeting	24 February 2016
Final dividend for the year ended 30 September 2015 to shareholders on the register at close of business 18 December 2015. Subject to approval by shareholders at the Annual General Meeting	3 March 2016
Interim Results announced	June 2016
Financial Year End	30 September 2016
Preliminary announcement of results for the year ended 30 September 2016	December 2016

## NOTICE OF ANNUAL GENERAL MEETING OF GOOCH & HOUSEGO PLC (THE "COMPANY")

**Notice is hereby given** that the Annual General Meeting of the Company will be held at Dowlish Ford, Ilminster, Somerset, TA19 0PF on 24 February 2016 at 11.00 a.m. for the following purposes:

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

- 1 To receive the Annual Report and Accounts for the financial year ended 30 September 2015 together with the Directors' Report and Auditor's Report thereon.
- 2 To receive and approve the Remuneration Committee Report set out on pages 29 to 33 (excluding page 30) of the Annual Report and Accounts for the financial year ended 30 September 2015.
- 3 To declare a final dividend, as recommended by the Directors, of 5.2 pence per ordinary share for the financial year ended 30 September 2015.
- 4 To re-elect Gareth Jones as a Director.
- 5 To re-elect Mark Webster as a Director.
- 6 To re-elect Alex Warnock as a Director.
- 7 To re-elect Andrew Boteler as a Director.
- 8 To re-elect Paul Heal as a Director.
- 9 To re-elect Peter Bordui as a Director.
- 10 To re-elect Brian Phillipson as a Director.
- 11 To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors.
- 12 To authorise the Directors to fix the remuneration of the Auditors.
  
- 13 THAT the Directors of the Company be, and they are hereby, generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company on, and subject to, such terms as the Directors may determine. The authority hereby conferred shall, subject to section 551 of the Act, be for a period commencing on the date of the passing of this Resolution and expiring at the conclusion of the next Annual General Meeting of the Company or 24 May 2017 (whichever is the earlier) unless reviewed, varied or revoked by the Company in General Meeting and the maximum nominal amount of shares which may be allotted pursuant to such authority shall be £1,606,075 (representing approximately one third of the total ordinary share capital of the Company in issue at 1 December 2015). The Directors shall be entitled under such authority to make at any time prior to the expiry of such authority any offer or agreement which would or might require shares in the Company to be allotted after the expiry of such authority and the Directors may allot shares in pursuance of such offer or agreement as if such authority had not expired.

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

- 14 THAT the Directors of the Company be, and they are hereby, generally and unconditionally empowered pursuant to section 570 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by Resolution 12 above as if section 561 of the Act did not apply to such allotment, provided that the power hereby conferred shall be limited to:
  - (i) the allotment of equity securities in connection with an offer of securities, open for acceptance for a period fixed by the Directors, by way of rights to the holders of ordinary shares in proportion (as nearly as may be) to the respective numbers of ordinary shares held by them on a record date fixed by the Directors and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional elements or otherwise howsoever; and
  - (ii) otherwise than pursuant to sub-paragraph (i) above, the allotment of equity securities up to an aggregate nominal amount of £481,822 (representing approximately 10 per cent. of the total ordinary share capital of the Company in issue at 1 December 2015),

and the power hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 24 May 2017 (whichever is the earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities in the Company to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

- 15 THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the "Act") to make one or more market purchases (within the meaning of section 693(4) of the Act) of fully paid ordinary shares of £0.20 each in the capital of the Company on such terms and in such manner as the Directors may determine, provided that:
  - (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 2,409,112 (representing approximately 10 per cent. of the total ordinary share capital of the Company in issue at 1 December 2015);
  - (b) the minimum price (exclusive of expenses) which may be paid for each ordinary share is 20 pence per share;

## NOTICE OF ANNUAL GENERAL MEETING OF GOOCH & HOUSEGO PLC (THE "COMPANY")

- (c) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than 5 per cent. above the average of the middle market quotations for an ordinary share as derived from the AIM section of the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
- (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 24 May 2017 (whichever is the earlier);
- (e) the Company may, pursuant to the authority hereby conferred, enter into a contract to purchase ordinary shares which would, will or might be executed wholly or partly after the expiry of such authority and the Company may make a purchase of ordinary shares in pursuance of such contract as if the authority conferred hereby had not expired.

By order of the Board

**Gareth J Crowe**

Company Secretary

1 December 2015

Registered Office: Dowlsh Ford, Ilminster, Somerset TA19 0PF

Registered Number: 526832

### Notes:

1 Explanatory note on Resolution 2: Resolution 2 is an advisory vote only. The Remuneration Committee Report is set out on pages 29 to 33 of the Annual Report and Accounts for the financial year ended 30 September 2015. Pages 29, 31, 32 and 33 of the Remuneration Committee Report set out the pay and benefits received by each of the directors for the year ended 30 September 2015. The Company's policy on remuneration and potential pay outs to directors in the future, which is set out on page 30 of the Annual Report and Accounts for the financial year ended 30 September 2015, is specifically excluded from this Resolution.

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

3 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the meeting (or any adjournment of the meeting). A proxy need not be a member of the Company. If a member appoints more than one proxy in relation to the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member. If a member submits more than one valid proxy appointment in relation to the same share, the appointment received last before the latest time for receipt of proxies will take precedence. A member may only appoint a proxy in accordance with the procedures described in notes 4, 5 and 6.

4 To appoint a proxy outside of the CREST system, a form of proxy is enclosed for use. To be valid, this form of proxy (and any power of attorney or other authority (if any) under which it is signed) must be duly completed and signed and sent to or deposited at the office of the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4ZF so as to be received not less than 48 hours before the time for holding the meeting (or any adjournment of the meeting). Completion of a form of proxy does not preclude a member from attending and voting in person at the meeting if that member so wishes.

5 To appoint as a proxy a person other than the Chairman of the meeting, a member must insert the proxy's full name in the box on the proxy form. If a member signs and returns a proxy form with no name in the box, the Chairman of the meeting will be deemed to be the member's proxy. Where a member appoints as a proxy someone other than the Chairman, the member is responsible for ensuring that the proxy attends the meeting and is aware of the member's voting intentions. If a member wishes a proxy to make any comments on the member's behalf, the member will need to appoint someone other than the Chairman and give them the relevant instructions directly.

6 To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent by 11.00 a.m. on 22 February 2016. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. The Company or its Registrars may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your Form of Proxy must be received by the Company's Registrars by no later than 11.00 a.m. on 22 February 2016.

7 A member which is a corporation is entitled to appoint one or more corporate representatives to exercise the same powers on behalf of the corporation as the corporation could exercise if it were an individual member. If a member which is a corporation appoints more than one corporate representative in relation to the meeting (or any adjournment of the meeting), each such corporate representative shall be entitled to exercise the same powers on behalf of that corporation as that corporation could exercise if it were an individual member, provided that if such persons purport to exercise those powers the same way, those powers shall be treated as exercised in that way, but if those persons purport to exercise those powers in different ways, those powers shall be treated as not exercised. In the case of a member which is a corporation, the proxy form must be executed under the corporation's common seal or signed on its behalf by a duly authorised officer of the corporation or an attorney for the corporation.

8 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered in the Company's register of members at 6.00 pm on 22 February 2016 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. Changes in the Company's register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned, the time which is 48 hours (disregarding any part of a day which is not a working day) before the time fixed for the adjourned meeting shall apply for the purpose of determining the entitlement of members to attend and vote at the adjourned meeting.

9 Copies of Directors' service agreements and letters of appointment and the rules of the Company's share option schemes will be available for inspection at the registered office of the Company from the date of this Notice of AGM until the date of the meeting during normal business hours, and at the place of the meeting from 10.45 a.m. until its conclusion.