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Gooch & Housego PLC

Company number 00526832

ANNUAL REPORT and FINANCIAL STATEMENTS

for the year ended 30 September 2022

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Investment Case

Leading Products and Technology

Gooch & Housego's products and capabilities are recognised as market leading. Through continuous innovation we are making today's limits tomorrow's baseline.

Attractive Markets

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

Well Established Customer Positions

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

Diversified Revenues

Our products and capabilities are supplied to the Industrial, Aerospace and Defence and Life Sciences/Biophotonics markets providing natural protection against individual market cyclicality. The nature of the quality and compliance hurdles inherent in a large proportion of our markets makes them highly defensible.

State of the Art Facilities and a Cost-Effective Supply Chain

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

Financial Strength

We have significant financial resources meaning we can invest to further strengthen our competitive advantage.

Highlights

Year ended 30 September	2022	2021
Revenue (£m)	124.8	124.1
Adjusted profit before tax (£m)*	8.1	12.6
Adjusted basic earnings per share (pence)*	27.2p	41.0p
Statutory (loss) / profit before tax (£m)	(2.3)	4.7
Basic (loss) / earnings per share (pence)	(8.0)p	13.6p
Total dividend per share (pence)	12.6p	12.2p
Net debt excluding IFRS16 (£m)	12.8	2.6
Net debt (£m)	19.1	9.2

- adjusted figures exclude the amortisation of acquired intangible assets, impairment of goodwill and acquired intangible assets, non-underlying items being restructuring costs, and CEO succession costs, together with the related tax impact. A reconciliation of adjusted figures to reported figures is shown on page 28.

Key Points

- Record order book of £147.7m, up 51% (35.3% excluding foreign exchange) underpinned by strong end market demand.
- Overall revenue unchanged with growth in both Industrial and Life Sciences offset by decline in Aerospace and Defence.
- Adjusted profit before tax declined to £8.1m. Investment made to increase capacity but challenges with recruitment, operations and supply chain constrained output.
- Non-underlying charges of £10.4m, including £6.7m impairment charge against goodwill and other intangible assets, driven by increase in the Group's cost of capital. Reported loss before tax for the year of £2.3m.
- Despite implementing price increases during the year, input cost inflation continues to impact the business with some lag in recovery.
- Net debt increased to £19.1m, reflecting inventory investment to alleviate supply chain shortages.
- FY2023 outlook targeting revenue and adjusted PBT growth, though at a lower level than previously assumed, through accelerated R&D investment focused on key growth markets and the addition of further capacity to service strong demand.
- Full year FY2022 dividend increased to 12.6p, reflecting strength in order book and medium-term positive outlook for the business.
- New CEO appointed and a review of the Group's strategy has begun, with outcomes expected to be communicated with the half year results.

Charlie Peppiatt, Chief Executive Officer, commented:

"While mindful of the uncertain macroeconomic and geopolitical landscape, G&H is positioned for growth with a robust order pipeline across all our end markets.

"I am confident we will generate growth in our financial and operational performance in 2023 as we re-establish the foundations and direction to progress to become a resilient and agile higher margin business over the coming years."

Our Markets

A Better World With Photonics

Our Purpose:

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

Thanks to significant size, weight and power advantages the shift from electronics to photonics is accelerating, transforming the fields of manufacturing, aerospace, communications and medicine.

Through close customer relationships we enable leading organisations all over the world to deliver tailored, innovative solutions to meet precise requirements.

At G&H we are using our skills and capabilities to make a better world with photonics.

Regional Revenues

£47.3M	£54.6M	£22.9M
America	Europe	Rest of World

Industrial

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

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

G&H's components are at the heart of today's most advanced semiconductor manufacturing equipment, maximising throughput and yield. Our products operate in the extreme ultra violet range helping to focus lasers on to a target to create plasma. Incredibly high powers and short durations are required for this process. Our germanium acousto-optical modulators (Ge AOMs) provide solutions to these challenges by enabling power stabilisation, precise and stable beam positioning, and extremely short pulse duration.

G&H's family of hi-reliability fibre couplers are the preferred solution for use in subsea data cables. This market is driven by the ever-growing global demand for bandwidth. As electronic commerce and communications expand around the world, G&H optical expertise will continue to optimise the footprint, reliability, and bandwidth density of the fibre-optic components on which subsea networks rely.

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

Our Markets

Aerospace and Defence

Our leadership in supporting mission-critical applications with high-performance optical components, modules, and subassemblies has established G&H as a preferred supplier for leading A&D contractors around the globe. Our technology and expertise in optical design and manufacture have helped advance programs and missions in several key application areas.

Unmanned aerial vehicles (UAVs) and other airborne platforms gather more image data more quickly during ever-longer flight times. G&H's precision optical components and advanced lens assemblies enable optimal field of view and resolution for short, mid- and longwave infrared imagers, making them critical elements in A&D platforms used for intelligence, surveillance, and reconnaissance (ISR) missions. Our SWIR lens assemblies are also used in monitoring directed energy weapons performance.

The speed and precision that photonics technology enables is instrumental for the directed energy systems employed in drone and missile defence. With decades of close collaboration with prime defence contractors and avionics manufacturers, G&H brings the exacting design and manufacturing expertise required for the fibre optics, electric-optic modulators, and sights and windows that help ensure directed energy systems perform reliably.

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

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

Life Sciences

G&H's optical component designs have helped advanced the performance and reliability of Life Science instrumentation for medical microscopy, diagnostic imaging, and laser surgery. We are recognised as a leading provider of advanced optics, fibre optics, acousto-optics, and Pockels cells, targeting medical research, diagnostic imaging, and laser surgery applications worldwide.

We work with leading laser system OEMs and medical equipment manufacturers to optimise patient outcomes in a broad range of surgical applications, including prostate surgery; scar correction and treatment of cataracts. Our optics provide surgical lasers with the precision and reliability needed for cardiovascular procedures.

G&H is also a key supplier in the growing market for non-invasive aesthetic laser treatments and therapies. From tattoo removal to skin rejuvenation, our products enable higher optical power and precision for the most effective procedures.

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

Our Products and Capabilities

Leading Photonics Technology

Gooch & Housego is at the forefront of photonics technology. Our expertise in optical systems, subsystems and components extends from research through the development of prototypes to volume manufacturing and is a catalyst for innovation and effective manufacturing in the A&D, Industrial and Telecom, and Life Sciences/Biophotonics sectors.

Acousto-Optics

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

Many of our acousto-optic and electro-optic products are manufactured using our own in-house grown materials such as beta-barium borate (BBO), Cadmium Selenide (CdSe), cadmium sulfide, (CdS), potassium di-hydrogen phosphate (KDP), and potassium di-deuterium phosphate (KD*P). All are fabricated on a made-to-order basis in-house using advanced orienting, sawing, grinding, and lapping technologies.

G&H's acousto-optic devices are found at the heart of multiple laser systems used across a broad range of industrial applications allowing those lasers to be controlled with unmatched optical power handling, and performance delivered consistently over time and in volume.

Electro-Optics

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

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

Fibre Optics

G&H's line of active and passive fibre optic components and modules offer the performance and reliability required for some of the most demanding and challenging applications in the world, whether that be in space applications or in terrestrial and submarine telecommunications systems.

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

Precision Optics

G&H manufactures precision optical components and assemblies for applications in A&D, medical systems and research. Our knowledge of optical and mechanical properties of materials, combined with the ability to handle all aspects of component manufacture, ensures the highest quality products with precise optical finishes. Our custom lenses and housed subassemblies find application in transmission and imaging. Our ring laser gyro mirrors are used by every commercial airline in the world. G&H has supplied super-polished optics to NASA's Mars Curiosity mission.

The extent of vertical integration throughout our manufacturing processes allows us to provide dependable design advice and improves the quality of our finished products through unified standards and reduced component handling between manufacturing steps. From multiple chambers in both the UK and the US we offer a full range of thin film optical coating capabilities. Our expertise in coating has been supported by investment in custom built, ultra-clean, high repeatability chambers to meet customers' evolving needs for environmentally-stable optical coatings. Our engineers are continuously researching the performance characteristics of new coating materials and integrating the results into our modelling software to optimise the designs for customers' applications.

Chairman's Statement

"Strong market demand and further investment in our productive capacity"

Group Overview

I have been pleased with the strength in demand for the Group's products and services across all three of our markets. That demand has pushed the Group's order book to record levels and reflects the hard work of our engineering and sales team in building close and mutually productive relationships with our customers. Our customers trust us to support them in the development of their most sophisticated, next generation products across all of the markets that we serve. We are well positioned to benefit from the increasing use of our photonic technologies to solve their most technically challenging needs.

Whilst the Group has experienced significant headwinds in the year to 30 September 2022 from supply chain issues and labour shortages, we have continued to invest to establish firm foundations upon which to deliver future growth in our productive capacity, both in-house and with our supply chain partners.

Our ambitious programme to streamline our manufacturing facilities is now starting to deliver. The significant investment we have made in our precision optics centre of excellence in Ilminster means that we are now able to offer our customers a broader range of capabilities and the ability to provide them with more advanced, integrated design consistent with our strategic objective of securing more sub-system and system business. At the same time the establishment of a fibre optics hub at our Boston MA facility is reducing overheads and allows us to secure longer term order book visibility for that site. I am delighted with the performance of our Asian contract manufacturing partner. They have assumed the manufacture of many of the acousto-optic products formerly made in our Ilminster facility and in the final months of the financial year have achieved an impressive ramp in product output as they migrate from initial qualification build into full-scale volume production. We intend to build upon this relationship by migrating further mature products in the future.

The Environment and our Communities

We are proud of the contribution that photonic technologies and our products are making in the migration to a more sustainable and healthier world. We are also focused on our own impact on the environment. We track carbon emissions as one of our key performance indicators and have achieved a very impressive 27.2% reduction in our emissions in the year, thanks to the investments we have made in solar energy generation at all of our UK manufacturing sites and our policy of progressively switching to purchasing energy from renewable sources. We have a programme in place to achieve year-on-year reductions in our energy usage and emissions in support of our target to be net zero on Scope 1 and 2 emissions by 2035.

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

The Board

After ten years with G&H, firstly as a non-executive director and then for the last eight years as CEO, Mark Webster retired at the end of the financial year. Mark led the Group's transformation and expansion into new market opportunities, especially in the Life Sciences and A&D sectors, and more recently navigated the business through challenging international economic times including the COVID pandemic.

We were delighted to appoint Charlie Peppiatt as CEO to succeed Mark. Charlie brings a wealth of experience from his career in global hi-tech businesses supplying into the Medical, Industrial and A&D sectors, most recently at TT Electronics plc and before that at Stadium Group plc and Laird plc. I believe Charlie is uniquely qualified to lead the Group in exploiting the significant opportunities arising from the continued growth of the photonics sector.

As a Board we take our governance responsibilities very seriously. Our approach to our wide range of responsibilities is set out in the Corporate Governance section of this report on pages 47 to 50.

Chairman's Statement

Dividend

Given the strength of the Group's order book and the long-term positive outlook for the business, the Board is proposing a final dividend of 7.9 pence per share for approval at the Company's Annual General Meeting on 22 February 2023, giving a total of 12.6 pence for the year. Payment of the dividend will be made on 24 February 2023, to shareholders on the register as at 20 January 2023.

People

I would like to thank our employees for their commitment to the business. The Group has undertaken significant change as a result of its manufacturing facility streamlining projects only made possible by our employees' hard work and dedication. At the same time, the constraints we have seen in the year from the very competitive labour markets and further supply chain shortages put extra pressures on our teams. I am also pleased we have been able to welcome so many new recruits to the G&H team due to the strength of the Group's order book and our work to increase our productive capacity. We are proud to be able to provide high quality employment opportunities to people at all stages in their career in the locations in which we operate.

Outlook

Looking ahead, the prospects for G&H are good. We are well positioned in our growth markets. Our restructuring programmes have reduced the Group's cost base. Whilst the business faced some significant challenges during the year from supply chain issues and the very competitive labour markets in both the UK and US, in the latter stage of the year we have succeeded in adding significant additional capacity and that ongoing investment will bear fruit in the coming years. In FY2023, we are targeting growth in revenues and adjusted PBT, though at a lower level than previously assumed.

Our technology and products are world class, our customer positions are strong and with the support of our skilled and talented employees I am confident we will be able to deliver upon our financial growth targets.

Gary Bullard

Chairman

6 December 2022

Our Business Model

Our world class photonics components and systems capabilities allow us to differentiate ourselves and provide our customers with more precise, reliable and cost-effective solutions that meet their most demanding needs.

We have long standing close relationships with our customers. We work with them to understand their needs, and then design products and systems that meet those needs.

We will use our photonic skills and capabilities to develop products that support a cleaner, healthier and more sustainable world.

We supply the three markets - Industrial, A&D and Life Sciences from our three capability areas - Acousto/Electro Optics, Fibre Optics and Precision Optics and Systems.

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

By positioning ourselves in attractive growth markets and deploying our unique range of skills and resources we are developing a sustainable business model.

Attractive Growth Markets

Strategic supply considerations driving the build of new on shore semiconductor and other laser-based manufacturing facilities.

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

The migration of space-based communication systems away from traditional radio frequency systems towards laser-based solutions.

Growing demand for improved healthcare, especially for early-stage diagnostics and for laser enabled cosmetic procedures.

The continued focus of on defence spending on precise, targeted systems that depend upon our precision optics and fibre sub systems with directed energy systems emerging as the next precise, low cost defence systems.

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

Unique Range of Skills and Resources

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

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

We offer a complete design, engineering and manufacturing service.

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

Competitive Advantage

Industry wide reputation for innovation and continuous improvement in the field of photonics protected with patented technology.

State of the art manufacturing facilities supported by a low-cost contract manufacturing partner.

An established capability to work in high product quality and compliance markets such as A&D and Life Sciences as well as on programmes requiring high level security accreditations.

Close and long-standing customer relationships supported by a business development organisation that supports inter-group collaboration and cross selling.

A talented team of engineers, continually developing new IP.

Effective and prioritised deployment of capital.

Our Business Model

Stakeholder Value Creation

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

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

Our employees – we invest in our employees from apprentice level through to our most experienced engineers to ensure they have the skills and capabilities needed to operate in our industry leading operations.

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

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

Sustainability

At G&H we work to create a long-term sustainable business for the benefit of all of our stakeholders, support the communities in which we operate and minimise the Group's impact on the environment. We are working diligently towards our target of being net neutral on scope 1 and 2 emissions by 2035. We have processes in place to ensure we maintain our high standards of business conduct.

See our ESG report on page 31.

Financial Position

We operate across a range of markets providing natural protection against individual market cyclicity. At 30 September 2022, we had \$18.7m of undrawn committed facilities and \$30m of undrawn uncommitted funding facilities meaning that we are able to invest to support the further profitable growth of the business.

See our financial statements from page 75.

Underpinned by:

Governance

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

See our Corporate Governance Report on page 47.

Risk Management

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

See our Risk Management Report on page 42.

Our Key Performance Indicators

KPI and Description	Performance	Why this is important	2022 Performance
Organic revenue growth (%) The percentage change in revenue in the current year compared to the prior year, excluding the effects of foreign exchange	2022: (3.7%) 2021: 6.4% 2020: (5.4%) 2019: (8.0%)	We are focused on long-term organic revenue growth as a means to create value. This metric reflects both the health of our target markets and our success in gaining an increasing market share with our customers.	Organic revenue was 3.7% lower, excluding foreign exchange, reflecting a significant decline in our revenues from our higher margin A&D markets. This was driven by deliveries on a number of programmes completing prior to the ramp up of volumes from new programme wins.
Adjusted operating margin (%) Adjusted operating profit as a percentage of revenue	2022: 7.1% 2021: 10.8% 2020: 9.2% 2019: 12.6%	Adjusted operating profit margin measures our ability over time to generate value from our products and capabilities. It is impacted by our actions to both increase revenue and optimise our cost base.	The adjusted operating margin fell to 7.1% reflecting lower volumes especially in some of our higher margin A&D programmes. Despite lower volumes we continued to invest to deliver our record order book. The net impact of inflation was also a factor in the reduction.
R&D investment as a % of revenue R&D investment as a % of revenue	2022: 7.4% 2021: 6.4% 2020: 6.5% 2019: 6.0%	Our R&D investment enables us to introduce new products to the market supporting our objective of increasing revenue and keeping us ahead of our competitors. This measure is directly related to our strategic priority of focused R&D investment.	We increased our investment levels in the year. In the year we released another 54 products to the market and revenues from products contributed £17.9m of revenue in the year.
Adjusted operating cash flow Cash flow from operating activities adjusted for non-underlying cash flows	2022: £6.6m 2021: £21.9m 2020: £22.5m 2019: £13.1m	The KPI measures the cash generated by the Group's trading activities. It measures the cash generated to fund investment in the business either through new assets or to acquire other businesses.	We invested in increased levels of safety stock in the year to protect ourselves from supply chain shortages. We increased our investment in new equipment and systems in the year to £8.6m.
Safety performance Any accident resulting in time off work	2022: 8 2021: 8 2020: 11 2019: 16	We are committed to the wellbeing of our employees. This KPI measures our performance in raising the safety standards in our facilities and also underpins our operational performance.	Our safety performance remains significantly better than the industry average. Our objective is to ultimately achieve no lost time incidents. We are enhancing our near miss reporting to support this.
Carbon dioxide equivalent (tonnes) The total amount emitted in tonnes for Scope 1 and Scope 2 (carbon dioxide equivalent), with further details on the calculation method set out in the ESG Report	2022: 3,942 2021: 5,414 2020: 5,852	This metric measures our achievement against our objective to reduce our carbon emission over time and reduce the impact we have on the environment. We are focused on making G&H a sustainable business and have a target to be net zero on scope 1 & 2 emissions by 2035.	Solar panels on our Ilminster and Ashford facilities became operational in the financial year. All of our purchased electricity in the UK is from renewable sources. All of our sites are following specific action plans that will reduce their energy consumption.

Chief Executive Officer's Statement

"While mindful of the increasingly uncertain macroeconomic and geopolitical landscape, G&H remains well positioned for growth with a robust pipeline across all our end markets.

"We anticipate higher production in FY2023 and a refocus on pricing to offset inflation as we convert our record order book. The business will invest to ensure G&H can capitalise on the accelerating deployment of photonics technologies into continuously expanding areas of the Industrial, Life Sciences and A&D markets underpinning the future growth potential of the Group."

Introduction

I am delighted to have joined G&H in September 2022 at such an important time in the Group's development. In my first few weeks with the business I have been able to visit all of our principal locations and have been struck by the dedication, motivation and deep technical skills of our teams. It is clear that G&H products are recognised by our customers for their superior technical capability and quality which few other companies can match. However, I am also conscious that our operational delivery to those customers over the last year has not met the high standards we aspire to and I will be focused on ensuring we quickly resolve the operational constraints that have impacted the business during FY2022.

I intend to complete a review of the Group's strategy over the coming months and will provide further details once that has been concluded. Already I can see that the business is well positioned in a number of growth markets with superior products and capabilities meaning we should be able to secure a growing share of those attractive end markets. The Group's production facilities are well invested with advanced hi-tech equipment and the business has established productive relationships with its existing customers, as well as positive engagements with many new customers, as we seek to collaboratively develop the next generation of photonic products.

I am proud that G&H products are playing a part in building a better more sustainable world. Many of our products contribute directly to the reduction of energy consumption and the more efficient use of materials. In our own facilities we are also making great strides in reducing our impact on the environment. In FY2022 we achieved a 27.2% reduction in our emissions as we work towards our goal of being net neutral on our Scope 1 and 2 emissions by 2035.

Business Performance

During the financial year 2022 G&H achieved revenue of £124.8m, representing an increase of 0.6% over the previous year (FY2021: £124.1m), or excluding the impact of foreign exchange a reduction of 3.7%. Adjusted profit before tax was £8.1m, a reduction of 35.4% over last year (FY2021: £12.6m). At the same time, and in common with many other businesses in our sector, we saw high levels of customer demand which increased the Group's order book to £147.7m, an increase of 51% or 35.3% at constant currency.

This weaker trading performance was the result of significant headwinds in our production facilities as they attempted to increase output from a new footprint to our industrial and medical laser markets where demand was very strong and which provided the opportunity to offset programme driven reductions in our A&D facing businesses. In the first half of the year our manufacturing facilities were materially impacted by COVID absences while the very tight labour markets in both the UK and US meant that we were unable to make the necessary increases to our in-house production teams. At the same time, we experienced a number of supply chain shortages especially in the area of electronic components.

However, in the second half of the year we were able to achieve better success in adding to our production teams thanks to increased flexibility and innovation in the ways in which we sought to attract new recruits to the business.

Chief Executive Officer's Statement

Nevertheless, due to the constraints on output, the programme of investment in both our operations and R&D functions, input cost inflation and the conclusion in the prior year of a number of profitable A&D programmes meant that the Group's overall margins declined. The continued competitive nature of hiring, training and retaining the required level of staff in key technical and production positions remains a challenge in the current labour market and this is expected to continue into the first half of 2023. At the same time our supply chain remains unpredictable and whilst we have generally been successful in passing on the effects of input cost inflation to our customers we remain very alert to the impact of the continuing current high inflation environment that our businesses are operating in.

Our markets

Industrial demand continues to be strong, especially the semiconductor and industrial laser markets, where underlying market growth was complemented by very good uptake of new G&H products launched in those market areas. Demand for our hi-reliability fibre couplers remained robust, with the use of those products in the growing satellite communications market complementing the long-standing undersea cable business.

Life Sciences performed resiliently and we saw significant growth in demand for our products used in medical lasers with particularly strong growth for devices that support aesthetic procedures in the Asian market. We are currently adding productive capacity in our Cleveland facility to help address this growing need. At the same time demand for our medical diagnostic products was broadly stable compared with the prior year.

Volumes in our Aerospace & Defence ("A&D") markets declined significantly as a result of a number of programmes being completed in late FY2021 and early FY2022, most significantly for the supply of sighting systems for armoured vehicles. Whilst the business has been successful in securing a number of new programme wins, most notably the upgrade of the optical sensor suite for UK's Challenger platform, those programmes have not yet migrated into volume production. At the same time programme volumes supplied from our Boston site declined, but this business finished the year with an order book some 58% higher than the same time last year and is therefore substantially covered for its coming year revenues.

The transfer of our acousto-optic products from our Ilminster facility to our Asian contract manufacturing partner is now complete and despite some delay this supplier achieved a significant ramp up in output in the final quarter of the year. We are now qualifying that same partner for the manufacture of hi-reliability fibre couplers and expect them to complete that to become a third source for the manufacture of this growing product line in the coming financial year. We are looking at further opportunities to outsource several other established products in the future.

We have continued to invest in our technology roadmaps and are working closely with many of our customers on their next generation products. New products contributed £17.9m of revenue in FY2022 (FY2021: £18.1m).

The Group took deliberate steps to invest in higher levels of inventory as a risk reduction exercise given the difficult supply chain environment we continue to face and we expect these safety stock levels to be maintained during the coming financial year. Consequently, the Group's net debt increased to £12.8m, excluding lease liabilities, or £19.1m when lease liabilities are added. Our leverage as measured for our banking covenant stands at just 0.7x, which places G&H in a strong position to pursue our strategic goals.

Strategic Goals

The Group's medium-term strategic goal of diversifying into the A&D and Life Science markets has demonstrated considerable success over the past few years with around half of the Group's revenues now coming from those two markets, counter-balancing our exposure to the more cyclical segments of certain parts of the Industrial market. Those two markets also have specific regulatory and compliance barriers to entry that make them attractive to G&H.

We use our research and development resources to help us secure a greater proportion of our business from sub-assemblies and systems. In order to do so, we are increasingly focusing our engineering skills from across the Group to demonstrate our ability to develop more complex designs. For example, by combining the hardware and firmware capabilities of our optical systems design team in St Asaph with the electronics and software skills of our Ashford engineering team we are able to offer next generation multi-band sights incorporating laser range finding and advanced image overlay for use in next generation optical systems for military vehicles. Our continuing investment in state-of-the-art equipment to manufacture and coat precision optics means that we are able to offer our customers an expanded range of services and in turn we are being invited to tender for more complex, innovative optical assemblies by both existing and new customers.

Chief Executive Officer's Statement

We have and will continue to substantially improve our software, firmware, electronic and mechanical engineering capabilities. This was in large part initiated through the acquisition of Integrated Technologies Limited ("ITL") and its facility in Ashford, Kent has provided a platform for the creation of a systems engineering hub.

Moving up the value chain through greater vertical integration by expanding our modules, subsystems and full photonics solutions offering represents a significant opportunity for the Group. We will continue to substantially improve our software, firmware, electronic and mechanical engineering capabilities through our innovation hubs.

Nevertheless, I intend to undertake a review of the Group's strategy over the coming months to ensure that the business is focused in the right product development areas and aligned to customer-led growth drivers. I also intend to review investment levels to assess this is at the level required to develop higher margin product lines in a timely manner to support the business' growth aspirations.

Our Operations

The Group has continued to record low levels of lost time accidents and below the average for our sector. Across all our sites we remain focused on ensuring that G&H is a safe, engaging, diverse and inclusive place to work.

During the year, we have operated in very competitive labour markets working hard to both retain and, where required, add to our production teams. For much of the year we found that our recruitment activities were only sufficient to replace attrition but in the second half of the financial year we started to achieve net increases in our production team strength. We have further roles to fill to meet required output levels and have hired specialist in-house recruiters to help us expedite this critical task.

During the year, John Andzulis joined the business as our new Chief Operating Officer. John has a wealth of industry knowledge having held senior operational leadership roles for Ametek, Novanta, Thermo Fisher Scientific and Rochester Precision Optics. Under John's leadership, our Operations team have been focused on establishing the operational capabilities needed to improve our on-time delivery performance, drive continuous improvement activities to increase efficiency and achieve the growth in overall capacity required to enable us to deliver our record order book and meet future growth requirements.

We have invested to help ensure our Asian contract manufacturing partner executes on the growing volumes we are transferring to them. We currently have four team members permanently located at their facility assisting them with new product qualification, scheduling the output of our products being manufactured there and the quality of the product delivered on our behalf to customers. We have also added to our team of supplier quality engineers who are charged with executing upon a risk-based audit programme of our supply chain which over time will help to reduce supply chain risks across our portfolio.

Research and Development (R&D)

G&H continues to work closely within the photonics ecosystem and with a number of key partners to develop their next generation products. During FY2022, we introduced 54 new products and delivered £17.9m of revenue.

Some of our principal areas of new business opportunities are:

- Leading photonic components and modules for extreme ultra-violet (EUV) lithography equipment in semiconductor fabrication and other advanced microelectronics processing.
- Fibre-optic modules and sub-systems for lidar sensing in wind energy.
- Fibre-optic and opto-mechanical sub-systems for next-generation space to ground satellite communication.
- Biomedical imaging systems for cancer and cardiovascular disease detection.
- Photonics system solutions for ophthalmology scanning equipment.
- Optical components for gimbals in UAV military platforms.
- Multi-band periscopes and sighting systems for armoured vehicles.

Chief Executive Officer's Statement

Corporate Responsibility

The Board is accountable to its shareholders and is committed to the highest standards of corporate governance. To this end the Group has adopted the UK Corporate Governance Code (2018). In order to ensure the Group is meeting the most up to date standards, regular reviews of policy are held by the relevant committees of the Board of Directors. During the year the Board undertook a self-assessment to identify opportunities for improvement and incorporate a greater focus on ESG.

G&H is committed to creating a safe, engaging, diverse and inclusive place to work for the Group's employees and all stakeholders. We continue to establish a culture that proactively works towards reducing harm and promotes equality, diversity and inclusion across the Group. The Group remains focused on providing equal employment opportunities for all and aims to improve diversity at all levels of the organisation. Our recruitment partners have been instructed to ensure that they include female candidates in all shortlist applications and we are actively engaged with encouraging International Women in Engineering. We are currently recruiting for a new non-executive director from a female only short list.

G&H is committed to conducting our business in an environmentally responsible and sustainable manner. With the appointment of our new non-executive director we intend to establish an ESG subcommittee of the Board responsible for monitoring the Group's achievement against its ESG targets. We are investing in order to generate our electricity in a sustainable manner and to reduce our overall energy usage. Each of our sites has an energy reduction plan that it is working to. In the year we reduced our scope 1 and 2 carbon emissions by 27.2%, a major step forward in achieving our target of being net neutral on this measure by 2035. The executive directors and senior leadership team now have specific environmental management and carbon reduction goals in their remuneration schemes.

Outlook

The demand fundamentals across all three of our primary markets in FY2022 was strong and this has continued into the start of the new financial year.

In A&D we secured significant new programme wins and we can see that the conflict in Ukraine has reinforced the continuing importance of armoured systems in modern warfare. We are starting to receive opportunities from programmes that will replenish equipment provided to Ukraine.

In Life Sciences our medical diagnostics business was broadly flat as volumes on elective surgery treatments and cancer care products compensated for declines in ventilator systems which had benefited from the pandemic. In the medical laser market demand was strong for our components used in aesthetic procedures responding to significantly growing demand, especially from Asia.

We saw a sustained recovery in the demand for specialist industrial lasers, as new technologies to support the 5G infrastructure and Internet of Things applications continue to expand, along with the greater use of new more flexible materials in microelectronic manufacturing and strong worldwide requirements for advanced semiconductors continue to drive growth.

Strategic geopolitical tensions between East and West has accelerated the selective re-shoring of strategically important capabilities such as semiconductor production which in turn is fuelling the demand for the fit out of new hi-tech semiconductor factories. We expect this demand driver to remain in place through the medium-term providing G&H with further growth opportunities as well as offering some offset should end consumer demand in the more traditional industrial equipment market start to soften.


These factors all contributed to the Group's order book rising to a record level of £147.7m at the end of the year, an increase of 35.3% on a constant currency basis. Despite the strength of the order book which remains well above historic levels across the business and provides excellent visibility for 2023, we still face some significant operational headwinds in the near term. The labour markets in both the UK and US remain highly competitive leading to ongoing supply side challenges that continue to frustrate the recruitment of the required talent, especially in certain technical positions.

Chief Executive Officer's Statement

Whilst price increases have been passed onto customers in FY2022 to address the input cost increases, cost inflation continues to impact the business. Due to the nature of the ongoing inflation dynamics there is some lag in recovery and prices need to be under constant review to recover these costs.

While mindful of the uncertain macroeconomic and geopolitical landscape, G&H remains well positioned for growth with a robust pipeline across all our end markets. We anticipate higher production in 2023 and a refocus on pricing to offset inflation as we convert our record order book. The business will invest to ensure G&H can capitalise on the accelerating deployment of photonics technologies into continuously expanding areas of the Industrial, Life Sciences and A&D markets underpinning the future growth potential of the Group. As a result, in FY2023 we are targeting growth in revenues and adjusted PBT, though at a lower level than previously assumed.

I am confident we will generate growth in our financial and operational performance in 2023 as we re-establish the foundations and direction to progress to become a resilient and agile higher margin business over the coming years.



Charlie Peppiatt
Chief Executive Officer
6 December 2022

Our Strategy

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

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

Focused R&D Investment

Priorities

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

Progress

- Spend on R&D totalled £9.2m.
- Revenue from new products totalled £17.9m and there were 54 new products released to the market.
- Acousto-optic: New materials and designs (α -BBO, GaAs, sapphire, Ge AOM) for micro/macro-machining.
- Electro-optic: New materials to access more wavelengths (e.g. MIR) and apps (heat signature tracking, autonomous bots).
- Fibre optic: Prototypes of high power amplifiers for space communications, higher contrast ratio fibre Q switches, miniaturising fibre optics for A&D, new devices for high-spec OCT.
- Precision optic systems: Multi-band and single aperture systems for turrets and vehicles, low SWAP, more complex designs.
- Precision optics: new coated large mirror and window assemblies for directed energy systems, new faster focused optical assemblies.
- Life Sciences: more point of care, user interface and apps development, AI, machine learning, cyber security of patient data.

Link to KPIs

- Adjusted operating profit margin
- R&D investment

Future Priorities

- We will continue to invest in delivering a pipeline of new products and capabilities for high growth segments in the sensing, semiconductor, A&D and life sciences markets.
- Our key R&D projects will result in new products in the following areas being released to the market in the coming two years:
 - High-volume and industrialised Germanium acousto-optic modulators for use in semiconductor fabrication and advanced microelectronics processing.
 - UV optics and acousto-optic deflectors for laser tools in semiconductor manufacturing
 - Leading photonic components and modules for extreme ultra-violet (EUV) lithography lasers in semiconductor fabrication.
 - Fibre-optic modules and sub-systems for fiber sensing in wind turbines and infrastructure asset protection.
 - Fibre-optic and opto-mechanical sub-systems for next-generation space to ground satellite communication.
 - Biomedical imaging sub-systems for cancer and cardiovascular disease detection.
 - Visible and IR optical systems for imaging and communication in UAV and satellites.
 - Optical components for gimbals in military aerospace platforms.
 - Multi-band periscopes and sighting systems for armoured vehicles.
- We are expanding our Life Science R&D group to work on a range of novel analytics and diagnostics systems.

Our Strategy

Operational Excellence

Priorities

- We have state of the art manufacturing facilities located in the UK, the USA and China.
- We deliver robust and reliable products to our customers frequently to the most demanding quality standards. This is supported where appropriate by strategic long-term relationships with our third-party suppliers.
- Our capital allocation policy ensures we invest to equip our facilities with the latest capabilities to secure new business and enhance our margins.

Progress

- After a very challenging first half of the financial year we are being successful in recruiting additional staff for our production facilities to service increasing demand.
- Our Asian contract manufacturing partner has ramped up to volume production of the acousto-optic products transferred to them and is well advanced on its qualification programme to build high reliability fibre couplers.
- We have completed an expanded programme of supply quality inspection using our team of supply quality engineers. We have four G&H staff permanently located at our contract manufacturing partner's premises.
- All three of our UK factories are now generating clean energy from their roof based solar panels. The electricity they still need to purchase all comes from renewable sources.
- Under the leadership of our newly appointed Chief Operating Officer we are putting increased focus on the daily progress of product build through our factories to ensure any bottlenecks and delays are immediately dealt with.

Link to KPIs

- Organic revenue growth
- Adjusted operating profit margin
- Adjusted operating cash flow
- Safety performance
- CO2 equivalent (tonnes)

Future Priorities

- We will complete the staff recruitment and asset investments needed to support the further ramp in production capacity required to satisfy the record order book of the business.
- We will transition our Asian contract manufacturing partner to volume production of our high reliability fibre couplers in FY2023 establishing a new low-cost supply source.
- We will assess our more mature products for potential outsource to our contract manufacturing partner to both reduce the cost of manufacture and to release capacity within our own in-house production teams.
- We will seek new suppliers to act as a second source where we currently have sole source dependencies, to reduce the risk in our supply chain.
- We will execute on the energy reduction action plans we have put in place in each of our sites.

Our Strategy

Value Enhancing Acquisitions

Priorities

- G&H uses targeted, complementary acquisitions to accelerate our strategy through accessing new adjacent markets and combining products of acquired businesses with those of our existing Group to offer our customers a larger range of subassemblies and systems.
- We create value by realising synergies in the areas of complementary technologies, customer access, operational and supply chain leverage and the application of best practice business processes.

Progress

- We have utilised the electronics and system level skills of our ITL engineering team to assist in development activities on some of our A&D programmes.
- Our ITL team have identified opportunities for the greater cross sell of optics and medical laser products into some of the medical diagnostic instruments to provide high value offerings to our customers.
- We refreshed our acquisition pipeline and were active in discussions with a number of companies in the year that we felt would be good additions to the G&H Group but were unable to reach price agreement with them. We remain in close contact with them.
- We have established a network of third-party advisors that notify us of potential acquisitions that match our acquisition criteria.
- The financial strength of the Group means that it remains well placed to quickly execute on opportunities as they arise.

Link to KPIs

- Adjusted operating profit margin
- Adjusted operating cash flow

Future Priorities

- We will look to generate value creation opportunities, both from revenue and operational cost base synergies.
- We will continue the further development and execution of our acquisition pipeline.
- We will work with sell-side advisors to ensure we are kept informed of acquisition opportunities that may be a match to our acquisition criteria.

Operations Review

Industrial

Revenue	£64.6m (2021: £55.6m)
Adjusted Operating Profit	£8.4m (2021: £7.1m)
Operating Profit	£7.3m (2021: £4.5m)
Percentage of Revenue	51.7% (2021: 44.8%)

Market Drivers

- National security considerations driving in-country investment in semiconductor and other electronics manufacturing facilities.
- New more flexible materials in microelectronic manufacturing.
- Next generation products such as EUV lithography lasers for nanoelectronics and new design germanium modulators.
- Increasing investment in continental connectivity of data centres to satisfy growing internet use.
- Greater use of our hi-reliability fibre optic technology in space satellites.
- Increased investment in wind farms and border and infrastructure asset protection, both using a version of our 'laser engine' sensing technology.

Performance

Overall, sales of products into our Industrial markets grew by 16.2% (10.5% excluding foreign exchange) compared to the prior year. We saw further growth in our Industrial laser and semiconductor revenues thanks to the continuing investment in additional semiconductor facilities, partially driven by growing concerns about dependence upon supply from some Asian sources. The roll out of new technologies such as 5G, along with greater use of new materials in microelectronic manufacturing, continue to provide underpinning demand. Demand for our recently developed germanium acousto-optic modulator product is very strong. Having completed all development activities on this product we are now focused on ramping our build capacity. The outsourcing of 'runner' AO Q-switch production to our South East Asian manufacturing partner has proven successful with them significantly increasing their output in the final quarter of the financial year. This is enabling us to more effectively compete in the increasingly price sensitive Asian Q-switch market. We are now in the process of outsourcing some fibre optic products to supplement the acousto-optic product already transferred.

Revenue from our sensing markets declined marginally during the year as a result of the status of the end customer programmes. Nevertheless, the underlying trend remains in our favour with photonics sensing products increasingly seen as the way to protect and improve the efficiency of infrastructure assets. For example, G&H products are used extensively to improve the performance of wind turbines used for clean energy generation and the focus on switching to energy created from renewable sources provides G&H with sustainable underpinning demand for its products in this area. We expect the increased deployment of wind turbines in the US to generate clean energy to act as the next significant growth driver for our sensing modules used in this application. In early FY2023 we have received further significant orders for our sensing modules used in infrastructure protection and this provides good early visibility to support the expected revenue growth in this area in FY2023.

Volumes for our hi-reliability fibre couplers used in undersea cable networks remained at the raised level seen in FY2021. There is strong demand due to a sustained market drive for the transmission of more and more data for both business and personal consumption and the greater use of the same technology in space satellites. Our strong customer relationship with the principal fibre laying companies mean that we are well placed to maintain or increase our share of a growing market and the technology demonstration completed with NEC/JAXA established our credibility as a supplier of modules for laser-based space communication systems.

Operations Review

Applications

- **Industrial lasers** for materials processing applications. G&H supplies Q-switches and other acousto-optic, electro-optic and fibre optic products.
- **Semiconductor** for lithography and test and measurement applications.
- **Metrology** for laser-based, high-precision, non-contact measurement systems.
- **Optical communications** specifically for high reliability and high-performance applications.
- **Remote sensing** for applications including asset protection, perimeter security, strain, temperature and pressure sensing.
- **Scientific research** the largest proportion being nuclear fusion research and energy – laser technology is being used to recreate the conditions found in the core of the sun.

Growth Strategy

- To work in collaboration with our customers to invest in R&D and process engineering in order to develop products that meet their most demanding needs.
- To bring to the market new products and to ensure that we remain at the cutting edge of technology in this important area. During FY2022 G&H introduced six new products in Industrials generating £7.9m of revenue. We have transitioned into production on a multi-year contract with a laser system company supplying the next generation of Extreme UV lithography lasers for production of atomic level nanoelectronics.
- To focus on niche markets that play to the strengths of G&H, principally those that demand high levels of quality and reliability, typically requiring technically challenging design and engineering input incorporating a range of our products. Those markets may require survivability in harsh environments.
- To expand into and develop new geographical markets offering high growth opportunities, through leveraging and expanding the Group's global sales organisation. During the year we added to our Asian sales team so as to be able to exploit the growing market demand we see in that region.
- To continue to focus our energies and investment on making the transition from a components supplier to a manufacturer of subassemblies, instruments and systems, where appropriate.
- To maintain the strong relationships we have with our customers' development teams to ensure we are their preferred choice for supporting them in developing their next generation products.

Operations Review

Aerospace & Defence

Revenue	£30.6m (2021: £41.1m)
Adjusted Operating (loss) / Profit	£(2.7m) (2021: £3.1m)
Operating (Loss) / Profit	£(3.4m) (2021: £0.6m)
Percentage of Revenue	24.5% (2021: 33.1%)

Market Drivers

- A&D is transitioning to photonic components and systems across a broad range of sub-sectors to secure size, weight, power and reliability benefits.
- IR optical arrays deliver targeting, range finding, navigation and surveillance capabilities for the growing UAV market.
- Similar capability combined with photonic sensor suites are now being used across a range of remotely controlled A&D systems for land, sea and air.
- Space satellite systems developed by G&H have the ability to be deployed across a range of standard satellite, constellation satellite and near space UAV systems.
- Optical systems used in armoured vehicles are being developed with additional digital capability.
- Directed energy systems require optical and laser expertise where G&H excel.

Performance

Our A&D revenues declined by 25.6% during FY2022, compared with the equivalent period last year, and 29.0% on a constant currency basis. In the prior year, we completed deliveries of optical sensor systems on several significant vehicles programmes and our new contract wins have not yet migrated to the volume production phase. However, our order book for our A&D business is strong, increasing 41.4% on a constant currency basis during FY2022. We have secured a significant position on the UK MoD's Challenger upgrade programme as well as important new programme wins for our Boston business.

We are also opening new customer positions for our gimballed optical arrays from our Keene, NH business in both Europe and Asia. At the same time the Ukraine conflict is driving an increase in quoting activity as European nations look to replenish military vehicle stocks being supplied to the Ukrainian armed forces.

After recording significant programme revenues in FY2021 on the NEC/JAXA laser-based communication programme, work has continued with that customer but at a lower level. The focus with that customer is now on high power optical amplifiers. We are also working with another partner on amplifiers for laser transmitters/receivers that would be integrated in to unmanned aerial vehicles (UAVs) providing optical communications both with other UAVs and with the ground. Whilst these projects are currently still at prototyping stage we are positioning ourselves strongly with a number of customer primes in a market space that is expected to develop significantly in the coming few years.

Our teams are also closely engaged on the development of Directed Energy Systems with a number of prime contractor customers. G&H's expertise in coating the large optics that are positioned at the heart of these systems means that we are well positioned to secure recurring production revenues once development activities are complete.

In the commercial aerospace market we have seen some recovery in volumes following the lows of FY2020 and FY2021. We believe as we increase our capacity at our Moorpark, CA facility we will be able to secure a larger share of the available market.

Operations Review

Applications

- **Target designation and range finding** used on both land-based and airborne systems.
- **Guidance and navigation** components for ring laser gyroscope and fibre optic gyroscope inertial navigation systems.
- **Countermeasures** for ground-based systems and airborne platforms.
- **Space photonics** G&H is leveraging its heritage of ultra-high reliability components for space applications in order to address the growing market for laser-based space communications.
- **Periscopes and sighting systems** for land based armoured fighting vehicles.
- **Opto-mechanical subsystems** for unmanned aerial and ground vehicles.
- **Directed Energy systems** for military platform and infrastructure defence applications.

Growth Strategy

- To continue to invest to move up the value chain from being a components supplier to a subsystems provider. Our customers are changing their business models and are looking for further outsourcing opportunities to companies such as G&H that are capable of providing broader solutions.
- Further upgrading of our manufacturing processes and engineering in order to meet the needs of our customers. The continued investments made in new surface polishing and coating equipment for our Precision Optics centres are evidence of our intent to secure further market share in this sector.
- To introduce a greater number of new products, including products which look to fill a market need, in a managed and cost-effective way, as well as take on projects with a high technical content initiated by our customers. During FY2022 G&H introduced thirty-nine new products and generated £6.3m of revenue from new products that addressed the A&D market including space satellite laser-based communication systems, new sighting systems and IR lens assemblies for UAVs.

Operations Review

Life Sciences/Biophotonics

Revenue	£29.7m (2021: £27.4m)
Adjusted Operating Profit	£4.0m (2021: £4.2m)
Operating Profit	£3.7m (2021: £3.5m)
Percentage of Revenue	23.8% (2021: 22.1%)

Market Drivers

- Strong growth in laser enabled aesthetic procedures especially from Asia.
- A larger, more affluent worldwide middle class influenced by social media and eager to access cosmetic and aesthetic procedures.
- A strong, government driven programme within China to develop an indigenous life sciences sector, reducing its dependency upon Western equipment and technologies.
- A growing aging population demanding a shift towards early diagnosis rather than later, more serious treatment of undetected conditions.
- More point of care and personalised medicine drives demand for volume diagnostic products.
- New applications for optical coherence technologies.

Performance

Our Life Sciences/Biophotonics revenue grew by 8.2% in the year to 30 September 2022, compared with the prior year. When measured at constant currency this represents growth of 5.3%. Medical diagnostic demand remained broadly flat compared to the levels seen in FY2021 with new customer programmes compensating for a reduction in volumes of the product designed to improve respiratory function as part of a ventilator system which had benefited particularly from the pandemic.

Our ITL business which serves this medical diagnostic market secured important new orders from customers seeking our expertise to productionise medical diagnostic product concepts. In line with our established business model, we expect a number of these programmes to migrate to recurring production revenues once the initial work to develop producible product has been completed. We have expanded the medical diagnostics R&D group to meet the demand and we are exploiting the electronic and mechanical engineering capability of the ITL team to support other development activities in G&H's A&D business sector.

Through ITL's small sister company in the US we are seeking to secure additional revenues from the large North American medical diagnostic market. We have recently opened a new larger facility for that team which will mean we can better serve incremental demand from ITL's North American customers who frequently prefer product made in the USA.

Demand for our specialist medical laser products, was very strong in the year both from our established US and European markets but also more significantly from Asia. Medical lasers using our components are able to provide new cosmetic procedures to patients, for example to significantly clear acne scarring. Volumes increased by just over 10% in the year, excluding foreign exchange and we project future strong growth in FY2023 in this area, supported by additional capacity that we are bringing on line in our Cleveland, OH facility.

Applications

- **Optical coherence tomography (OCT)** primarily used in retinal imaging for the diagnosis of glaucoma and macular degeneration, but also now used in the detection of cardiovascular disease and cancer diagnostics.
- **Laser surgery** used in a wide range of applications including prostate surgery, scar correction, cataract surgery, freckle, mole and tattoo removal as well as wrinkle reduction and teeth whitening.
- **Microscopy:** Modern, laser-based techniques are revolutionising the field of microscopy.
- **Medical diagnostic instruments:** G&H has a range of capabilities including full product development, design, manufacturing, certification and after sale service for the commercialisation of high-quality medical diagnostic, in vitro diagnostic (IVD) devices, precision analytical, electro-mechanical and laboratory instruments.

Operations Review

Growth Strategy

- To continue to invest in R&D projects in close collaboration with our customers, to develop the existing portfolio of products and to ensure that they remain competitive. During FY2022 G&H introduced nine new products and generated £3.7m of revenue from products that address its Life Sciences/Biophotonics market, especially in the medical instrumentation market.
- Where appropriate to sell the full range of our Life Sciences/Biophotonics products to a wider range of customers.
- To invest in new business development and engineering resources located in our ITL North American facility to secure a greater share of the large North American medical diagnostic market.
- To utilise our systems capability to present our breadth of technologies as part of subsystems or systems.
- To make strategic acquisitions that are synergistic and complementary to our existing Life Sciences/Biophotonics business, to help us build "critical mass" in this sector. G&H continues to seek acquisition opportunities and has the financial resources to execute on that strategy as it develops.

Financial Review

"Sustained investment is being made to satisfy record levels of demand from our customers."

"The Group's debt facilities have been extended to 2027 on favourable terms."

Overview of the Year

Despite strong levels of demand seen during the year across all three of our market segments, the Group encountered significant constraints in putting in place the capacity needed to deliver on this record order book, especially in the first half of the financial year. COVID absences continued to impact our facilities and there was further tightness in many areas of our supply chain which meant that we were frequently unable to deliver to our customers on time and in full. As a result, the Group was unable to offset from those areas of the business seeing significantly increasing orders the declines it experienced elsewhere from some programmes, especially in its A&D markets, coming to an end. Consequently, whilst revenues increased on the prior year by 0.6%, on a constant currency basis they declined by 3.7%.

In the second half of the financial year the actions put in place to increase capacity meant that revenue grew by 21.6% on a constant currency basis providing a solid platform for further revenue growth in FY2023.

We saw further growth from our Industrial markets and revenues from our Life Sciences products and services remained at the high levels seen in the previous financial year. In our A&D sector revenues declined compared to the prior year given the phasing of programme deliveries, especially our deliveries of sighting systems on to armoured vehicles programmes. However, the year saw the business secure some significant new programmes in this area most notably in connection with the MoD's Challenger upgrade programme.

Our order book stood at £147.7m at the end of the financial year and intake exceeded revenue by 20.5% in the second half of the year providing good visibility for future revenue growth.

The decline in A&D volumes combined with our continuing investment meant that the Group's adjusted profit before tax reduced to £8.1m (2021: £12.6m) representing a margin of 6.5% (2021: 10.2%). Adjusted profit before tax is a key alternative performance measure by which the Board evaluates the Group's performance as it better represents the underlying trading of the Group with restructuring costs and amortisation and impairment charges associated with acquired intangible assets excluded from this measure.

During the year we redefined the cash generating units (CGUs) to which the Group's goodwill and other assets are allocated and their recoverable amounts assessed by references to those CGUs' future forecast cashflows. This change arose as a result of the transition of our Operations team from a technology-based model to a regionally based model. Many of the Group's support functions also operate on a regional rather than capability-based model. The CGUs identified for the financial year were, therefore, our UK sites, our US sites and our ITL sites given the different nature of our ITL business from the remainder of the Group.

The non-underlying charges excluded from our adjusted profit before tax totalled £10.4m. The most significant item related to an impairment charge of £6.7m taken in respect of goodwill and acquired intangible asset balances held within our UK Cash Generating Unit. This was driven by an increase in the discount rate applied to future expected cashflows as a result of recent increases in both the costs of borrowing and the assessment of market risk. Had the discount rate applied remained the same as the prior year, no impairment charge would have been recorded. Further details of alternative performance measures are provided later in this review. After the impact of adjusting items the Group's full year statutory loss before tax was £2.3m compared with a profit of £4.7m in the prior year.

During the year we have taken steps to invest further amounts in our strategic safety stocks in order to better protect our production programmes from the pressures we are currently seeing in our global supply chains. Given the increased trading volumes in the final quarter of the financial year our receivable balance also increased compared to the prior year end and this has supported strong cash collections in the first period of trading of the new financial year. Whilst there was some offset from payables across the year, the Group invested a further £10.0m in working capital in the financial year (FY2021: reduction of £0.5m). Investment in our production facilities continued with total capital investments of £8.6m made in the year (FY2021: £6.2m). Our net debt excluding lease liabilities totalled £12.8m (2021: £2.6m) representing leverage of just 0.7x meaning we remain well placed from our debt facilities to fund our acquisition strategy. We expect the Group's net debt levels to reduce across FY2023.

Financial Review

Revenue

REVENUE				
	2022		2021	
Year ended 30 September	£'000	%	£'000	%
Industrial	64,553	51.7%	55,552	44.8%
A&D	30,553	24.5%	41,089	33.1%
Life Sciences/Biophotonics	29,696	23.8%	27,433	22.1%
Group Revenue	124,802	100.0%	124,074	100.0%

Revenue for the year totalled £124.8m. Revenues from our semiconductor and Industrial laser markets delivered further strong growth. Demand for hi-reliability fibre couplers also continued to grow. These were partly offset by minor reductions in revenues to our sensing markets, although recent programme wins mean we are well placed to grow our revenues in this market in the coming financial year.

Our Life Sciences/Biophotonics business delivered year-on-year growth of 8.2% (5.3% at constant currency). Our medical diagnostics business declined slightly as COVID driven demand for our respirator product declined. This was more than offset by strong demand for our products used in medical lasers especially for cosmetic applications.

In A&D significant optical system deliveries on several armoured vehicle programmes completed in the previous financial year whilst significant deliveries on our newly won programmes do not commence until the coming financial years. At the same time our work with NEC/JAXA on laser-based space communication technologies completed in 2021 and whilst we are now active in quoting in to new programmes that will build upon the technology that has now been proven as a result of that work revenues were not recurring in FY2022.

Operating Profit

Adjusted operating profit was £8.8m compared with £13.3m in the prior year. Gross margins declined by £2.3m. As noted above, the principal drivers of the reduction were the completion of deliveries in the prior year on a number of armoured vehicles programmes and the consequent decline in revenues in A&D in FY2022. The teams responsible for delivering these programmes which require significant engineering and contract management resource are retained in the business and have been instrumental in securing significant new contract wins in FY2022 that will deliver revenue in the coming trading periods.

In FY2021 we also completed our final work on the JAXA/NEC space communications programme. Whilst laser-based space communications is an important future growth market for G&H and we are involved in prospecting for future programmes with our retained engineering teams, revenues in this area declined in the period.

At the same time the investments we are making in our Precision Optics centre of excellence in Ilminster are continuing. This comprises further state of the art equipment enabling the site to secure more complex optical assembly work from our customers. The integration of product lines from the Glenrothes and St Asaph sites into our Ilminster facility and the consequent extension of lead times offered to customers mean that the fruits of this investment have not yet been seen in incremental revenue. However, the output of the Ilminster site is now increasing and we are confident that incremental business will follow as our offered lead times reduce.

The continuing investment in the business was also evident in our spend on research and development activities. This increased by £1m, or £0.7m on a constant currency basis. The majority of this increase was in our US A&D business where we see good further growth opportunities. The investment helped in securing a 58% increase in the order book of our Boston business. The Group's further investment in its productive capacity resulted in an increase in its total headcount from 869 at September 2021 to 901 at September 2022.

The Group's statutory operating loss was £1.6m (2021: profit £5.4m) after a charge for items excluded from adjusted operating profit of £10.4m (2021: £7.9m) including £1.2m (2021: £5.9m) in respect of the Group's manufacturing footprint consolidation programme, costs related to the CEO succession of £0.6m, and £8.6m in respect of the amortisation and impairment of intangible assets arising on business acquisitions (2021: £2.1m).

The Group recorded an impairment charge of £6.7m on the carrying value of its goodwill and other acquired intangible assets held in respect of its UK CGU. This was as a consequence of an increase in the Group's weighted average cost of capital which has been driven higher by increased costs of borrowing in the market.

Financial Review

A reconciliation between adjusted profit and statutory profit is shown below.

Alternative Performance Measures

Alternative performance measures are presented in these financial statements as management believe they provide investors with a means of evaluating the performance of the Group on a consistent basis. These alternative performance measures exclude the impact of non-underlying items on the Group's financial results. The Group's alternative performance measures and their reconciliation to IFRS measures are shown in the table below.

RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

	Operating (loss) / profit		Net finance costs		Profit before tax		Taxation		(Losses) / Earnings per share		Operating cash flow	
Year ended 30 September	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 pence	2021 pence	2022 £000	2021 £000
Reported	(1,557)	5,401	(717)	(721)	(2,274)	4,680	264	(1,276)	(8.0p)	13.6p	6,084	16,822
Amortisation of acquired intangible assets	1,903	2,081	-	-	1,903	2,081	(412)	(460)	6.0p	6.5p	-	-
Impairment of goodwill and intangible assets	6,726	-	-	-	6,726	-	(288)	-	25.7p	-	-	-
Restructuring and site closure	1,179	5,860	-	-	1,179	5,860	(235)	(1,151)	3.8p	18.8p	526	5,102
CEO succession	613	-	-	-	613	-	(87)	-	2.0p	-	-	-
Deferred tax on goodwill	-	-	-	-	-	-	(695)	-	(2.8p)	-	-	-
Tax charge arising from restatement of UK Deferred tax at 25%	-	-	-	-	-	-	127	519	0.5p	2.1p	-	-
Adjusted	8,864	13,342	(717)	(721)	8,147	12,621	(1,326)	(2,368)	27.2p	41.0p	6,610	21,924

Net Finance Costs

The net underlying interest expense was £0.7m (2021: £0.7m) reflecting similar levels of average borrowing between the two years.

Tax

The tax credit for the year was £0.3m (2021: charge £1.3m) with an underlying tax charge of £1.3m (2021: £2.4m) after excluding a credit on non-underlying items of £1.6m. This resulted in an underlying effective tax rate of 16.3% (2021: 18.8%). The reduction in the rate was largely due to the release of certain provisions held in respect of uncertain items in the prior year. The rate reflects a combination of the varying tax rates applicable throughout the countries in which the Group operates, principally the UK and the USA.

Earnings Per Share

Basic adjusted earnings per share reduced by 33.7% to 27.2p (2021: 41.0p), reflecting reduced trading volumes in the year. Basic earnings per share reduced to a loss of (8.0p) (2021: 13.6p gain). This reduction was due to the impairment charge recorded against some of the Group's goodwill balances as well as the reduced trading volumes.

Cash Generation

Cash flow generated from operating activities was £6.1m, down from £16.8m in the prior year. During the year the Group invested £10.0m in additional working capital. This included a further £5.6m of inventory to help protect the Group's production programmes from the current supply chain tightness and a further £4.4m in the net receivables/payable position reflecting the higher levels of trading in the final quarter of FY2022 compared to the same time last year. Cash flows for tangible and intangible fixed asset additions totalled £8.6m (2021: £6.2m). The Group continued to invest in production equipment as well as an upgrade to its ERP systems and a new Customer Relationship Management system to help with a more coordinated approach to our engagement with customers.

Financial Review

across our global sales team. The payment of dividends in the year totalled £3.1m. The investment in working capital levels together with the further additions to the Group's business systems and production equipment meant drawings against the Group's debt facility increased by \$6.4m to \$21.3m and the Group closed the year with net debt of £19.1m (2021: £9.2m), or £12.8m (2021: £2.6m) when lease liabilities are excluded.

Balance Sheet

The Group's total equity at the end of the year was £118.5m, an increase of £4.3m over the prior year. This comprised a decrease of £5.1m from retained earnings, a £0.7m increase to reserves in relation to share schemes and a net increase of £8.6m arising from foreign exchange and hedging movements.

During the year, additions to property, plant and equipment amounted to £6.7m (2021: £5.4m) and to intangible assets £1.9m (2021: £0.8m).

Dividend Policy

The Board has a progressive dividend policy. In determining the level of dividend, the Board considers not only the adjusted earnings cover, but also looks to the future expected underlying growth of the business and its capital and other investment requirements. The Group's balance sheet position and its expected future cash generation are also considered. The Board also takes in to consideration the Group's Principal Risks, which are set out on pages 44 to 45. The Group's ability to pay a dividend is impacted by the distributable reserves available in the parent Company, which operates as a holding company, primarily deriving its net income from dividends paid by its subsidiary companies. At 30 September 2022, Gooch & Housego PLC had sufficient distributable reserves to pay dividends for the foreseeable future. The parent Company Balance Sheet is set out on page 120.

Given the strength of the Group's order book and the positive outlook for the forthcoming trading period the Board is proposing a final dividend of 7.9 pence per share (FY2021: 7.7p), giving a total of 12.6 pence per share (FY2021: 12.2p) for the year when combined with the 4.7 pence per share paid as an interim dividend in July 2022 (FY2021: 4.5p).

Funding and Liquidity

The Group's operations are funded through a combination of retained profits, equity and borrowings. Borrowings are raised at Group-level from the Group's banking partner and lent to the subsidiaries. At 30 September 2022, the Group had available undrawn committed and uncommitted facilities of \$48.7m. The Group's borrowings are in the form of a US\$ denominated Revolving Credit Facility (RCF). The RCF matures in March 2027. A further summary of the Group's borrowings and maturities are set out in note 23 of the Group Financial Statements.

The Group's leverage is expressed in terms of its net debt/adjusted EBITDA ratio. Under the Group's credit facility, the figure for net debt used in this ratio excludes IFRS 16 lease liabilities and other IFRS 16 impacts. The Group's main financial covenants in its bank facilities states that net debt must be below 2.5 times adjusted EBITDA, and adjusted EBITDA is required to cover interest charges, excluding interest on pension schemes, by at least 4.5 times. At 30 September 2022 net debt/adjusted EBITDA was 0.7 times (30 September 2021: 0.1). Interest cover at 30 September 2022 was 24.6 times (30 September 2021: 34.2 times).

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

Financial Review

Financial Risk Management

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

Foreign Currency

The Group's policy is to reduce or eliminate, whenever practical foreign currency transaction risk. The principal currency exposure is the USD. The Group hedges expected foreign currency cash flows wherever possible. Further details of the Group's foreign exchange risk management are set out in note 29 of the Group Financial Statements.

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

	2022	2021
Income Statement	Average rate	
USD/GBP	1.28	1.37
Euro/GBP	1.18	1.15
Balance Sheet	Closing rate	
USD/GBP	1.12	1.35
Euro/GBP	1.14	1.16

The Group's revenue is more sensitive to exchange rate movements than its profit. A one cent change in the average Dollar exchange rate would have a £0.7m effect on revenue but less than £0.1m effect on profit. The Group's results are not significantly affected by movements in the Euro exchange rate.

ESG Report

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

Environment

We want to support the journey to addressing climate change and we are working hard to mitigate our own impact on the environment.

G&H is proud that many of our products are supporting the cleaner, more efficient generation and use of energy across a range of applications. We are also working to ensure the environmental impact of our own sites and manufacturing processes are reduced as much as possible. Our investments in solar panels and voltage optimisation systems are already lowering our greenhouse gas emissions and in the UK all of our purchased electricity now comes from clean, renewable sources. Our Executive management team have developed a plan with the objective of delivering annual reductions in the energy used by the Group and therefore its carbon equivalent emissions and are pleased to report that we are targeting net zero Scope 1 & 2 emissions by 2035.

We continue to maintain links with other companies within our sector and seek to learn from them regarding initiatives to reduce energy consumption. We continue to use the structure of ISO 50001 – energy management systems - to help us identify where the greatest reductions in energy use can be achieved. We are also making good progress at our Ilminster and Torquay sites in implementing the requirement of ISO14001 – Environmental Management and expect those two sites to receive full accreditation in FY2023.

The COVID pandemic had the effect of permanently changing some of our ways of working and many of these complement our drive to reduce our impact on the environment. A more flexible approach to home working and the greater use of video conferencing to keep our teams connected while working remotely all contribute in helping to reduce our impact on the environment.

Our Health & Safety function which is responsible for the coordination of our actions in the area of environmental management now has additional resource to support a consistent approach to the roll out of our Health, Safety and Environmental policies across the Group and prepare the business for the wider deployment of ISO 14001 – Environmental Management - in the coming year. In FY2023 we are also starting to record our monthly waste metrics and from that data formulate a reduction plan at each of our sites. The focus on standardisation includes monthly data analysis and reporting, quarterly reviews with the Group's senior executives and by All Hands briefing sessions. Environmental matters also represent a standing topic area in our quarterly internal newsletter – G&H Informed.

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

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

Specifically, we have invested to reduce our emissions as follows:

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

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

ESG Report

During FY2022 we conducted internal energy audits at each of our sites. These audits resulted in a series of actions whereby the site will not only reduce its energy usage over time but also reduce its impact on the environment in the near term through the following:

- LED lighting where not already installed.
- Alternative forms of heating.
- The introduction of heat recovery from manufacturing equipment.
- Installing battery systems to harness excess energy generated from our Solar PV systems.
- Upgrade to equipment with improved energy efficiency.

The sites progress on these energy reduction actions is reviewed by the executive management team quarterly and is supported where required with financial investment, for example in LED lighting where not already installed. We are also reducing our impact on the environment through our recycling programmes including:

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

ESG Report

Energy Use and Carbon Dioxide Emissions

In reporting our carbon dioxide emissions, we have followed the HM Government Environmental Reporting Guidelines. We have also followed the Greenhouse Gas (GHG) Reporting Protocol and the Streamlined Energy and Carbon Reporting (SECR) guidelines. 2021 Conversion factors have been used for October 2021 to May 2022 inclusively, and 2022 Conversion factors used for June 2022 to September 2022 inclusively. In the US eGrid 2019 Conversion factors have been used for October 2021 to January 2022 inclusively, and eGrid 2020 Conversion factors used for February 2022 to September 2022 inclusively.

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

	Current reporting year FY 2022			Comparison reporting year FY 2021		
	United Kingdom	Rest of World	Total	United Kingdom	Rest of World	Total
Emissions from activities which the Group own or control including combustion of fuel and operation of facilities (Scope 1)/tCO ₂ e	161	269	430	254	362	616
Emissions from electricity, heat, steam and cooling purchase for own use (Scope 2)/tCO ₂ e	-	3,511	3,511	1,090	3,708	4,798
Total gross Scope 1 and Scope 2 emissions/tCO ₂ e	161	3,780	3,941	1,344	4,070	5,414
Energy consumption used to calculate above emissions:/MWh	5,126	11,940	17,066	5,468	10,977	16,445
Tonnes of carbon dioxide equivalent per £1 million of revenue	2.8	55.7	31.6	20.4	70.0	43.6

Scope	Reported
Scope 1 - direct GHG emissions Includes emissions from activities owned or controlled by G&H that release emissions into the atmosphere. Examples include emissions from combustion in owned or controlled boilers, vehicles.	Report includes: <ul style="list-style-type: none"> Emissions from combustion of gas and fuel for transport purposes.
Scope 2 – energy indirect emissions Includes emissions from G&H's own consumption of purchased electricity, steam, heat and cooling. These are a consequence of the Group's activities but are from sources not owned/controlled.	Report includes: <ul style="list-style-type: none"> Emissions from purchased electricity.

The Group achieved a 27.5% reduction in its intensity measure of tCO₂ emissions per £1m of revenue. The installation of solar panels on the roofs of our Ilminster and Ashford facilities together with the transition of all of our UK sites to purchase their remaining electricity needs from renewable sources were the principal reasons for the reduction.

Whilst it is not fully reflected in the emissions data shown above, we have also made significant progress in increasing the proportion of the Group's electricity that is purchased from renewable sources. At the beginning of the financial year 43% of our purchased electricity came from renewable sources but by the end of the financial year that had increased to 63%.

ESG Report

Task Force on Climate-related Financial Disclosures

We have made significant progress during the financial year in implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in each of the four thematic areas of governance, strategy, risk management and targets and metrics. We find the TCFD framework provides helpful structure in supporting the Group's integration of climate-related considerations into our business considerations and enabling our external communication of how we are managing identified risks and taking advantage of climate related opportunities.

Governance

The Board has ultimate accountability for climate-related issues. It formally reviews climate and environmental risks and opportunities as part of its Group Risk Review meetings. Climate-related opportunities are also formally discussed by the Board as part of its review of the Group's strategic planning process.

An update on key environmental and sustainability metrics is provided at each Board meeting and in depth reviews are undertaken on at least an annual basis.

Oversight of and decision-making on our environmental strategy, including addressing risk and identifying Group opportunities is provided through our regular, scheduled Executive Management Team meetings which are chaired by our CEO.

From 2023 the Executive Directors' short term and long-term incentive programmes will include measures related to progress on the Group's ESG agenda, including climate related measures.

Strategy

At G&H we recognise sustainability, climate change and the environment as a principal risk for the Group in reputation terms in the event that we fail to appropriately manage the environmental impact of our operations and our products and relationships with our stakeholders deteriorate as a result (see Principal Risks & Uncertainties on page 43).

We believe our strategy is resilient to the impact of climate change. G&H products contribute to a more sustainable world. Our business model and key photonic capabilities with the size, weight and power advantages they bring position us to benefit from the opportunities presented by the global transition to a low-carbon economy.

During FY2023 we intend to undertake a more detailed assessment of both physical (climatic impact of higher average temperatures of 2 degree C warming on our physical operations) and transition (changes in technology, markets, policy, regulation, and consumer sentiment resulting from the transition to a low-carbon economy) risks to our business model.

Risk Management

As part of our overall governance and risk management processes climate-related risks are identified, assessed and managed.

Our risk assessment, including those related to climate-related matters, is informed by bottom-up assessments made at a site and global function level.

ESG Report

Targets and metrics

The Group reports and discloses its Scope 1 and 2 GHG emissions as a KPI and has done so since 2021 (see page 11).

The Group has set a target to achieve Net Zero Scope 1 and 2 emissions by 2035 and will invest appropriately to achieve it.

Each of our sites has prepared an environmental action plan with deliverables aligned with the Group's overall environmental strategy and support the achievement of our objective to be Net Zero on Scope 1 and 2 emissions by 2035.

Social

Engaging with our People

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

We work hard to ensure our employees feel connected to and engaged with the over-arching vision of the Group which is "A Better World with Photonics". We strongly believe that photonics products have a central role to play in building a more sustainable, healthier world and our business is at the heart of that transformation.

During the year we have reviewed and refreshed the Values that we believe are core to enabling us to succeed in our mission of delivering world class engineering and manufacturing solutions. Those Values are:

- Customer Focus – delivering excellence to our customers both internal and external.
- Integrity – we do the right thing. Hard on the issue, fair on the person and kind to the planet.
- Action – understanding that 'it is what we do that makes a difference'. Demonstrating self-motivation, initiative and determination to achieve this.
- Unity – working together across teams and sites, in the spirit of collaboration towards a common purpose.
- Precision – in our engineering and our commitment to excellence and continuous improvement.

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

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

We recognise it is essential to keep our people informed on business developments and on the factors affecting the Group. We do this through regular briefings, including "all-hands" site meetings as well as internal announcements: Charlie Peppiatt has visited all of the Group's principal locations in his first four weeks with G&H and held face to face meetings with the site teams. Work councils or employee consultation groups, comprised of management and elected employee representatives now operate at all of the G&H UK sites where the management can listen to representatives' views and take them into account when making decisions.

Jim Haynes has been appointed as G&H's non-executive director with responsibility for the Board's engagement with the workforce. During FY2022, he met with HR representatives at a number of sites, and now acts as a conduit for employees to raise matters directly with a Board member if they wish to do so.

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

We also publish a series of thought leadership articles – "G&H Insight" - which offer insight and opinion on emerging trends, our markets and the future of the photonics industry and showing how we are truly changing the world with photonics. These are published on the Group's website and are also made available to our people to help them feel proud to be part of G&H.

ESG Report

Developing our People

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

As part of our continuous improvement strategy all G&H UK sites have introduced a new on-boarding programme to provide additional support structures during an employee's first six months with the business. This programme is being implemented across our US sites in FY2023.

The Group operates an online performance management and appraisal system which provides opportunity for individual discussions on training needs and career planning. This year the system has been updated and relaunched with our managers receiving further training on the setting of SMART objectives and how to complete an effective staff appraisal. The Group also operates a talent management and succession planning process which has now been updated and incorporated into our online appraisal system and from which the Executive Management Team formulate action plans, and review progress. The Board also reviews this process annually ensuring that effective plans are in place.

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

Ensuring the Well-being of our People

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

We have a range of well-developed operating policies and procedures in place. These include executive leadership quarterly reviews in the US and UK, which incorporate key performance indicators and mitigating action plans where necessary. This includes a recent initiative to increase the reporting of "near misses" so that corrective action can be put in place to prevent future work place accidents occurring. Our health and safety data which we benchmark with other firms in our industry sectors confirms improving trends and best in class performance levels.

We understand the value of supporting employees through mental health challenges. We have trained in-house mental health first aiders and have continued our active partnering with the mental health charity MIND.

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

In the UK we have launched a new health cash plan for our employees which provides financial reimbursement for costs associated with everyday healthcare and well-being solutions. This supplements the existing US health insurance schemes which G&H provides to its employees.

In a very competitive labour market we have tried hard to offer flexible working arrangements wherever possible as a means of attracting talent to the Group. Consequently, for many of our business support roles we offer a hybrid work from home/office policy where employees can choose how they do their jobs in a way that works best for them. Within that more flexible framework we do however believe in the importance of employees continuing to have regular on-site attendance in order to enable effective team-working and develop working relationships.

We value long term employment with the Group and have operated a long-service recognition scheme across the Group for several years. This is in addition to our employee recognition scheme which rewards employees for significant contribution to the business.

The average length of service across the Group is 8.3 years, compared to 7.9 last year.

The loss of key personnel is identified by the Board as a risk within its ongoing Business Risk Assessment process. Voluntary labour turnover was 10% across the Group in FY2022, compared to 12% in the prior year.

ESG Report

Promoting Equality and Diversity

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

Diversity is embraced at G&H. We seek to recruit, hire, develop and retain the best talent. Our employees have diverse backgrounds, skills, and ideas that collectively contribute to our success. The Group operates to national standards of diversity in employment, including an Affirmative Action Program (AAP) in the United States which is designed to attract, retain and develop a diverse pool of talent. Through the implementation of enhanced family-friendly policies, including flexible working policies we are enhancing our employment offering to our people. Our early year career Apprenticeship (UK) and Internship (US) programmes have been successful in drawing more talent in to the Group.

As part of our talent and succession planning process, the Board and Executive management team monitor the representation of women and ethnic minorities at different levels and across different functions within our "talent pools". In support of this objective, recruitment partners are instructed to include female candidates in all shortlist submissions. This will improve the representation of women at all levels, notably in leadership positions that (excluding the Directors) are currently 83% male (5 of 6) (83% including the Directors (10 of 12)). The Group is in the process of recruiting another female non-executive director to provide further diversity in the composition of our Board.

Supporting our Communities

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

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

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

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

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

ESG Report

Governance

Corporate Governance

The Board is committing to maintaining the highest standards of Corporate Governance. We conduct our business activities honestly and with integrity. For more information on the Group Corporate Governance Framework see page 47.

Whistleblowing

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

Human Rights

97% of the Group's employees are based within the major advanced economies of the UK, USA, France, Germany and Japan, which have strong legislation governing human rights. The Group complies fully with applicable legislation in these areas, and the other countries in which it operates, to ensure the rights of every person (whether employees, suppliers, clients or stakeholders) are respected. We have in place employment policies and practices which support and promote diversity and equal opportunities to make sure all employees are treated with dignity and respect, and all staff are provided with a safe, secure and healthy environment in which to work, regardless of where in the world they are located.

Modern Slavery

We make sure modern slavery in all its forms (including human trafficking, forced labour and child labour), is not taking place anywhere in our Group businesses or in any of our supply chains. The Group has published a Group-wide Modern Slavery Policy and a statement on the steps taken to prevent slavery, which is available on the Group's website. We review the policy, risk assessments and actions arising on an annual basis. The Group is also continuing to strengthen its supplier quality engineering resources which will enable more field-based audits which will include "on the ground" audit of suppliers' procedures in this matter.

Compliance with Regulations and Standards

We do not tolerate practices which contravene international standards. Regulatory demands upon us vary around the world; however, we have established a core compliance team to ensure the Group fully adheres to legislative and regulatory requirements whilst adapting to local needs. We support this with online training tools through which we make sure our employees know what is expected of them.

Managing our Supply Chain

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

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

S172 Statement

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

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

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

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

Long Term Consequences of Board Decisions

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

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

Standards of Business Conduct

The Board strives to follow best corporate governance practice and has a governance framework in place that allows it to make reasoned and informed decisions. Further information on how the Board and its Committees operate can be found in the Corporate Governance Report on page 47.

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

The identification and assessment of risk is an integral part of the Board's decision-making process, particularly when it comes to considering the longer-term consequences and the sustainability of the Company's business model and strategy.

S172 Statement

Managing our Stakeholder Engagements

The Board understands the importance of effectively engaging with the Group's key stakeholders, in order to better understand their views and interests, and to better consider the potential impact of the Directors' decisions on them. Some of those engagements are undertaken directly by the Board and some by the Group's senior managers and reported back to the Board. Our key stakeholders and examples of our engagements with them during the year and actions which arose, are set out below:

Engagement

Customers

Our customers depend on us to supply our products on time and to the required quality. We also support them in the development of their next generation products.

The Board is regularly updated on the work of our engineering teams on our technology roadmaps in which we are frequently working very closely with our customers' teams. We invested £9.2m in R&D focusing on those areas where we see the opportunity to support our customers' next generation product development.

The Board is regularly updated on the timeliness and quality of product deliveries to our customers. As our order book has grown and we have struggled during the financial year to add productive capacity we are very aware that our on-time delivery performance to our customers has in some cases fallen below the high standard that we aspire to. We have put in place a series of measures including increasing our holdings of inventory and making ourselves more attractive as an employer to assist with our recruitment of new employees. As a result of these measures our output is increasing and our on-time performance to our customers is improving. We maintain regular contact with our customers to keep them informed of this progress.

Our technology roadmaps are regularly refreshed and we are agile in adapting our development of new products and systems for the market to reflect our customers evolving needs. For example, the conflict in the Ukraine and the increased focus from some of our customers for replenishment product means that we have accelerated production of prototypes for use on next generation military vehicles.

Employees

Our people play a crucial role in helping us pursue our strategic goals. We engage and support them to achieve their full potential. There are regular internal communications from the management team and feedback from employee representative groups. Our new CEO visited each of the Group's principal sites in his first four weeks with the business and held face to face meetings with the teams.

Our Values and the Behaviours that we expect from our employees to support them are regularly reviewed and refreshed. During the year we took the opportunity to update them adding the Values of 'Integrity' and 'Action' in place of 'Passion' as it was felt they better represented what is required for the long-term success of the business.

Jim Haynes, one of the Group's non-executive directors, is the Board member with responsibility for workforce engagement. Jim has held a number of meetings with employee groups during the year and the feedback from those sessions is used to make improvements to the sites ways of working as required.

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

S172 Statement

Shareholders

We maintain strong relationships with shareholders ensuring they understand our strategy, progress and performance and that we understand how they view our business. We engage with our shareholders through Investor Roadshows led by the Chief Executive Officer and Chief Financial Officer. The Group's brokers provide independent feedback to the Board on shareholder opinions and their views on our meetings with investors. Regular trading updates are provided as well as the Annual Report.

During the year we have hosted a number of visits from analysts and prospective investors so that we can better articulate the unique skills and capabilities that the Group has and its growth potential.

During the year the Chairman consulted widely with Investors on the appointment of Charlie Peppiatt as our new CEO. In turn Charlie has met with many of the principal shareholders of the Group to ensure he has a clear understanding of their views.

Our shareholders have also made it clear how important Environmental, Social and Governance issues are to them. As a result of this feedback, the short and long term incentive schemes for the Executive Directors have been changed. Half of the personal objective element of their bonus will now be dependent upon continued development of the Group's policies in this area. Furthermore, we have established our carbon emissions as a KPI for the Group and have put in place actions that will result in the Group being net neutral on its Scope 1 and 2 carbon emissions by 2035.

We have also consulted with shareholders on certain remuneration matters during the course of the year. Further information is given in the Directors' Remuneration Report.

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

Suppliers

The supply of goods and services to our operations is critical to our overall success. We review the performance of our suppliers on a monthly basis and work with them to implement improvement programmes. During FY2022 we enhanced our supplier risk assessment process which is used by the Group in prioritising which suppliers require further support to improve their performance. We have also added further resource in to our Supplier Quality Engineer team to increase the number of suppliers that we physically visit and audit each year.

We now have four G&H team members permanently located in our Asian contract manufacturing partner's facility to ensure we work closely together. We continue to transfer the production of more products to them including now some of our fibre-based products. The investment we have made has helped them to significantly increase their output, especially in the final quarter of the financial year and we intend to build further on this relationship in the future. Our two business systems are well integrated meaning that we can share product quality and delivery information real time.

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

Communities and the Environment

G&H aspires to be a responsible citizen within our communities, offering local recruitment, supporting educational institutions and the local economy. G&H offer a range of employment opportunities for apprentices and we work closely with educational establishments. Our site general managers each have funding allocated to them to support local charities. We asked them to focus on those charities that their site employees care about and so they frequently spend these funds in the form of a match for amounts raised by our employees themselves. More detail on our activities in these areas is given in our ESG Report.

Where to find out more

Employees - ESG Report

Investors – Corporate Governance Report

Environment - ESG Report

Society – ESG Report

Long Term Success - Strategic Reports

Principal Risks and Uncertainties

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

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

The Group maintains a comprehensive risk register which is approved at least annually by the Board. The group functional heads and leadership team all have input into the risk identification process. The register clearly identifies who in the organisation has responsibility for the day-to-day management of the identified risks, and has a timeline for any required mitigating actions. The risks are ranked according to their likelihood of affecting the business and the estimated impact they may have. Risks are identified across four key areas: strategic risk, operational risk, commercial risk and financial risk.




This year, the risk register was presented to, and approved by, the Board in March 2022 and September 2022. As part of the risk register approval, the Board also considered emerging risks which may not yet qualify as principal risks.

The assessment of key risks during the year has identified new risks in respect of the current high inflationary global environment and its potential impact on the Group, and production capacity management. Two key risks identified in the prior year are no longer included; the effect of the pandemic, which appears to have abated, and the risk related to the outsourcing to our Asian contract manufacturing partner, which is now substantially complete. The Board is satisfied that the mitigating actions taken in response to the identified risks are appropriate and will keep this under review. The Board has long been conscious of our ESG agenda and is cognisant of the increasing risk that a negative perception of our ESG profile could affect our ability to attract new talent to the business, build relationships with our customers, positively impact the communities in which we operate, and attract investment from potential shareholders.





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

The following represent the significant risks identified in the Group's risk register.

Principal Risks and Uncertainties

Change from FY21	Risk	Mitigation
New risk	Production Capacity Management One of our key challenges in FY22 was matching output to demand. We experienced difficulties due to availability of labour in a number of our sites, which affected our ability to recruit to ramp up production. We also continued to experience staff absences due to COVID, particularly in the first half of the financial year. Whilst we have now seen some of these challenges abate, we consider this to be our most significant risk in relation to achieving our FY23 targets.	A number of key appointments were made in FY22, including a Chief Operating Officer and new site Directors for two of our sites. The recent streamlining of the business, with three site closures completed, has reduced complexity. We have developed a recruitment and retention strategy for all sites, and have added in-house recruiters to our HR teams where most additional labour is required. We are monitoring output from our manufacturing partners overseas closely, and now have a number of staff based full-time in Asia to help with this. Our sales and operations planning processes are continually being refined to ensure we are operating as effectively as possible given our demand profile.
	Staff recruitment and retention The Group recognises the importance of retaining and developing its workforce in order to achieve its strategic objectives. This is particularly important now when there is significant competition in global labour markets.	Our people are at the heart of our business. We have put in place development and reward schemes to encourage individuals to play a long-term role in the future development of the Group. We have also introduced a new on-boarding process for new employees to help new starters to settle into their new roles. Our HR teams review local market conditions on an ongoing basis and take appropriate action where necessary. Succession planning is reviewed by the senior management team on a regular basis.
New risk	Inflation FY22 has seen high levels of inflation across the globe. If this inflation persists, it will continue to have an effect on the Group's cost base through increased staff costs, material costs and overheads, including power costs.	Our sales team is working to pass on input price increases to customers where necessary by increasing sales prices. Our global supply chain team is closely monitoring purchase price variances to identify price increases from suppliers. The team is focused on achieving savings. Our electricity prices in the UK are fixed through to April 2025, which provides significant mitigation against the risk of higher utility prices driven by the current uncertain geo-political climate. We also have solar panels installed on all three of our UK facilities, which reduces our demand. In the US, our electricity prices are not fixed, but inflation levels there have not been at the levels seen in the UK. The Group's gas usage is relatively insignificant, and not therefore a significant risk.
	Order Intake and Global Economic Trends There is a risk of recession affecting demand for our products, particularly in the Industrial market. We have invested in additional capacity in our Precision Optics businesses, and we now need to ensure the capacity is utilised by securing orders.	Orderbook coverage is regularly reviewed in detail. There are scheduled meetings between our site operations teams and our business development staff to identify any current unsold capacity. Continuous improvement initiatives to reduce factory lead times and open new business opportunities.
	Security of materials supply Current global shortages in certain commodities such as electronic components could have an effect on our ability to manufacture products. We utilise a number of sole source suppliers in the business, and certain of our suppliers are based in higher risk regions. An interruption in supply could have an adverse effect on our manufacturing operations.	Our supply chain team are regularly monitoring the availability of key components, and seek to put in place long term agreements with critical suppliers to ensure continuity of supply. Buffer stocks are held where necessary, although these would not be sufficient in the event of a protracted delay in supply. Our engineering teams work to identify and qualify alternative sources of supply to mitigate risk where this is possible. We have a supplier audit programme in place to identify risk, and we work with our suppliers to mitigate those risks identified.

Principal Risks and Uncertainties

	<p>Competition There is an ongoing risk of loss of market share or price erosion due to the activities of competitors in our marketplaces. This could lead to a reduction in revenue and/or profitability.</p>	<p>This is a key area of focus for the G&H management team. Fundamental to mitigating the threat from our competitors is the maintenance of our product quality and on-time delivery performance to ensure our customers' expectations are fulfilled. We also seek to stay ahead of our competition by bringing new, technologically superior products to the market. This will help us to counteract the emergence of lower cost competitors in the market.</p> <p>Our significant investment in R&D enabled us to launch 54 new products during FY2022.</p> <p>The Group also has a continuous improvement plan in place which targets increased efficiency and lower waste, ultimately aimed at margin improvement. This, combined with our manufacturing footprint strategy, is enabling more agile manufacturing, thereby helping to sustain our cost competitiveness in the market.</p> <p>Our business development teams maintain a strong presence in the marketplace and attend key trade shows which enables them to monitor competitor activity and respond accordingly.</p>
	<p>M&A Strategy M&A remains a key part of our growth strategy and we have an in-house team who identify and review opportunities in this regard with assistance from an external consultant where required. There is a risk that we may not be able to identify the right acquisition target to enable the Group's growth strategy. There is also risk attached to the performance of acquisitions that may be completed, and how they are integrated into the Group.</p>	<p>Regular meetings are held internally to review opportunities which present themselves and those which are identified by our in-house team.</p> <p>Acquisition targets would be subject to full legal, financial, operational and commercial due diligence prior to acquisition.</p> <p>G&H has significant experience of integrating acquisitions and would devote the appropriate resource following any completed transactions.</p>
	<p>Sustainability, climate change and the environment Our operations may not be judged by our stakeholders as sustainable. Failure to appropriately manage the environmental impact of our operations and products and / or reputational damage on our relationship with stakeholders would have a significant adverse effect on the business.</p>	<p>Our ESG agenda is closely monitored by the Board.</p> <p>Key actions have been identified and individuals in the Group have clear responsibility for managing and progressing those actions.</p> <p>Engagement with our stakeholders to obtain feedback on their concerns in this area, and on their views on our progress.</p>
	<p>Information and cyber security There is a risk of loss of digital intellectual property/data or our ability to operate systems due to internal failure or external attack.</p>	<p>Clear ownership of cyber risk and IT controls.</p> <p>Data is appropriately stored and backed up with IT system recovery plans in place. These plans are regularly tested.</p> <p>Employee training programmes and regular communication have been put in place to warn employees of the risk of cyber-crime.</p>

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

Charlie Peppiatt, Chief Executive Officer 6 December 2022

Board of Directors

Executive Directors:	Charlie Peppiatt Chief Executive Officer	
	Chris Jewell Chief Financial Officer	
Non-executive Directors:	Gary Bullard Chairman	Brian Phillipson
	Louise Evans	Jim Haynes

Director Biographies

Executive Directors

Charlie Peppiatt **Chief Executive Officer**
(Appointed 14 September 2022)

Charlie joined Gooch & Housego PLC in September 2022 from TT Electronics PLC where he was Executive Vice-President since 2018 when TT acquired Stadium Group Plc. Charlie was CEO at Stadium, an AIM listed company, from 2013 until its acquisition by TT. Previously he was Vice President of Global Operations for Laird PLC, a FTSE 250 electronics company. Charlie has held senior roles globally in hi-tech businesses supplying into the medical, telecoms, Industrial and A&D sectors.

Chris Jewell **Chief Financial Officer**
(Appointed 9 September 2019)

Chris has 25 years' experience working in senior finance roles in international engineering and manufacturing businesses, operating in Europe, North America and Asia. Prior to joining Gooch & Housego PLC Chris was Group Director of Financial Control at TT Electronics PLC, Senior Vice President of Finance at Cobham PLC and Finance Director of MBDA UK. He qualified as a Chartered Accountant whilst working with Ernst & Young.

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

Board of Directors continued

Non-Executive Directors

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

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

Gary is a non-executive director of Spirent Communications PLC and non-executive Chair of AFC Energy PLC.

Gary is Chair of the Nomination Committee and a member of the Remuneration Committee of the G&H Board.

Brian Phillipson
(Appointed 1 September 2015)

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

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

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

Brian is the Senior Independent Director. He is also Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees of the G&H Board.

Louise Evans
(Appointed 11 May 2020)

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

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

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

Louise is Chair of the Audit Committee and a member of the Remuneration and Nomination Committees of the G&H board.

Jim Haynes
(Appointed 12 February 2021)

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

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

Jim holds a Bachelor's Degree in Material Science from the University of Wales.

Jim is a member of the Audit, Remuneration and Nominations Committees of the G&H board. Jim is also the Non-Executive Director with responsibility for the Board's engagement with the workforce.

Corporate Governance

Introduction

The Board is accountable to shareholders and is committed to the highest standards of corporate governance. To this end, the Group has adopted the UK Corporate Governance Code (2018). The Code is available to download at www.frc.org.uk.

The Board of Gooch & Housego PLC reviewed its corporate governance procedures at its September 2022 meeting. Following the actions taken to ensure full compliance with the Code in the year ending 30 September 2021, no further actions were required this year and the Board consider the Group to have fully complied with the Code during the year ended 30 September 2022.

How we Govern the Group

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

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

The Board

The Board currently comprises two executive and four non-executive Directors. The directors holding office during the period of this report and their biographies are detailed from pages 45 to 46 and are also available on our website; www.gandh.com. In addition to these Directors, Mark Webster served as an executive director until his retirement on 13 September 2022. An executive search is underway for the recruitment of a fifth, female non-executive director, who we expect to be appointed in the first half of FY2023.

The Executive Directors have rolling service contracts that are subject to either six or 12 months' notice. The Chairman and Non-Executive Directors do not have contracts of service. The terms of appointment of the Directors are available for inspection during business hours at the registered office of Gooch & Housego PLC and are also available at the AGM.

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

The Nomination Committee is responsible for approving appointments to the Board. The Board understands and recognises the benefits that diversity can bring, and our recruitment partners are briefed on our requirements in this regard.

Roles and Responsibilities

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

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

External Roles for Directors

The Board reviews the Directors' external commitments on an annual basis to ensure they are sufficiently available to enable them to discharge their responsibilities, particularly if there were exceptional circumstances that might require additional time at short notice. The Board is cognisant that the Chairman, Gary Bullard currently has three non-executive roles, two of which are as Chairman (including G&H). He has assessed his time commitments and confirmed to the Board that they do not hinder his ability to discharge his responsibilities as Chairman of G&H. Gary attended all of the scheduled Gooch & Housego PLC board meetings during the year and has no other external commitments other than his Board roles.

Corporate Governance

Board Activities

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

There are typically eight routine board meetings a year, with additional meetings held as necessary to consider specific matters. In FY2022, the Board met twice at the Group's Ilminster facility, once at the Torquay facility and once at the Cleveland, Ohio facility. The remaining meetings were either held in London or by videoconference. As part of the Board meeting in Cleveland during the year, the non-executive Directors also visited our facilities in Boston and Keene. This gave them a valuable opportunity to gain a deeper understanding of the Group's sites and to meet local staff.

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

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

In accordance with best practice, the Chairman addresses the developmental needs of the Board as a whole, with a view to further developing its effectiveness as a team, and ensures that each Director refreshes and updates his or her individuals skills, knowledge and expertise.

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

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

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

Board meeting attendance is presented in the following table.

Executive Directors		
Charlie Peppiatt	1/1	(Appointed 14 September 2022)
Mark Webster	8/8	(Retired as a Director on 13 September 2022 and ceased employment on 30 September 2022)
Chris Jewell	8/8	
Non-executive Directors		
Gary Bullard	8/8	
Brian Phillipson	8/8	
Louise Evans	8/8	
Jim Haynes	8/8	

Corporate Governance

Maintaining a Dialogue with Shareholders

The Chairman ensures that the Board maintains an appropriate dialogue with shareholders. During FY2022, the Chairman met with a number of major shareholders to discuss the Chief Executive Officer succession plan, and since Charlie's appointment, the Chairman has attended further shareholder meetings to introduce Charlie. Brian Phillipson has also consulted with major shareholders on certain remuneration matters during the year.

The Chief Executive Officer and the Chief Financial Officer regularly meet with institutional investors to discuss strategic issues and to make presentations on the Group's results.

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

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

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

Engagement with the Workforce

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

Jim Haynes was appointed as designated non-executive director in July 2021. During FY2022, he met with the employee Council group at our Torquay site, and met with local HR representatives at our facilities in Boston, Keene and Cleveland. These initial meetings enabled Jim to make staff aware of his new role and that they had a direct line of communication to the Board if it were required. Jim fed back the key themes arising from these meetings to the Board meetings during the year. During the coming financial year, Jim will build on this role and attend meetings in Ilminster, and if possible other sites.

The Board reviews the organisation's culture to ensure it is aligned with the Group's strategy. The Group's Mission, Vision, Values and Behaviours have now been refreshed and re-launched and further strengthen the Group's culture in support of its strategic aim. Further information on our work in this regard is given in the ESG Report.

Other ways in which we ensure appropriate engagement with our workforce are set out in the Strategic Report. These activities enable the Board to gauge the Group's culture and to make changes where necessary to ensure it is aligned with our strategy.

Board Effectiveness

The Chairman is responsible, with assistance from the Nomination Committee, for ensuring that the Company has an effective Board with a suitable range of skills, expertise and experience. Every year, a performance evaluation of the Board is carried out. This year, the evaluation took place in September 2022, and was led by the Senior Independent Director, Brian Phillipson, using a formal structured questionnaire. A number of actions came out of this review, but because of the recent change of CEO which will naturally change the Board dynamic, it was agreed to revisit the review around the FY23 half year when a few more meetings of the new Board have taken place.

In response to the appraisal carried out in FY2021, the Board held its July meeting at our Cleveland facility in the US. This also enabled the Non-Executive Directors to visit our facilities in Boston and Keene to gain a better understanding of those businesses and also enable them to spend more informal time together outside of Board meetings.

The Senior Independent Director leads an annual appraisal of the Chairman's performance. This review took place during September 2022, using a formal questionnaire. Brian Phillipson collated the feedback received and presented initially to the Chairman and then to the Board.

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

Corporate Governance

management statements, acquisitions and disposals, major capital expenditure, borrowings, director and company secretary appointments and removals, any material litigation, strategic forecasting and major development projects.

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

Board Committees

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

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

A search for an additional non-executive Director is underway and we expect to make the appointment in the first half of FY2023. We intend to establish an ESG Committee of the Board in FY2023, which will be chaired by the newly appointed Director.

Accountability

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

G&H adopts a formal risk identification and management process designed to ensure that risks are properly identified, prioritised, evaluated and mitigated to the extent possible. A formal group wide risk register is maintained and approved by the Board on an annual basis. This year, the risk register was reviewed at the March 2022 meeting following which a number of changes were agreed. The risk register was duly updated, presented and approved at the September 2022 meeting.

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

The Audit Committee is responsible for reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk. It is also responsible for advising the Board on whether the Committee believes the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Group does not have an internal audit department. As reported last year an updated control framework was rolled out in the year ended 30 September 2021. This year, finance staff independent of the site being visited, have performed detailed testing against this framework. The results of this work were summarised and presented to the Audit Committee in September 2022.

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

Remuneration

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

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

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2022. The Directors who held office during the year and up to the date of this report are shown on pages 45 and 46. In addition, Mark Webster served as an Executive Director until his retirement on 13 September 2022.

A review of the development and performance of the Group during the year and its future prospects is set out in the Financial Highlights and in the Financial Review. An outline of the business's principal activities, strategy and the Group's progress in the year towards these strategies is given in the Strategic Report. An analysis of the segmental information by market sector is given in the Operations Review.

Key Financial Performance Indicators (KPIs)

The Group uses a selection of KPIs to monitor and review the performance of the business. These are detailed from page 11.

Dividends

During the year ended 30 September 2022 a final dividend of 7.7p per share was paid for the previous financial year. An interim dividend of 4.7p was paid for the half year ended 31 March 2022 (2021: 4.5p).

For the year ended 30 September 2022, the Directors have proposed a final dividend of 7.9p per share (2021: 7.7p).

Substantial Shareholdings

As at 15 November 2022, the following shareholders had notified the Company that they held an interest in 3% or more of its issued ordinary share capital:

Shareholder	Number	% holding
Octopus Investments	3,095,334	12.36%
Invesco	3,003,853	12.00%
Investec Group	1,645,478	6.57%
abdm plc	1,515,615	6.05%
Canaccord Genuity Group Inc	1,500,023	5.99%
BlackRock Inc	1,353,187	5.40%
Fidelity Worldwide Investment	942,722	3.76%
Charles Stanley Group	902,754	3.61%
Bangarra Group	833,601	3.33%

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

Treasury Policies

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

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

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

At a transactional level, the Group seeks to offset its exposure to foreign exchange movements by contracting with significant supply partners in US Dollars and undertakes regular financial reviews to assess whether it would be appropriate for the Group to enter into currency hedging contracts to mitigate the currency risk. During the year, the Group also entered into contracts to sell US Dollars at specific rates in the future. Further details are given in

Directors' Report

Note 29 to the financial statements.

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

Further information on financial risk is given in note 29 to the financial statements.

Research and Development

The Group has a continuing commitment to a high level of research and development and invested £9.2m in R&D in the year ended 30 September 2022 (2021: £7.9m). 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.

Statement of Employment of Disabled Persons

We aim to create a work environment that allows equal opportunities so our people are employed fairly, safely and in compliance with applicable employment laws and regulation. We respect each person for who they are and what they can contribute, regardless of disability, physical or mental health, age, race, origin, gender, sexual orientation, political views, religion, marital status or any other legally protected status.

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 Group also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

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

Directors' Report

Directors' Confirmations

The directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and parent company's performance, business model and strategy.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and parent company's auditors are aware of that information.

Stakeholder Engagement

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

Going Concern

The Directors have reviewed the current financial forecasts for FY2023 and FY2024. They have assessed the future funding requirements of the Group and compared them with available borrowing facilities. They have also reviewed forecast performance against our banking covenants. Details of the financial and liquidity positions of the Group are given on page 29.

At 30 September 2022, the Group has a strong balance sheet with net current assets of £53.5m. The Group's cash and undrawn committed and uncommitted facilities totalled £43.7m.

The Directors have reviewed severe but plausible scenarios that estimate the potential impact of the principal risks that the Group faces (see pages 43 to 44 of this report) on the financial forecasts. These include the impact of a possible recession and the resultant reduced demand in certain of the Group's markets, most notably commercial aerospace and the Industrial laser market driven by softness in consumer end market demand. They also included the effect of erosion of sales prices due to competition, the impact of delays to our production ramp up, the impact of inflation on input costs which cannot be passed on to customers, the potential impact of a cyber-attack and a reduction in forecast revenue to illustrate the potential effect of a loss of key personnel or inability to hire for a key role. The model also considered the loss of revenue and profit associated with a closure of one of our sites due to a legal non-compliance issue. This assessment covered not only the coming 12 month period but also for the period to September 2025 in order to support the Viability Statement given below.

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

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

Directors' Report

Viability Statement

The directors have also assessed the viability and long-term prospects of the Group for the period to September 2025 taking into account the Group's current position and the potential impact of the principal risk and uncertainties set out on pages 43 and 44 of this Report.

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

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

We have determined that the period to September 2025 represents an appropriate period over which to provide the viability statement as this aligns with the business cycle and order intake trends of the Group.

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

Based upon these assessments the Directors confirm that at the time of approving the financial statements, there is a reasonable expectation that the Group will have adequate resources to continue in operation over the period to September 2025.

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

Charlie Peppiatt

Director

6 December 2022

Audit Committee Report

Membership

The Audit Committee is chaired by Louise Evans, a Chartered Accountant with significant recent experience in senior finance roles, and who the Board are therefore satisfied has recent and relevant experience. The Committee comprises Louise Evans, Brian Phillipson and Jim Haynes and is considered to have had an appropriate balance between those individuals with finance or accounting training and those from a general business background.

How the Committee Operates

The Committee met three times during the year as part of its standard schedule to consider matters planned around the Group's financial calendar. Attendance at those meetings is summarised below:

Non-executive Directors

Louise Evans	3/3
Brian Phillipson	3/3
Jim Haynes	3/3

At the invitation of the Committee, representatives of the external auditors, PwC LLP, attended meetings together with the Chairman, Chief Executive Officer, Chief Financial Officer, and the Company Secretary. The Committee also seeks to meet regularly with the external auditor without the Executive Directors in attendance. During the year, the Committee met twice with representatives from PwC LLP without others being present.

Responsibilities

The role and responsibilities of the Committee are set out in its terms of reference, which are available on the Group's web site and from the Company Secretary on request. The terms of reference are reviewed annually by the Committee.

The principal responsibilities of the Committee are:

- Reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- Internal controls testing and verification;
- Advising the Board on whether the Committee believes the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- Considering and making recommendations to the Board as to the appointment, reappointment or removal of the external auditors and the approval of their remuneration and terms of engagement;
- Assessing the external auditors' independence and objectivity and the effectiveness of the audit process;
- Reviewing the policy on the engagement of the external auditors to supply non-audit services.

Audit Committee Report

Financial Reporting

During the year, the Audit Committee reviewed the appropriateness of the Group's interim and full year financial statements, including the consideration of significant financial reporting judgements made by management taking into account reports from management and the external auditors. The main areas of focus considered by the Committee during the year were as follows:

Area of focus	Conclusion
Going Concern The Committee reviewed management's going concern assessment and viability statements.	The Committee reviewed management's funding forecasts and the stress testing that had been performed on them, based upon the Group's principal risks and uncertainties. The Committee concluded that it was appropriate that the financial statements were prepared on a going concern basis and that a viability statement confirming that there is a reasonable expectation that the Group will have adequate resources to continue in operation over the period to September 2025 could be included in the Annual Report.
Goodwill impairment reviews Management perform annual impairment reviews of the carrying value of goodwill. These impairment reviews are based on future projected cash flows and are therefore inherently judgmental. The Audit Committee reviewed the key judgements underpinning the impairment reviews performed.	The Committee has reviewed the rationale for the change of CGUs from a technology basis to a geographical basis in the year, and is satisfied that the change is appropriate and reflective of the way in which management runs the business. The Committee has reviewed the value in use calculations prepared by management with a particular focus on the UK cash generating unit. Having satisfied itself that the assumptions made in the model were appropriate and reasonable, the Committee agreed that the impairment charge of £6.7m was necessary and is satisfied that the remaining carrying values of the CGUs are supported. The Committee has reviewed the sensitivity disclosures in note 18 and concluded that they are appropriate.
Long term contract accounting Some of the Group's sites are engaged in long term development contracts. These contracts must be traded based upon an estimate of the contracts' outturn profitability which requires estimation and judgement.	The Committee considered the procedures in place to monitor both the stage of completion and the outturn profitability of long term contracts within the Group. It also reviewed the procedures in place for the correct segregation of costs between contracts. After careful consideration the Committee concluded that the judgements and estimates made in this regard were reasonable.
Inventories The Committee reviewed management's estimates in relation to inventory valuation and obsolescence.	The Committee reviewed the level of inventory at the year end, which has increased in the year, noting the additional safety stocks being held due to current supply chain challenges. The Committee was satisfied that the provisions made adequately reflected the risk of impairment.
Non-underlying items The Committee considered the appropriateness of the measure of adjusted profits, quality of earnings, and the classification and transparency of items separately disclosed as non-underlying items.	The Committee was satisfied that the presentation of adjusted profit before tax provides a reasonable view of the underlying performance of the Group and that there was transparent and consistent disclosure of items shown separately as non-underlying items. This was based on a review of the items added back in arriving at underlying profit. The Committee was satisfied the FRC's guidance discouraging companies from excluding charges and credits associated with the pandemic from alternative performance measures had been followed.
Financial Systems, Policies and Controls	The Committee reviewed the results of the internal controls testing conducted during the year. The Committee noted the areas requiring improvement identified by the testing and were satisfied that an appropriate plan is in place to do so.
Fair, balanced understandable and comprehensive reporting	The Committee has reviewed the Annual Report and is comfortable that it provides a fair, balanced and understandable review of the year ended 30 September 2022. As part of this review, the Committee has considered the alternative performance measures presented, and the degree of prominence given thereto in relation to statutory measures. The Committee has also considered the ESG disclosures and other reports to ensure that a fair review has been given.

Audit Committee Report

External Auditors

Under its terms of reference, the Committee is responsible for assessing the scope, fee, objectivity and effectiveness of external audits and for making a recommendation to the Board regarding the appointment, reappointment or removal of the auditors on an annual basis.

The Group appointed Grant Thornton to provide its global tax services during the year ended 30 September 2021 in response to the FRC's Revised Ethical Standard 2019 which prevents auditors of AIM listed businesses such as G&H from providing non-audit services to those businesses.

We believe the independence of the auditors has been enhanced by this change, and the auditors continue to be required to make a formal report to the Audit Committee on an annual basis on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity.

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

Approval

Louise Evans

Chair of the Audit Committee

6 December 2022

Nomination Committee Report

The Nomination Committee, which consists of the Chairman, all Non-Executive Directors and the Chief Executive Officer, is responsible for the composition of the Board, and other senior management matters.

Role of the Committee

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

Areas of Focus for the Nomination Committee During FY2022

- Appointment of a new Chief Operating Officer based in the USA.
- Appointment of a new Chief Executive Officer following the retirement of Mark Webster in September 2022.
- The Nomination Committee has reviewed Board level diversity and succession, and decided to recruit a female Non-Executive Director. It is planned that she will join the Remuneration Committee on appointment and take over as Chair of the Committee on Brian Phillipson's departure from the Board, expected in 2024.
- Succession planning for other members of the Board.
- Diversity in the senior management team. Further details in this regard can be found in our Corporate Governance Report.

Appointment Processes

The Committee determined that a priority was to appoint a Chief Operating Officer (COO) to oversee the group's manufacturing and supply chain activities. Ideally this role would be based in the USA, given the majority of our manufacturing locations are based there, and the planned retirement of some of our more senior USA based management. As part of the appointments process, the Committee determined the selection criteria for the COO role and worked with Korn Ferry, an external search agency, who drew up a diverse list of candidates from a range of industries and backgrounds for initial appraisal by the Committee. From this, a shortlist of suitable candidates were interviewed and John Andzulis was appointed, based in Boston. The former COO had been an Executive Director and the Board is keeping this option under review but at the current time the best option is to have the COO as a regular Board attendee rather than as an Executive Director.

The Committee were also aware that the Chief Executive Officer (CEO), Mark Webster, was considering retirement after ten years with the group, and eight as CEO. The Committee determined that we should start this process after the COO appointment had been completed and with a view to enabling an orderly and effective handover on Mark's retirement. Korn Ferry were appointed and the Committee worked with them to determine the selection criteria for the CEO role. Korn Ferry drew up a diverse list of suitable candidates for interview by the Board and approval by our Nominated Advisor, Investec. Following this, the Committee recommended to the Board, which duly approved, the appointment of Charlie Peppiatt who joined the board on 14 September 2022.

The Committee determined that with only a single female representative on the Board, we did not have sufficient diversity and determined that we should appoint an additional female Non-Executive Director as soon as one could be identified, ideally by the next AGM. The Committee was also cognisant that Brian Phillipson would reach 9 years of service during 2024 and after this time would no longer be regarded as independent or able to serve as Remuneration Committee Chair. This new Non-Executive Director would therefore be selected with a view to her becoming the next Remuneration Committee Chair, including allowing time for her to serve for a year as a Remuneration Committee member as is recommended under good governance principles. Warren Partners have been selected to conduct the search and have drawn up a specification. At the time of writing this report they are drawing up a shortlist of suitable female candidates, specifically ensuring they are also from a range of ethnic backgrounds.

Nomination Committee Report

Membership and Attendance at Meetings Held in FY2022

Non-executive Directors

Gary Bullard	2/2
Brian Phillipson	2/2
Louise Evans	2/2
Jim Haynes	2/2

Executive Directors

Charlie Peppiatt	1/1	(Appointed 14 September 2022)
Mark Webster	1/2	(Resigned 13 September 2022)

Approval

Gary Bullard

Chairman of the Nomination Committee

6 December 2022

Remuneration Committee Report

Operation of the Remuneration Committee

It is an objective of the Group to attract and retain high calibre Directors and employees and reward them in a way which encourages the creation of value for shareholders while also fully meeting the expectations of shareholders and governance standards.

The Remuneration Committee is chaired by Brian Phillipson and comprises all of the non-executive directors.

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

The Committee has three scheduled meetings each year to deal with ordinary business. In addition to these, the Committee meets on an ad hoc basis when there are additional matters to deal with, as has been the case this year, with the CEO change and recent shareholder consultations.

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

Attendance at formal meetings held in FY2022

Brian Phillipson (Chairman)	3/3
Gary Bullard	3/3
Louise Evans	3/3
Jim Haynes	3/3

Introduction

The Group had a challenging year in FY2022 with adjusted profit before tax down 35.4% on FY2021 due to a combination of factors as outlined earlier in the Annual Report. This meant that none of the financial elements of the Executive Directors' short or long term incentive plans were achieved, although as set out below, good progress was made in respect of the CFO's personal objectives element of the annual bonus award.

The Committee continues to base our remuneration policy on high standards of external regulation and expectations, and the needs of the business. We have reviewed our policy during the year and in November 2022 undertook a consultation with our major shareholders representing over 60% of our total ownership on certain items set out below. The shareholders who responded were supportive of the proposals.

Gooch & Housego Long Term Incentive Plan

As the Gooch & Housego Long Term Incentive Plan (LTIP), adopted in April 2013, is nearing the end of its ten-year life, new LTIP will be adopted in the year ending 30 September 2023. The Committee is being advised by FIT Remuneration Consultants LLP in relation to this to ensure that our new scheme reflects best and market practice. We will also take account of feedback received from shareholders.

We committed last year to add ESG targets to our LTIP scheme and accordingly are proposing to introduce ESG targets making up 10% of our LTIP award value effective for grants made in January 2023 and thereafter. The ESG targets agreed by the Committee are as follows:

- Achievement to our plan to achieve Net Zero on Scope 1 and 2 emissions as disclosed earlier in this Annual Report;
- Achieving specific shorter-term targets for emission reductions over the next three years;
- Ensuring that G&H is a safe, engaging, diverse and inclusive place of work for the Group's employees and all stakeholders, to the satisfaction of the Board; and
- Maintaining full compliance with the UK Corporate Governance Code.

Achievement of all of these targets will be required for full vesting of this element of the award.

Remuneration Committee Report

The Committee has again considered adoption of relative rather than absolute TSR vesting targets, which we know would be welcomed by some but not all investors. However, the Committee has concluded that the difficulties in identifying a suitable peer group, combined with current market volatility, would make such a change difficult for the January 2023 awards. However, we will consider this issue further as part of the design of our new scheme next year but note that we have reduced the significance of TSR from 60% to 50% via introduction of the ESG targets. The 15% annual growth target for full vesting of this element of the award remains.

EPS will continue to form the basis for the target over the remaining 40% of the 2023 LTIPs and the annual growth target of 15% remains for full vesting.

Executive Director Salary Review

The Committee reviewed the remuneration package of the Chief Financial Officer during the year. Since joining the Group, Chris Jewell has delivered a number of very significant achievements and established himself as a key member of the Board. Noting Chris' performance in the role, and noting that it has been over three years since his appointment, the Committee has agreed to move his package to market levels (based on an analysis of CFOs in businesses of a similar size and complexity). This has resulted in an increase to his base salary of 7.5%, taking his basic pay to £285,000, with effect from 1 January 2023, and his annual LTIP entitlement from 110% of salary to 120% of salary, which is in line with the Chief Executive Officer's entitlement. Major shareholders were consulted in the changes and those which responded confirmed support.

FY2022 Executive Bonus

In respect of the annual bonus for FY2022, while the EPS and cash flow targets were missed, the Committee assessed performance against personal targets for Chris Jewell at 17% out of 20% of his bonus potential, based on achievement of the agreed targets excepting only that for inventory turns, where pressures during the year had driven lower levels than targeted. The Committee discussed at length whether it was appropriate to pay this bonus given the financial results for the year. However, the Committee believes that the bonus was designed to encourage a specific focus on non-financial process and system improvements and should therefore reward Chris' achievements. The Committee decided to award Chris his earned bonus, net of tax, for the purchase of Gooch & Housego ordinary shares, which will be subject to the same holding restrictions as a vested LTIP award and this will provide some element of retention incentive by contributing towards his minimum shareholding requirements. As Mark Webster retired as a Director on 13 September 2022, he was deemed not to be eligible for a bonus in the year ended 30 September 2022.

Other key areas of focus for the Remuneration Committee during the year were as follows:

Chief Executive Officer Succession

The Committee approved Charlie Peppiatt's remuneration package prior to his appointment as Chief Executive Officer on 14 September 2022 in line with our remuneration policy. His base salary is £385,000 and he is entitled to 6% employer pension contribution, which is in line with the general workforce scheme. He is also entitled to a car allowance of £10,000 per annum, and is eligible to receive an annual performance related bonus of up to 100% of basic salary. In addition to this, he will receive annual long-term incentive grants equivalent to 120% of basic salary. In his first year, Charlie will be granted an additional LTIP award of 100% of salary which recognises him sacrificing the opportunity of awards from his previous employer and alternative employment opportunities he was considering before agreeing to join G&H. This takes his initial LTIP grant to a total of 220% of salary.

The Board is convinced that Charlie brings to the Group the skills we need for the challenges and opportunities we face. The remuneration package was benchmarked against several industry surveys and will not be subject to further review until January 2024. Our decisions also considered the level of remuneration from Charlie's previous employer, and his level of previous experience having already served as a listed company CEO. The Committee is comfortable that the agreed remuneration package is consistent with 2022/2023 salary levels for AIM companies of our size and complexity.

Mark Webster retired from the Board on 13 September 2022 and ceased employment on 30 September 2022. He was paid an amount equal to one year's salary and pension contributions of £366,000 in lieu of his notice period in October 2022. The Committee and the Board decided that this was appropriate and did provide the opportunity for us to engage the skills of the new CEO without delay, and to achieve a 'clean' handover at the start of our new fiscal year. In accordance with our good leaver provisions, Mark will retain his LTIP awards, which will vest at the normal time, subject to time pro-rating and the extent to which the performance conditions are met. Mark's SAYE options lapsed upon retirement and his contributions to this scheme were refunded.

Remuneration Committee Report

Remuneration and Retention of the Wider Workforce

The Committee has reviewed the remuneration policies applicable to the wider workforce and is cognisant that current high levels of inflation in both the UK and the US tend to affect our lower paid employees more severely than those on higher incomes. The Committee also noted the difficulty we have experienced in recruiting and retaining staff in our production facilities during the year.

During FY2022 we implemented adjustments to increase pay rates for our lower paid factory-based employees especially in our Fremont, Moorpark and Boston facilities, with increases for the lowest paid operators of up to 13%. In October 2022, we made one-off cost of living payments to approximately 80% of the global workforce (excluding 20% who are relatively higher paid). These were typically £500 or \$650 for US employees.

The Group has budgeted for an average wage bill increase of 5.2% for FY2023, and salary increases will take effect from January 2023. This follows increases in Jan 2022 which were generally around 3%, but in some sites were up to 5.25% where local market conditions necessitated this. We have also increased starting salaries in some sites for new recruits. By comparison, the Jan 2021 increases were typically 1.5% - 2%.

The Committee has reviewed the remuneration of the senior management team in the year, including the level of their awards under the LTIP. A key aim of this review continues to be ensuring there is an appropriate alignment between the remuneration of Directors and that of the senior management team. The Committee is satisfied that this is the case.

We have also sought to address retention concerns by seeking opportunities to tie employees into the longer-term growth of the business. We have all employee share schemes in the UK and the US, and have extended our LTIP programme beyond the senior leadership to include many of the senior management team.

The Committee is satisfied that our combination of salary, bonus and annual long-term incentive schemes provides a good mix of incentives and rewards in both the short, medium and long terms. Furthermore, we believe our remuneration framework is effective in driving behaviours that are consistent with our Group values and strategy and is fully in line with external governance requirements and expectations.

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 FY2022 and the planned changes for FY2023:

Element of remuneration	Purpose and link to strategy	FY2022 Policy and approach	Opportunity	FY2023 Policy and Approach
Base Salary	<p>Takes into account experience and personal contribution to the Group's strategy</p> <p>Attracts and retains executives of the quality required to deliver the Group's strategy</p>	<ul style="list-style-type: none"> Reviewed annually with changes effective from 1 January if applicable Consideration given to individual and Group performance General pay increases across the wider workforce are also taken into consideration Where the Group considers it appropriate and necessary, larger increases may be awarded in exceptional circumstances 	Base salary increases are applied in line with the outcome of the annual review	<p>The Remuneration Committee approved a 7.5% increase to Chris Jewell's salary effective from 1 January 2023, as set out earlier in this report.</p> <p>Due the recent appointment of Charlie Peppiatt, the first review of his salary will take effect from 1 January 2024.</p>
Annual Bonus	<p>Incentivise achievement of short-term financial targets that the Committee considers to be critical drivers of business growth</p>	<ul style="list-style-type: none"> Awarded annually Based on broad performance measures Up to 60% payable for exceeding target EPS by 10%. Nil if not met 20% of bonus payable for achieving target operating cash flow. Nil if not met. Up to 20% of bonus payable for achievement of personal objectives of which half are linked to ESG metrics. 	Maximum of 100% of base salary	No change proposed for FY2023.
Pension	<p>Provide employees with market competitive pension scheme</p>	<ul style="list-style-type: none"> Defined contribution personal pension plan Group contributed 10% of salary for Directors appointed prior to 1 October 2018. For Directors appointed thereafter, the Group contributes 6% of salary. 	<p>6% of base salary from 1 October 2023.</p> <p>The Committee keeps the benefit policy and benefit levels under regular review</p>	<p>Following the retirement of Mark Webster and the appointment of Charlie Peppiatt as CEO, all Executive Directors are now entitled to employer pension contributions equal to 6% of salary, which is in line with the wider workforce.</p>
Long Term Incentive Plan (LTIP)	<p>Incentivise executive performance over the longer term.</p> <p>Performance measures linked to the long-term strategy of the business and the creation of shareholder value over the longer term.</p>	<ul style="list-style-type: none"> Awards vest after three years subject to achievement of targets, and are then subject to a two-year holding period. Absolute TSR for 60% of awards, with full vesting at 15% TSR per annum. EPS target for remaining 40% of awards. Full vesting at 15% EPS growth per annum. 15% growth per annum target is in line with the Board's objective of doubling the size of the Group over a period of 5 years. Awards may vest pro rata following retirement. 	<p>Award levels are determined by reference to an individual's position and performance.</p> <p>Annual awards of 120% of base salary for the CEO and 110% for the CFO.</p> <p>Maximum award of 300% of base salary where an exceptional case may arise (e.g. on recruitment).</p>	<p>FY2023 awards will have the TSR element of the vesting criteria reduced from 60% to 50%. This will enable the introduction of ESG targets accounting for 10% of the vesting criteria. EPS targets will continue to account for remaining 40% of the targets.</p> <p>The Remuneration Committee approved an increase in the CFO's annual award entitlement to 120% of salary for FY23, and a one-off recruitment award of 100% for the new CEO.</p>

Remuneration Committee Report

Directors' Remuneration (Audited)

2022	Basic pay £000	Performance Related Bonus £000	Benefits in kind £000	Pension contribution £000	Sub-total 2022 £000	Total fixed remuneration £'000	Total variable Remuneration £'000
Executive							
M Webster*	345	-	13	-	358	358	-
C Jewell	268	43	11	10	332	289	43
C Peppiatt**	21	-	-	-	21	21	-
Non-executive							
G Bullard	83	-	-	-	83	83	-
B Phillipson	47	-	-	-	47	47	-
L Evans	47	-	-	-	47	47	-
J Haynes	47	-	-	-	47	47	-
	858	43	24	10	935	892	43
2021							
	Basic pay £000	Performance Related Bonus £000	Benefits in kind £000	Pension contribution £000	Sub-total 2021 £000	Total fixed remuneration £'000	Total variable Remuneration £'000
Executive							
M Webster	353	312	14	-	679	367	312
C Jewell	262	239	8	10	519	280	239
Non-executive							
G Bullard	81	-	-	-	81	81	-
B Phillipson	45	-	-	-	45	45	-
L Evans	45	-	-	-	45	45	-
J Haynes***	25	-	-	-	25	25	-
Dr P Bordui****	21	-	-	-	21	21	-
	832	551	22	10	1,415	864	551

The above disclosure has been audited.

* Mark Webster retired as a Director of the Company on 13 September 2022, but remained in employment until 30 September 2022. The table above includes his remuneration for the period to 13 September 2022.

**Charlie Peppiatt was appointed on 14 September 2022

*** Jim Haynes was appointed on 12 February 2021

**** Peter Bordui retired on 24 February 2021

Compensation of loss of office (Audited)

Mark Webster was paid compensation for loss of office equivalent to one year's base salary and company pension contributions of £366,000 in October 2022.

Remuneration (Audited)

Executive Directors are paid a base salary together with annual bonus payments based on the achievement of Group profitability, cash and personal operational and ESG related targets. In addition, Executive Directors participate in a long-term incentive scheme and receive benefits in kind, including medical expenses and insurance.

Non-executive directors are paid a fee to attend board meetings and to serve as members of the Board as well as the Audit, Nomination and Remuneration committees. Further payments may be made in respect of additional services provided at the request of the Group. No such further payments were made in FY2022 or FY2021.

Remuneration Committee Report

Benefits (Audited)

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

2022 performance related bonuses (Audited)

Bonuses in 2022 were based 60% on EPS, 20% on operating cash flow and 20% on personal strategic objectives. Details of the performance achieved against the EPS and cash flow targets are shown in the table below:

Financial targets	Performance required to trigger bonus payment	Performance required at maximum	% payable at maximum performance	Performance outcome	% bonus awarded
EPS target (adjusted diluted)	43.5p	47.9p	60%	26.9p	-
Adjusted operating cash flow target	£20.1m	£20.1m	20%	£6.6m	-

Neither the EPS target nor the cash flow target were met during the year.

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

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

Mark Webster, CEO
<ul style="list-style-type: none"> Define and implement the first stage of the Group's ESG policies and activities plan. Implement planned organisational changes due to retirements, promotions and strategic manufacturing changes. Deliver on identified budget opportunities including putting in place the appropriate engineering, design and operational resources. This includes specific product opportunities, capacity initiatives including outsourcing and site profit improvement plans.
Chris Jewell, CFO
<ul style="list-style-type: none"> Define and implement the first stage of the Group's ESG policies and activities plan. Renew the Group's credit facility, reflecting the preferred capital structure of the Group to assist it to deliver on its strategic objectives. Increase inventory turns. Implement an internal audit programme for the Group.

The view of the Remuneration Committee is that good progress was made against the objectives set. Specifically the Committee noted that while the targeted inventory turns had not been achieved, the other objectives had been delivered fully. Following due discussion at the October 2022 Remuneration Committee meeting and after consultation with the Company's major shareholders, the Committee approved achievement levels of 17% out of the maximum 20% of the bonus for Chris. The after-tax amount of the bonus will be paid to Chris for the purchase of Gooch & Housego ordinary shares in December 2022 and these shares will be subject to the same holding provisions as would apply to vested LTIP awards.

As Mark Webster retired as a Director on 13 September 2022 and ceased employment on 30 September 2022, he was deemed not to be eligible for a bonus in the year ended 30 September 2022.

Directors' Pension Arrangements (Audited)

The rate of Group pension contributions for executive directors appointed after 1 October 2019 is 6%. The policy is therefore in line with the UK Corporate Governance Code 2018 which recommends that contribution rates for executive directors, or payments in lieu thereof, should be aligned with those available to the workforce.

During the year the Group contributed to a money purchase pension scheme on behalf of the executive Directors. The number of Directors who are currently accruing benefits under a pension scheme is 1 (2021: 1). Mark Webster was entitled

Remuneration Committee Report

to Group pension contributions of 10% of his basic salary, although he sacrificed this entitlement for an increase in salary of the same amount. Charlie Peppiatt is currently entitled to Group pension contributions of 6% of his basic salary, although he sacrificed this entitlement for an increase in salary of the same amount. Chris Jewell is entitled to Group pension contributions of 6% of his basic salary, although he has sacrificed part of that entitlement for an increase in salary of the same amount.

Directors' Contracts

The Executive Directors have rolling service contracts. The Chief Executive Officer's contract is subject to twelve months' notice and the Chief Financial Officer's contract is subject to six months' notice. The Chairman and non-executive Directors do not have contracts of service.

Malus and Clawback

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

Long Term Incentive Plan (Audited)

There were no exercises under the Long Term Incentive Plan by the Directors in either the year ended 30 September 2021 or 30 September 2022.

Director shareholdings (Audited)

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

	Number of shares at 30 September 2022	% of salary As at 30 September 2022	Number of shares at 30 September 2021	% of salary As at 30 September 2021
Executive Directors				
Charlie Peppiatt	-	-	N/A	N/A
Chris Jewell	1,278	3%	1,278	6%
Mark Webster*	N/A	N/A	36,366	140%
Non-Executive Directors				
Gary Bullard	22,567	N/A	11,572	N/A
Brian Phillipson	3,460	N/A	1,954	N/A
Louise Evans	473	N/A	473	N/A
Jim Haynes	-	-	-	N/A

* Mark Webster retired as a Director on 13 September 2022.

Shareholding guidelines

Executive Directors are required to maintain a qualifying interest in the ordinary shares of the Company. The Chief Executive Officer and the Chief Financial Officer are required to hold 200% and 100% of salary respectively in G&H shares, a holding which will be built up through shares vesting under the LTIP over time. The Directors are not now permitted to sell shares vesting under the LTIP unless the specified shareholding has been achieved, other than sale of shares to satisfy tax obligations.

Executive Directors are required to hold shares with a value of 100% of salary for a period of one year post cessation of employment at G&H. This requirement does not apply to shares already held by Executive Directors on appointment, any shares vesting in relation to the LTIP granted prior to 30 September 2021, or those purchased by Directors.

It should be noted that the shares purchased via the Bonus scheme for Chris Jewell this year will not be considered to be a personal purchase and therefore will not be excepted from the holding requirements.

Remuneration Committee Report

The Gooch & Housego 2013 Long Term Incentive Plan (Audited)

The Gooch & Housego 2013 LTIP was adopted on 9 April 2013. Under the plan, awards will be made annually to Directors and key employees based on a percentage of salary or management grade. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Group three years after the grant date. For any vesting shares in relation to all extant awards, after sales to satisfy tax obligations, 50% must be held for a further year and 50% must be held for a further two years. The exercise price of all awards is nil.

	Date of grant	At 01.10.2021	----- Number of ordinary shares under option -----			At 30.09.2022	Expiry Date
			Awarded in year	Exercised in year	Lapsed		
Executive							
M Webster	08.01.2019	26,676	-	-	(26,676)	-	08.01.2023
M Webster	13.01.2020	29,942	-	-	-	29,942	13.01.2024
M Webster	07.01.2021	32,835	-	-	-	32,835	07.01.2025
M Webster	07.01.2021	21,890	-	-	-	21,890	07.01.2024
M Webster	13.01.2022	-	35,021	-	-	35,021	13.01.2025
C Jewell							
C Jewell	13.01.2020	37,867	-	-	(12,622)	25,245	13.01.2024
C Jewell	07.01.2021	22,839	-	-	-	22,839	07.01.2025
C Jewell	07.01.2021	18,686	-	-	-	18,686	07.01.2024
C Jewell	13.01.2022	-	24,360	-	-	24,360	13.01.2025

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.

As noted above, the current LTIP scheme does not permit further grants after April 2023 and therefore a new scheme will be defined during 2023. FIT is currently assisting with the drafting of the new scheme which the Committee aims to finalise by September 2023.

The Gooch & Housego PLC Save As You Earn Scheme (Audited)

The Gooch & Housego PLC Save As You Earn Scheme was established in February 2021 and is open to all UK employees. The scheme allows participants to save up to a maximum of £100 per month over the three year vesting period. Participants commit to a fixed monthly savings amount at the start of the savings period and are granted options at a 10% discount to the market price of Gooch & Housego PLC shares on the date of commencement of the vesting period. There were no grants of options under the SAYE scheme during the year ended 30 September 2022.

	Date of grant	At 01.10.2021	----- Number of ordinary shares under option -----			At 30.09.2022	Expiry Date
			Awarded in year	Exercised in year	Lapsed		
Executive							
M Webster	26.03.2021	310	-	-	(310)	-	26.03.2025
C Jewell	26.03.2021	310	-	-	-	310	26.03.2025

During the year ended 30 September 2022, £743,000 (2021: £735,000) was charged to the income statement in respect of the IFRS 2 share-based payments charge on all share option schemes and a credit of £17,000 (2021: debit £25,000) in respect of employer's national insurance contributions, based on a year end share price of £5.75 (2021: £12.60).

Brian Phillipson

Chairman of the Remuneration Committee

6 December 2022

Independent Auditors' Report

to the Members of Gooch & Housego PLC

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2022 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Group and Company Balance Sheets as at 30 September 2022; the Group Income Statement and Group Statement of Comprehensive Income, the Group and Company Cash Flow Statements and the Group and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The UK audit team performed an audit of the complete financial information of three operating units in the USA (Gooch & Housego (Palo Alto) LLC, Gooch & Housego (California) LLC and Gooch & Housego (Ohio) LLC and three operating units in the UK (Integrated Technologies Limited, Gooch & Housego (Torquay) Limited and Gooch & Housego (UK) Limited) as well as the Company based in the UK (Gooch & Housego PLC).
- Additional procedures were also performed at Group level in respect of centralised processes and functions, including the audit of consolidation journals.
- Specified procedures were also performed by the UK audit team on certain other balances and transactions within the remaining fourteen reporting units, along with analytical procedures on all of the remaining reporting units.
- Taken together, these seven reporting units (post consolidation entries) account for 85% of Group's revenue.

Key audit matters

- Goodwill impairment assessment (Group)
- Investments impairment assessment (Company)

Independent Auditors' Report

to the Members of Gooch & Housego PLC

Materiality

- Overall Group materiality: £1,248,000 (2021: £1,239,000) based on 1% of total revenue.
- Overall Company materiality: £376,000 (2021: £300,000) based on 1% of total assets restricted by Group scoping.
- Performance materiality: £936,000 (2021: £929,250) (Group) and £282,000 (2021: £225,000) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Investments impairment assessment (Company) is a new key audit matter this year. Impact of COVID-19 on the financial statements (Group and Company), which was a key audit matter last year, is no longer included because of the notable impacts being mainly endured in the prior financial year, with all sites re-opening following the last lock-down and trading continuously through this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment (Group) At 30 September 2022, the Consolidated Statement of Financial Position includes £35.6 million of goodwill (2021: £36.7 million). In accordance with International Accounting Standards (IAS 36 – Impairment of Assets), management has performed impairment reviews in relation to the goodwill held in the Group's cash generating units (CGUs). During the year management redefined the CGUs to which the goodwill and other assets are allocated following the transition from a technology based model to a regional based model. Management has considered the recoverable amount of each of the CGUs including the preparation of value in use calculations for each of the CGUs using the board approved strategic plan. The impairment reviews include significant estimates and judgements in respect of future growth rates and cash flows, and the discount rate employed. The Group recorded an impairment charge of £6.7m on the carrying value of its goodwill and other acquired intangible assets held in respect of the UK CGU. This was as a consequence of an increase in the Group's weighted average cost of capital which has been driven higher by increased costs of borrowing in the market as well as the weaker financial performance of that CGU in the financial year.	We obtained managements' assessment of recoverable amount of each CGU, including cash flow forecasts supporting management's calculation of value in use and assessed the appropriateness of key assumptions. We considered the methodology used by management in performing the assessments and challenged key inputs. We have performed an assessment of management's redefinition of the CGUs to confirm the appropriateness of the change. Our testing included the following procedures: <ul style="list-style-type: none">• We have obtained evidence behind the forecasts in order to challenge the key judgements and estimates, including the redefinition of the CGUs used in relation to the impairment assessment;• We have agreed the impairment model to the 3-year strategic plan and tested the mathematical accuracy of the model;• We have assessed whether the forecast Revenues and EBITDA margins are reasonable by comparing them to external third party market data, historical trends and by considering the accuracy of management's historic forecasting;• We have compared revenue forecasts against current order books and pipeline analysis, including verifying a sample of orders to customer purchase orders;• We have considered plausible downside sensitivities to assess if there is still appropriate headroom under different scenarios;• We have also assessed the reasonableness of the assumed long-term growth rate in light of external market studies relevant to the Group; and• We have used our in-house valuation experts to consider the appropriateness of the discount rate used compared to wider market and sector benchmarks.

Independent Auditors' Report

to the Members of Gooch & Housego PLC

Key audit matter	How our audit addressed the key audit matter
	<p>Based on our audit work, we are satisfied that the assumptions in the value in use model are reasonable and the impairment charge recorded is reasonable.</p> <p>We have concluded that the disclosures in the Financial Statements in respect of the key assumptions and sensitivities that would result in further impairment are appropriate. Based upon our audit work, we concur with the assessment performed. We consider that the carrying value of the goodwill balance is fairly stated based on materiality and that the disclosures in the Financial Statements are appropriate.</p>
Investments impairment assessment (Company)	
<p>At 30 September 2022, the Company's Statement of Financial Position included £35.7m of investments in subsidiaries (2021: £51.6m). In accordance with the requirements of IFRS (IAS 36 – Impairment of Assets), management has performed an analysis comparing the carrying amount of the investments with the recoverable amount. As a result of this exercise, an impairment of £16.2m has been recognised in relation to investments in entities that have been subject to corporate restructuring. For the entities impaired there are no future cash flows to consider hence an impairment charge has been recognised to write the carrying value down to nil.</p>	<p>We obtained the relevant subsidiary's cash flow forecasts supporting management's assessments and evaluated the appropriateness of key assumptions, including the procedures set out in the Goodwill impairment assessment (Group).</p> <p>We assessed the methodology used by management in performing the assessments and challenged and evaluated key inputs. Based on this work, we concur with the assessment performed and with the impairment charge recognised. We consider the carrying value of the investment balance to be fairly stated.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The UK team performed an audit of the complete financial information of three operating units in the USA (Gooch & Housego (Palo Alto) LLC, Gooch & Housego (California) LLC and Gooch & Housego (Ohio) LLC) and three operating units in the UK (Integrated Technologies Limited, Gooch & Housego (Torquay) Limited, Gooch & Housego (UK) Limited) as well as the Company based in the UK (Gooch & Housego PLC).

Additional procedures were also performed at Group level in respect of centralised processes and functions, including the audit of consolidation journals.

Specified procedures were also performed by the UK audit team on certain other balances and transactions within the remaining fourteen reporting units, along with analytical procedures on all of the remaining reporting units.

Taken together, these seven reporting units (post consolidation entries) account for 85% of Group's revenue.

The Company consists of one reporting unit which was subject to a full scope audit.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Independent Auditors' Report

to the Members of Gooch & Housego PLC

	Financial statements - Group	Financial statements - Company
<i>Overall materiality</i>	£1,248,000 (2021: £1,239,000).	£376,000 (2021: £300,000).
<i>How we determined it</i>	1% of total revenue.	1% of total assets
<i>Rationale for benchmark applied</i>	Overall materiality in the current year has been based on 1% of the Group's revenue. This is in line with the prior year and is considered the most appropriate benchmark. We have also considered this benchmark in relation to other similar sized AIM listed entities in similar industries and performed a benchmarking assessment to ensure its appropriateness.	We determined our materiality based on total assets, which is more applicable than a performance-related measure as the Company is primarily an investment holding Company for the Group and does not have any revenues as a result. We have restricted this as part of our Group scoping exercise.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £376,000 and £966,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £936,000 (2021: £929,250) for the Group financial statements and £282,000 (2021: £225,000) for the Company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £62,000 (Group audit) (2021: £61,500) and £19,000 (Company audit) (2021: £15,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Evaluation of management's going concern assessment and related disclosure in the financial statements.
- Evaluation of the Group's forecast financial performance, liquidity and covenant compliance over the going concern period.
- Evaluation of stress testing performed by management in their downside scenario and consideration of whether the stresses applied are appropriate for assessing going concern.
- Validation of the terms of the current banking facilities.

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

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

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

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

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

Independent Auditors' Report

to the Members of Gooch & Housego PLC

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 30 September 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Corporate governance statement

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

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

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

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

Independent Auditors' Report

to the Members of Gooch & Housego PLC

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Independent Auditors' Report

to the Members of Gooch & Housego PLC

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Jason Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
6 December 2022

Group Income Statement

For the year ended 30 September 2022

	Note	30 September 2022			30 September 2021		
		Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
		£'000	(Note 13) £'000	£'000	£'000	(Note 13) £'000	£'000
Revenue	6	124,802	-	124,802	124,074	-	124,074
Cost of revenue		(85,741)	-	(85,741)	(82,753)	-	(82,753)
Gross profit		39,061	-	39,061	41,321	-	41,321
Research and development		(9,181)	-	(9,181)	(8,147)	-	(8,147)
Sales and marketing expenses		(8,697)	-	(8,697)	(8,342)	-	(8,342)
Administration expenses		(12,879)	(3,695)	(16,574)	(12,294)	(7,941)	(20,235)
Impairment of goodwill and acquired intangible assets	18	-	(6,726)	(6,726)	-	-	-
Other income	8	560	-	560	804	-	804
Operating profit	6	8,864	(10,421)	(1,557)	13,342	(7,941)	5,401
Finance income	11	-	-	-	1	-	1
Finance costs	11	(717)	-	(717)	(722)	-	(722)
Profit before income tax expense		8,147	(10,421)	(2,274)	12,621	(7,941)	4,680
Income tax expense	12	(1,326)	1,590	264	(2,368)	1,092	(1,276)
Profit / (loss) for the year		6,821	(8,831)	(2,010)	10,253	(6,849)	3,404
Basic earnings per share	15	27.2p	(35.2p)	(8.0p)	41.0p	(27.4p)	13.6p
Diluted earnings per share	15	27.0p	(35.0p)	(8.0p)	40.5p	(27.0p)	13.5p

Group Statement of Comprehensive Income

For the year ended 30 September 2022

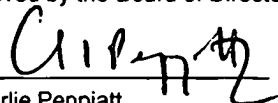
	Note	2022 £000	2021 £000
(Loss) / profit for the year		(2,010)	3,404
Other comprehensive (expense)/income – Items that may be reclassified subsequently to profit or loss			
Losses on cash flow hedges	27	(1,137)	(468)
Currency translation differences	27	9,774	(1,621)
Other comprehensive income / (expense) for the year net of tax		8,637	(2,089)
Total comprehensive income for the year attributable to the shareholders of Gooch & Housego PLC		6,627	1,315

Group Balance Sheet

For the year ended 30 September 2022

	Note	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	16	42,447	37,945
Right of use assets	17	5,063	5,230
Intangible assets	18	47,939	50,835
Deferred income tax assets	25	1,969	1,883
		97,418	95,893
Current assets			
Inventories	19	37,073	28,150
Trade and other receivables	20	35,598	28,310
Cash and cash equivalents	21	5,999	8,352
		78,670	64,812
Current liabilities			
Trade and other payables	22	(22,765)	(19,324)
Borrowings	23	(64)	(65)
Lease liabilities	23	(1,732)	(1,588)
Income tax liabilities		(578)	(481)
		(25,139)	(21,458)
Net current assets		53,531	43,354
Non-current liabilities			
Borrowings	23	(18,730)	(10,903)
Lease liabilities	23	(4,539)	(5,039)
Provisions for other liabilities and charges	24	(848)	(1,447)
Deferred income tax liabilities	25	(8,291)	(7,582)
		(32,408)	(24,971)
Net assets		118,541	114,276
Shareholders' equity			
Called up share capital	26	5,008	5,008
Share premium account	27	16,000	16,000
Merger reserve	27	7,262	7,262
Cumulative translation reserve	27	15,828	6,054
Hedging reserve	27	(1,272)	(135)
Retained earnings	27	75,715	80,087
Total equity		118,541	114,276

The financial statements for Gooch & Housego PLC, registered number 00526832, on pages 75 to 118 were approved by the Board of Directors on 6 December 2022 and signed on its behalf by:


 Charlie Peppiatt
 Director


 Chris Jewell
 Director

Group Statement of Changes in Equity

For the year ended 30 September 2022

	Note	Called up share capital £000	Share premium account £000	Merger reserve £000	Retained earnings £000	Hedging Reserve £000	Cumulative translation reserve £'000	Total equity £000
At 1 October 2020		5,008	16,000	7,262	77,075	333	7,675	113,353
Profit for the financial year		-	-	-	3,404	-	-	3,404
Other comprehensive expense for the year		-	-	-	-	(468)	(1,621)	(2,089)
Total comprehensive income / (expense) for the year		-	-	-	3,404	(468)	(1,621)	1,315
Dividends	14	-	-	-	(1,127)	-	-	(1,127)
Share-based payments		-	-	-	735	-	-	735
Total contributions by and distributions to owners of the parent recognised directly in equity		-	-	-	(392)	-	-	(392)
At 30 September 2021		5,008	16,000	7,262	80,087	(135)	6,054	114,276
At 1 October 2021		5,008	16,000	7,262	80,087	(135)	6,054	114,276
Loss for the financial year		-	-	-	(2,010)	-	-	(2,010)
Other comprehensive (expense) / income for the year		-	-	-	-	(1,137)	9,774	8,637
Total comprehensive (expense) / income for the year		-	-	-	(2,010)	(1,137)	9,774	6,627
Dividends	14	-	-	-	(3,105)	-	-	(3,105)
Share-based payments		-	-	-	743	-	-	743
Total contributions by and distributions to owners of the parent recognised directly in equity		-	-	-	(2,362)	-	-	(2,362)
At 30 September 2022		5,008	16,000	7,262	75,715	(1,272)	15,828	118,541

Group Cash Flow Statement

For the year ended 30 September 2022

	2022 £000	2021 £000
Cash flows from operating activities		
Cash generated from operations	6,084	16,822
Income tax repaid / (paid)	456	(575)
Net cash generated from operating activities	6,540	16,247
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	-	(3,250)
Purchase of property, plant and equipment	(6,669)	(5,399)
Sale of property, plant and equipment	-	38
Purchase of intangible assets	(1,899)	(844)
Interest received	-	1
Interest paid	(717)	(505)
Net cash used in investing activities	(9,285)	(9,959)
Cash flows from financing activities		
Drawdown of borrowings	6,300	-
Repayment of borrowings	(1,312)	(14,093)
Principal elements of lease payments	(1,584)	(2,047)
Dividends paid to ordinary shareholders	(3,105)	(1,127)
Net cash generated from / (used by) financing activities	299	(17,267)
Net decrease in cash	(2,446)	(10,979)
Cash at beginning of the year	8,352	19,734
Exchange losses on cash	93	(403)
Cash at the end of the year	5,999	8,352

Notes to the Group Cash Flow Statement

For the year ended 30 September 2022

Reconciliation of cash generated from operations

	2022 £000	2021 £000
(Loss) / profit before income tax	(2,274)	4,680
Adjustments for:		
- Amortisation of acquired intangible assets	1,903	2,081
- Amortisation of other intangible assets	1,438	1,275
- Impairment of intangible assets	6,726	-
- Loss on disposal of property, plant and equipment	71	95
- Write back of lease creditor on early termination of lease	(96)	-
- Depreciation	7,102	7,030
- Share based payment charge	743	735
- Amounts claimed under the RDEC	(200)	(280)
- Finance income	-	(1)
- Finance costs	717	722
Total	18,404	11,657
Changes in working capital		
- Inventories	(5,557)	1,888
- Trade and other receivables	(5,707)	(2,655)
- Trade and other payables	1,218	1,252
Total	(10,046)	485
Cash generated from operating activities	6,084	16,822

Notes to the Group Cash Flow Statement

For the year ended 30 September 2022

Reconciliation of net cash outflow to movements in net debt

	2022 £000	2021 £000
Decrease in cash in the year	(2,446)	(10,979)
Drawdown of borrowings	(6,300)	-
Repayment of borrowings	3,144	16,140
Changes in net cash resulting from cash flows	(5,602)	5,161
New leases	(25)	(510)
Translation differences	(4,031)	1,236
Non cash movements	(165)	(393)
Movement in net debt in the year	(9,823)	5,494
Net debt at 1 October	(9,243)	(14,737)
Net debt at 30 September	(19,066)	(9,243)

Analysis of net debt

	At 1 Oct 2021 £000	Cash flow £000	New leases £'000	Exchange movement £000	Non-cash movements £'000	At 30 Sep 2022 £000
Cash at bank and in hand	8,352	(2,446)	-	93	-	5,999
Debt due within 1 year	(65)	1,312	-	-	(1,311)	(64)
Debt due after 1 year	(10,903)	(6,300)	-	(2,999)	1,472	(18,730)
Leases	(6,627)	1,832	(25)	(1,125)	(326)	(6,271)
Net debt	(9,243)	(5,602)	(25)	(4,031)	(165)	(19,066)

Analysis of net debt

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

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

Notes to the Group Financial Statements

For the year ended 30 September 2022

1. General information

Gooch & Housego PLC (the Company) is a public limited company limited by shares 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 140.

The consolidated financial statements of the Group for the year ended 30 September 2022 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 128.

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

2. Basis of preparation

These financial statements have been prepared under the historical cost convention as modified by financial assets and financial liabilities at fair value and in accordance with UK adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Going concern

The financial statements have been prepared on a going concern basis.

The Directors have reviewed the current financial forecasts for FY2023 and FY2024. They have assessed the future funding requirements and covenant performance of the Group and compared them with available borrowing facilities. Details of the financial and liquidity positions of the Group are given on page 29.

At 30 September 2022 the Group has a strong balance sheet with net current assets of £53.5m. The Group's cash and undrawn available facilities totalled £49.7m.

The Directors have reviewed severe but plausible scenarios that estimate the potential impact of the principal risks that the Group faces (see pages 43 to 44 of this report) on the financial forecasts. These include the impact of a possible recession and/or further waves of the pandemic, and the resultant reduced demand in certain of the Group's markets, most notably commercial aerospace and the Industrial laser market driven by softness in consumer end market demand. They also included the effect of erosion of sales prices due to competition, the potential impact of a cyber-attack and a reduction in forecast revenue to illustrate the potential effect of a loss of key personnel or inability to hire for a key role. This assessment covered not only the coming 12 month period but also for the period to September 2025 in order to support the Viability Statement given on page 54.

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

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

Notes to the Group Financial Statements

For the year ended 30 September 2022

3. Application of IFRS

Adoption of new standards

The following amended standards and interpretations were effective for the financial year ended 30 September 2022, however, they have not had a material impact on our consolidated financial statements:

- Amendments to IFRS 7, IFRS 4, and IFRS 16 – Interest rate benchmark reform – Phase 2 impacts on IFRS9, IAS39, IFRS7, IFRS4 and IFRS16, effective for accounting periods on or after 1 January 2021.
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (effective 1 January 2021)
- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions Extension of the practical expedient (effective 1 April 2021).

None of the amendments to the above standards had a material impact on the Financial Statements.

The following other amended standards and interpretations have been issued but were not mandatory for the financial year ended 30 September 2022. These are not expected to have a material impact on the consolidated financial statements.

- The Companies (Strategic Report) (Climate – related Financial Disclosure) Regulations 2022 (SI 2022/31), effective for accounting periods beginning on or after 6 April 2022.
- Amendments to IAS 1 – Presentation of Financial Statements on Classification of Liabilities (effective 1 January 2023).

Work will continue in the new financial year to assess the impact of the new standards and interpretations on the Group's Financial Statements.

Notes to the Group Financial Statements

For the year ended 30 September 2022

4. Accounting policies

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

Consolidation

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

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

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

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

Subsidiary audit exemptions

Gooch & Housego (UK) Limited (05890426), Gooch & Housego (Torquay) Limited (04381203), Spanoptic Limited (SC192283), Kent Periscopes Limited (05417618), G&H US Holdings Limited (06382710), G&H Property Holdings Limited (04649035), Integrated Technologies Limited (01300238), Integrated Technologies (Holdings) Limited (02635933), VITL Limited (08473871) and ORF Limited (01873862) are exempt from the requirement to file audited financial statements by virtue of Section 479A of the Companies Act 2006. As part of this process, the Company has provided statutory guarantees to these subsidiaries.

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

Notes to the Group Financial Statements

For the year ended 30 September 2022

liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

c. Subsidiaries

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

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

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

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

Property, plant and equipment

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

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

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

• Freehold buildings	2-3%	Straight-line
• Leasehold property	over term of lease	Straight-line
• Plant and machinery	6-20%	Straight-line
• Fixtures, fittings and computers	6-33%	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.

Notes to the Group Financial Statements

For the year ended 30 September 2022

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. Further information is given in note 18.

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 of 5 – 10 years 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 of 5 – 10 years.

c. Computer software

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

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

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

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

d. Research and development

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

Development costs incurred after the point at which the commercial and technical feasibility of the product have been proven, and the decision to complete the development has been taken and resources made available, are capitalised. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development costs are amortised using the straight line method over their estimated useful life lives, which is typically 5 years, and are charged to Research and Development in the income statement.

Notes to the Group Financial Statements

For the year ended 30 September 2022

e. Acquired intangibles

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

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

- Customer relationships up to 10 years
- Brand names up to 10 years
- Acquired patents, trademarks and licences up to 3 years

Government grants

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

Impairment of non-financial assets

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

Inventories

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

Trade receivables

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

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

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

Cash and cash equivalents

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

Trade payables

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

Notes to the Group Financial Statements

For the year ended 30 September 2022

Borrowings

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

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

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

Derivatives and hedging activities

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

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

The hedges entered into during FY2022 have been assessed as effective and therefore the Group has applied hedge accounting. Accordingly, movements in the fair value of the hedges have been recorded in reserves.

Current and deferred income tax

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

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

Amounts claimed under the Research and Development Expenditure Credit scheme have been recognised within operating profit.

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

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

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

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

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

In the UK and US, the Group 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 Group'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 Group's

Notes to the Group Financial Statements

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share price at the balance sheet date) with the cumulative amount of the compensation recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity.

Employee benefits

a. Pension obligations

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

b. Profit share and bonus plans

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

c. Share options

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

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

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

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

Provisions

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

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

Non underlying items

Transactions are classified as non-underlying where they relate to an event that falls outside the ordinary activities of the business and where individually or in aggregate they have a material impact on the financial statements. These may include, but are not restricted to: restructuring costs, adjustments to the fair value of acquisition related items such as contingent consideration, acquired intangible asset amortisation or impairment and other items due to their significance, size or nature, and the related taxation.

Notes to the Group Financial Statements

For the year ended 30 September 2022

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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

Lease payments included in the measurement of the lease liability comprise:

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

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

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

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

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

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

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

For short-term leases (leases with a term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating expenses in the Income Statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead

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For the year ended 30 September 2022

account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

Share capital

Ordinary shares are classified as equity.

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

Revenue recognition

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

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

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

Interest income

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

Dividend distribution

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

Earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to the owners of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share adjusted the figures used in the determination of basic earnings per share to consider:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding, assuming the conversion of all dilutive potential ordinary shares.

Notes to the Group Financial Statements

For the year ended 30 September 2022

5. Critical accounting estimates and judgments

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

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

Critical accounting estimates

Carrying value of goodwill

The Group tests goodwill for impairment at least annually. This requires an estimation of the value in use of the cash generating units (the CGUs) to which goodwill is allocated. The value in use calculations are based on forecast cash flows of the CGU discounted at the appropriate weighted average cost of capital. These calculations have a number of significant variables including forecast revenue and margins, working capital movements and maintenance capital expenditure levels. The calculations are also sensitive to the discount rate used. Further details are given in note 18.

Inventory provision

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

The provision for inventory obsolescence amounts to 17.3% of the gross inventory value (2021: 20.6%). The Directors are satisfied that this provision is appropriate. An increase in the provision amounting to 2% of the gross inventory value would increase the provision by £0.9m.

Critical accounting judgements

Non-underlying items

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

Notes to the Group Financial Statements

For the year ended 30 September 2022

6. Segmental analysis

The Group's segmental reporting reflects the information that management uses within the business. The business is divided into three market sectors, being Aerospace and Defence, Life Sciences/Biophotonics and Industrial, together with the Corporate cost centre.

The Industrial business segment primarily comprises the Industrial laser market for use in the semiconductor and microelectronic industries, but also includes other Industrial applications such as metrology, telecommunications and scientific research. Further information can be found in our Operations Review on pages 20-25.

	Aerospace and Defence	Life Sciences/Bio photonics	Industrial	Corporate	Total
	£000	£000	£000	£000	£000
For year ended 30 September 2022					
Revenue					
Total revenue	32,992	33,190	69,316	-	135,498
Inter and intra-division	(2,439)	(3,494)	(4,763)	-	(10,696)
External revenue	30,553	29,696	64,553	-	124,802
Divisional expenses	(31,220)	(24,640)	(53,437)	107	(109,190)
EBITDA¹	(667)	5,056	11,116	107	15,612
EBITDA %	(2.2%)	17.0%	17.2%	-	12.5%
Depreciation and amortisation	(2,745)	(1,378)	(3,803)	(614)	(8,540)
Operating (loss) / profit before amortisation of acquired intangible assets	(3,412)	3,678	7,313	(507)	7,072
Amortisation and impairment of acquired intangible assets	-	-	-	(8,629)	(8,629)
Operating (loss) / profit	(3,412)	3,678	7,313	(9,136)	(1,557)
Operating (loss) / profit margin %	(11.2%)	12.4%	11.3%	-	(1.2%)
Add back non-underlying items and amortisation of acquired intangibles	746	273	1,093	8,309	10,421
Adjusted operating (loss) / profit	(2,666)	3,951	8,406	(827)	8,864
Adjusted (loss) / profit margin %	(8.7%)	13.3%	13.0%	-	7.1%
Finance costs	(113)	(56)	(130)	(418)	(717)
(Loss) / Profit before income tax expense	(3,525)	3,622	7,183	(9,554)	(2,274)

Notes to the Group Financial Statements

For the year ended 30 September 2022

6. Segmental analysis (continued)

	Aerospace and Defence	Life Sciences /Biophotonics	Industrial	Corporate	Total
	£000	£000	£000	£000	£000
For year ended 30 September 2021					
Revenue					
Total revenue	43,619	30,546	59,598	-	133,763
Inter and intra-division	(2,530)	(3,113)	(4,046)	-	(9,689)
External revenue	41,089	27,433	55,552	-	124,074
Divisional expenses	(37,656)	(22,367)	(48,180)	(84)	(108,287)
EBITDA¹	3,433	5,066	7,372	(84)	15,787
EBITDA %	8.4%	18.5%	13.3%	-	12.7%
Depreciation and amortisation	(2,877)	(1,561)	(2,856)	(1,011)	(8,305)
Operating profit before amortisation of acquired intangible assets	556	3,505	4,516	(1,095)	7,482
Amortisation of acquired intangible assets	-	-	-	(2,081)	(2,081)
Operating profit	556	3,505	4,516	(3,176)	5,401
Operating profit margin %	1.4%	12.8%	8.1%	-	4.4%
Add back non-underlying items and amortisation of acquired intangibles	2,581	738	2,541	2,081	7,941
Adjusted operating profit	3,137	4,243	7,057	(1,095)	13,342
Adjusted profit margin %	7.6%	15.5%	12.7%	-	10.8%
Finance costs	(144)	(36)	(152)	(389)	(721)
Profit before income tax expense	412	3,469	4,364	(3,565)	4,680

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

Management have added back the amortisation and impairment of acquired intangibles and goodwill, restructuring costs, site closure costs and CEO succession costs in the above analysis. This has been shown because the Directors consider the analysis to be more meaningful excluding the impact of these non-underlying expenses.

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

Analysis of revenue by type:

	2022 £000	2021 £000
Revenue from long term contracts	7,281	4,322
Revenue from sale of products	117,521	119,752
Total revenue	124,802	124,074

Notes to the Group Financial Statements

For the year ended 30 September 2022

6. Segmental analysis (continued)

Analysis of net assets by location:

	2022 Assets £000	2022 Liabilities £000	2022 Net Assets £000	2021 Assets £000	2021 Liabilities £000	2021 Net Assets £000
United Kingdom	72,870	(33,909)	38,961	85,163	(28,240)	56,923
USA	101,574	(23,472)	78,102	73,858	(18,006)	55,852
Continental Europe	488	(52)	436	660	(64)	596
Asia Pacific	1,156	(114)	1,042	1,024	(119)	905
	176,088	(57,547)	118,541	160,705	(46,429)	114,276

For the year to 30 September 2022 non-current asset additions were £5.5m (2021: £4.3m) for the UK and for the USA £3.3m (2021: £2.5m). There were no additions to non-current assets in respect of Europe (2021: £nil) or the Asia Pacific region (2021: £nil). The value of non-current assets in the USA was £56.4m (2021: £48.1m) and in the United Kingdom £41.5m (2021: £47.8m). There were no non-current assets in Europe or the Asia-Pacific region.

Analysis of revenue by destination:

	2022 £000	2021 £000
United Kingdom	27,848	31,339
North America	47,267	45,915
Continental Europe	26,749	23,383
Asia Pacific and Other	22,938	23,437
Total revenue	124,802	124,074

7. Expenses by nature

	Note	2022 £000	2021 £000
Raw materials and consumables		45,520	47,846
Changes in inventory		3,996	2,736
Employee costs	9	54,368	50,399
Other operating charges		6,506	8,529
Depreciation on property, plant and equipment		5,839	5,298
Depreciation on right of use assets		1,263	1,732
Amortisation of acquired intangible assets		1,903	2,081
Amortisation of other intangible assets		1,438	1,275
Impairment of goodwill and other intangible assets	18	6,726	-
Net gains on foreign exchange		(640)	(419)
		126,919	119,477

Notes to the Group Financial Statements

For the year ended 30 September 2022

8. Other income

	2022 £000	2021 £000
Grants receivable	363	420
Amounts claimed under the RDEC	197	280
Other (expense) / income	-	104
	560	804

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

9. Employee benefit expense

	2022 £000	2021 £000
Wages and salaries	43,377	40,934
Social security costs	4,200	3,473
Share based payment charge	743	735
Medical and other insurance	3,638	3,063
Other pension costs	2,410	2,194
	54,368	50,399

The monthly average number of employees during the year was:

	2022 Number	2021 Number
Manufacturing	635	632
Sales, finance and administration	254	276
	889	908

Key management compensation

	2022 £000	2021 £000
Salaries and other short-term benefits	4,936	5,445
Share based payments	743	707
Other pension costs	267	249
	5,946	6,401

Key management comprise the Executive Board and the management layer reporting directly to the Executive Directors.

Directors' remuneration, including the highest paid Director, has been included on page 64 of the Remuneration Committee Report. These disclosures have been audited.

Notes to the Group Financial Statements

For the year ended 30 September 2022

10. Auditors' remuneration

PwC's remuneration comprised:

	2022 £000	2021 £000
Fees payable to the Group's auditors for the audit of the parent company and consolidated financial statements	52	50
Fees payable to the Group's auditors and their associates for other services:		
- audit of the Company's subsidiaries pursuant to legislation	174	156
- taxation compliance services	-	111
- taxation advisory services	-	91
	226	408

11. Finance income and costs

	2022 £000	2021 £000
Finance income comprises:		
- Bank interest	-	1
	-	1
Finance costs comprise:		
- Bank interest	(469)	(430)
- Lease interest	(248)	(292)
	(717)	(722)

Notes to the Group Financial Statements

For the year ended 30 September 2022

12. Income tax expense

Analysis of tax (credit) / charge in the year

	2022 £000	2021 £000
Current taxation		
UK Corporation tax	399	722
Overseas tax	(3)	292
Adjustments in respect of prior years	(678)	(807)
Total current tax	(282)	207
Deferred tax		
Origination and reversal of temporary differences	(422)	1
Adjustments in respect of prior years	313	549
Change to UK tax rate	127	519
Total deferred tax	18	1,069
Income tax (income) / expense per income statement	(264)	1,276

The taxation (income) / expense for the year is lower (2021: higher) than the standard rate of corporation tax in the UK. An explanation of the differences is detailed below:

	2022 £000	2021 £000
(Loss) / profit before income tax expense	(2,274)	4,680
(Loss) / profit at the standard rate of tax of 19.0% for the year (2021: 19.0%)	(432)	889
Permanent differences	1,105	140
Adjustments in respect of foreign tax rates	(32)	46
Effect of UK rate change on deferred tax balances	127	519
Other timing differences	28	(60)
Adjustments in respect of prior years	(365)	(258)
Release of deferred tax liability in relation to goodwill	(695)	-
Total tax (income) / expense	(264)	1,276

Factors affecting the future tax charge

Overseas tax losses of £11.1m (2021: £9.2m) and UK tax losses of £nil (2021: £0.8m) are available against future profits of the Group. The utilisation of these losses is not sufficiently certain to recognise a deferred tax asset.

In the Spring budget 2021, the Government announced that from 1 April 2023, the corporation tax rate will increase to 25%. This change was substantively enacted on 24 May 2021; as such deferred tax liabilities and assets have been recalculated and recorded at the rate they are expected to unwind.

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For the year ended 30 September 2022

13. Non-underlying items

	2022 £000	2021 £000
Included within administration expenses		
Amortisation of acquired intangible assets	1,903	2,081
Impairment of goodwill and acquired intangible assets	6,726	-
Restructuring costs	1,179	5,860
Other	613	-
	10,421	7,941
Included within taxation		
Tax effect of the non-underlying items above	(1,022)	(1,611)
Restatement of UK deferred tax balances at 25%	127	519
Release of deferred tax on goodwill	(695)	-
	(1,590)	(1,092)

Restructuring costs incurred in the year ended 30 September 2022 relate to the ongoing streamlining of our manufacturing operations and outsourcing production of our commodity AO products to a contract manufacturer in Thailand. The costs incurred in the period largely comprised staff costs, severance costs, travel costs and asset write downs at the sites being closed.

Restructuring costs incurred in the year ended 30 September 2021 related to the streamlining of our manufacturing operations and consequent closure of our Baltimore, Glenrothes and St Asaph facilities. We are also outsourcing the production of our commodity AO products to a contract manufacturer in Thailand. The costs incurred in the period largely comprised staff costs, severance costs, travel costs and asset write downs at the sites being closed.

Other non-underlying items relate to costs associated with the chief executive officer succession and principally included payment in lieu of notice and accelerated IFRS 2 costs.

The UK corporation tax rate will increase to 25% with effect from 1 April 2023. Deferred tax balances expected to reverse after that date were restated at 25% in the year ended 30 September 2021, giving rise to an income statement charge of £0.5m. During the year ended 30 September 2022, a further charge of £0.1m was incurred in relation to the tax rate differential between current and deferred tax on timing differences arising in the year.

Notes to the Group Financial Statements

For the year ended 30 September 2022

14. Dividends

	2022 £000	2021 £000
Final 2021 dividend: 7.7p per share (Final 2020 dividend paid in 2021: nil)	1,928	-
2022 Interim dividend of 4.7p per share (2021: 4.5p per share)	1,177	1,127
	3,105	1,127

The Directors have proposed a final dividend of 7.9p per share making the total dividend paid and proposed in respect of the 2022 financial year 12.6p. (2021: 12.2 p per share).

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:

	2022	2021
Number of shares used for basic earnings per share	25,040,919	25,040,919
Number of dilutive shares	211,603	239,603
Number of shares used for dilutive earnings per share	25,252,522	25,280,522

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

	2022		2021	
	£000	pence per share	£000	pence per share
Basic (losses) / earnings per share	(2,010)	(8.0p)	3,404	13.6p
Amortisation of acquired intangible assets (net of tax)	1,491	6.0p	1,621	6.5p
Impairment of goodwill and intangible assets (net of tax)	6,438	25.7p	-	-
Restructuring costs (net of tax)	944	3.8p	4,709	18.8p
Other non-underlying items (net of tax)	526	2.0p	-	-
Release of deferred tax on goodwill	(695)	(2.8p)	-	-
UK deferred tax rate change	127	0.5p	519	2.1p
Total adjustments net of income tax expense	8,831	35.2p	6,849	27.4p
Adjusted basic earnings per share	6,821	27.2p	10,253	41.0p
Basic diluted (losses) / earnings per share	(2,010)	(8.0p)	3,404	13.5p
Adjusted diluted earnings per share	6,821	27.0p	10,253	40.5p

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

Notes to the Group Financial Statements

For the year ended 30 September 2022

16. Property, plant and equipment

	Capital work in progress £000	Freehold land and buildings £000	Leasehold property £000	Plant and machinery £000	Fixtures, fittings and computers £000	Motor vehicles £000	Total £000
Cost or valuation							
At 1 October 2020	1,455	9,239	18,204	42,920	3,960	71	75,849
Additions	538	-	1,202	3,248	411	24	5,423
Disposals	-	-	(65)	(2,089)	(287)	-	(2,441)
Reclassification	(766)	-	20	722	24	-	-
Exchange rate differences	(118)	(3)	(653)	(611)	(22)	(12)	(1,419)
At 30 September 2021	1,109	9,236	18,708	44,190	4,086	83	77,412
Additions	4,050	-	411	1,444	764	-	6,669
Disposals	-	-	(24)	(227)	(59)	-	(310)
Reclassification	(2,389)	112	913	822	542	-	-
Exchange rate differences	205	165	3,274	3,825	299	19	7,787
At 30 September 2022	2,975	9,513	23,282	50,054	5,632	102	91,558
Accumulated depreciation							
At 1 October 2020	-	2,015	5,581	26,550	2,930	32	37,108
Charge for the year	-	385	1,087	3,362	454	10	5,298
Disposals	-	-	(50)	(2,030)	(264)	-	(2,344)
Exchange rate differences	-	-	(186)	(375)	(33)	(1)	(595)
At 30 September 2021	-	2,400	6,432	27,507	3,087	41	39,467
Charge for the year	-	408	1,282	3,606	532	11	5,839
Disposals	-	-	(22)	(173)	(44)	-	(239)
Reclassification	-	112	73	(528)	343	-	-
Exchange rate differences	-	162	1,317	2,333	216	16	4,044
At 30 September 2022	-	3,082	9,082	32,745	4,134	68	49,111
Net book value							
At 1 October 2020	1,455	7,224	12,623	16,370	1,030	39	38,741
At 30 September 2021	1,109	6,836	12,276	16,683	999	42	37,945
At 30 September 2022	2,975	6,431	14,200	17,309	1,498	34	42,447

No interest was capitalised in the year (2021: £Nil).

Notes to the Group Financial Statements

For the year ended 30 September 2022

17. Right of use assets

	Fixtures and fittings	Motor Vehicles	Land and Buildings	Plant and machinery	Total
	£000	£000	£000	£000	£000
Cost					
At 1 October 2020	33	45	8,213	80	8,371
Additions	-	-	481	-	481
Adjustments	-	-	21	-	21
Exchange rate differences	(1)	-	(312)	(3)	(316)
At 30 September 2021	32	45	8,403	77	8,557
Additions	14	-	188	-	202
Disposals	(9)	-	(987)	-	(996)
Exchange rate differences	6	-	1,559	16	1,581
At 30 September 2022	43	45	9,163	93	9,344
Accumulated depreciation					
At 1 October 2020	10	18	1,572	29	1,629
Charge for the year	9	18	1,679	26	1,732
Exchange rate differences	-	-	(33)	(1)	(34)
At 30 September 2021	19	36	3,218	54	3,327
Charge for the year	10	7	1,224	22	1,263
Disposals	(9)	-	(987)	-	(996)
Exchange rate differences	2	-	671	14	687
At 30 September 2022	22	43	4,126	90	4,281
Net book value					
At 1 October 2020	23	27	6,641	51	6,742
At 30 September 2021	13	9	5,185	23	5,230
At 30 September 2022	21	2	5,037	3	5,063

Notes to the Group Financial Statements

For the year ended 30 September 2022

18. Intangible assets

	Goodwill	Acquired customer relationships and order books	Acquired brands	Capitalised R&D, Patents and licences	Software and other intangibles	Total
	£000	£000	£'000	£000	£000	£000
Cost						
At 1 October 2020	53,594	30,645	4,187	4,975	4,146	97,547
Additions	-	-	-	434	411	845
Disposals	-	-	-	(139)	(423)	(562)
Transfers	-	-	-	(18)	18	-
Exchange rate differences	(1,278)	(443)	(59)	37	12	(1,731)
At 30 September 2021	52,316	30,202	4,128	5,289	4,164	96,099
Additions	-	-	-	785	1,114	1,899
Disposals	-	(12,364)	-	(414)	(118)	(12,896)
Exchange rate differences	7,012	2,182	292	22	38	9,546
At 30 September 2022	59,328	20,020	4,420	5,682	5,198	94,648
Accumulated amortisation and impairment						
At 1 October 2020	15,853	21,027	1,424	2,526	2,093	42,923
Charge for the year	-	1,662	419	729	546	3,356
Disposals	-	-	-	(110)	(419)	(529)
Exchange rate differences	(255)	(203)	(19)	(5)	(4)	(486)
At 30 September 2021	15,598	22,486	1,824	3,140	2,216	45,264
Charge for the year	-	1,500	403	791	647	3,341
Impairment charge	5,574	586	566	-	-	6,726
Disposals	-	(12,364)	-	(414)	(118)	(12,896)
Exchange rate differences	2,540	1,521	154	(3)	62	4,274
At 30 September 2022	23,712	13,729	2,947	3,514	2,807	46,709
Net book value						
At 1 October 2020	37,741	9,618	2,763	2,449	2,053	54,624
At 30 September 2021	36,718	7,716	2,304	2,149	1,948	50,835
At 30 September 2022	35,616	6,291	1,473	2,168	2,391	47,939

During the year we redefined the cash generating units (CGUs) to which the Group's goodwill and other assets are allocated and their recoverable amounts assessed by references to those CGUs future forecast cashflows. This change arose as a result of the transition of our Operations team from a technology-based model to a regionally based model. Many of the Group's support functions also operate on a regional rather than capability-based model. The CGUs identified for the financial year were therefore our UK sites, our US sites and our ITL sites given the different nature of our ITL business from the remainder of the Group.

Notes to the Group Financial Statements

For the year ended 30 September 2022

18: Intangible assets (continued)

Goodwill is allocated to the operating regions as follows: US £25.4m and UK £nil. The goodwill relating to the Ashford site, which continues to constitute a separate CGU is £10.2m.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment testing requires an estimation of the recoverable amount of the CGU, being the higher of the cash-generating unit's fair value less costs of disposal and its value in use. The value in use calculations use cash flow projections based on the latest strategic plan projections approved by the Board. The near term strategic plan is supported by detailed customer and product analysis. In the medium term forecast sales growth rates are based on past experience adjusted for the strategic direction and near-term investment priorities within each CGU. The key assumptions include growth rates in the key markets and customer demand for product lines validated by reference to third party market growth projections. Cash flow forecasts are determined based on historic experience of operating margins, adjusted for the impact of changes in product mix and delivered cost-saving initiatives. The projections do not include the benefits of any future planned restructuring or product outsourcing activity.

Management reviewed the discount rate for each operating region and concluded that it was appropriate to use a consistent rate. The following key assumptions were made:

Cash Generating Unit	Average annual growth in revenue from FY2022 to FY2025	Average annual growth in revenue from FY2025 to FY2037	Growth into perpetuity	Average operating margin to FY2037	Pre Tax Discount Rate
UK	6.5%	4.1%	2.0%	8.3%	15.8%
US	9.1%	3.0%	2.0%	15.7%	15.8%
Ashford (ITL)	6.6%	3.0%	2.0%	17.9%	15.8%

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

Cash Generating Unit	Headroom
UK	Nil
US	£43.9m
Ashford (ITL)	£7.2m

The Group recorded an impairment charge of £6.7m on the carrying value of its goodwill and other acquired intangible assets held in respect of its UK sites CGU. This was as a consequence of an increase in the Group's weighted average cost of capital which has been driven higher by increased costs of borrowing in the market as well as the weaker financial performance of that CGU in the financial year.

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

Cash Generating Unit	Effect on value in use of an increase of 1% in the discount rate	Effect of a 1% reduction in growth per annum from FY2022 to FY2025	Effect of a 1% reduction in growth per annum from FY2025 to FY2037	Effect of a 1% reduction in growth to perpetuity	Effect of a 1% reduction in operating margin from FY2023 – FY2025
US	(£10.6m)	(£5.0m)	(£5.3m)	(£3.0m)	(£1.6m)
Ashford (ITL)	(£2.6m)	(£0.4m)	(£1.7m)	(£0.7m)	(£0.4m)

Notes to the Group Financial Statements

For the year ended 30 September 2022

19. Inventories

	2022 £000	2021 £000
Raw materials	16,231	12,191
Work in progress	17,517	12,576
Finished goods	3,325	3,383
	37,073	28,150

The cost of inventories recognised as an expense and included in cost of revenue amounted to £49.5m (2021: £50.6m).

The movement in the inventories provision is as follows:

	2022 £000	2021 £000
At 1 October	7,298	7,226
(Decrease) / increase in provision	(31)	198
Exchange rate movement	477	(126)
At 30 September	7,744	7,298

20. Trade and other receivables

	2022 £000	2021 £000
Trade receivables	31,608	24,922
Other receivables	1,220	813
Contract assets	1,708	1,618
Prepayments	1,062	957
	35,598	28,310

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

	2022 £000	2021 £000
Pound Sterling	8,204	9,234
US Dollar	25,968	15,653
Euro	1,104	3,208
Other	322	215
	35,598	28,310

Notes to the Group Financial Statements

For the year ended 30 September 2022

20. Trade and other receivables (continued)

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

	2022 £000	2021 £000
Current	23,417	18,567
1.to 3 months	8,910	6,921
Over 3 months	1,543	1,515
	33,870	27,003
Less provision for impairment	(554)	(463)
Net trade receivables and contract assets	33,316	26,540

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

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

	2022 £000	2021 £000
At 1 October	463	390
Release of provision	(131)	(15)
Increase in provision	184	90
Exchange rate movement	38	(2)
At 30 September	554	463

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

21. Cash and cash equivalents

	2022 £000	2021 £000
Cash at bank and on hand	5,999	8,352

22. Trade and other payables

	2022 £000	2021 £000
Trade payables	7,698	5,306
Contract liabilities	1,063	249
Other taxation and social security	1,017	521
Derivative financial instruments	1,272	135
Accruals	11,715	13,113
	22,765	19,324

Notes to the Group Financial Statements

For the year ended 30 September 2022

23. Borrowings and lease liabilities

	2022 £000	2021 £000
Current:		
Bank borrowings	64	65
Leases	1,732	1,588
	1,796	1,653
Non-current:		
Bank borrowings	18,730	10,903
Leases	4,539	5,039
	23,269	15,942
Total borrowings and lease liabilities	25,065	17,595

The carrying values of the bank borrowings and leases are not materially different from their fair values and are included as part of the fair value disclosure for all financial instruments in note 29.

G&H's primary lending bank is NatWest Bank. The Group's facilities comprise a \$40m (£35.9m) dollar revolving credit facility and a \$30m (£26.9m) flexible acquisition facility. At 30 September 2022, the balance drawn on the revolving credit facility was \$21.3m (£19.1m) (2021: \$14.8m (£11.0m)) and on the flexible acquisition facility nil (2021: nil).

The facilities above are committed until 31 March 2027 and attract an interest rate of between 1.6% and 2.1% above the rate specified by the bank dependent upon the Group's leverage ratio, payable on rollover dates.

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

Maturity profile of bank borrowings

	2022 £000	2021 £000
Within one year	64	65
Between one and five years	18,730	10,903
	18,794	10,968

Maturity profile of lease liabilities

	2022 £000	2021 £000
Within one year	1,944	1,819
Between two and five years	3,500	4,081
After five years	1,555	1,544
	6,999	7,444

Details of lease interest charges and right of use assets are given in notes 11 and 17 respectively.

The total cash outflow in respect of leases in the year ended 30 September 2022 was £1.8m (2021: £2.0m)

Notes to the Group Financial Statements

For the year ended 30 September 2022

24. Provisions for other liabilities and charges

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

	2022 £000	2021 £000
At 1 October	1,447	1,692
Utilised during year	(832)	(257)
Increase in year	207	20
Exchange movements	26	(8)
At 30 September	848	1,447

The Group provision for other liabilities and charges includes amounts provided for the anticipated cost of repair and rectification of products under warranty, based on known exposures and historical occurrences. The Group offers warranty periods ranging up to 10 years on some of its products.

25. Deferred tax assets and liabilities

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

	2022 £000	2021 £000
At 1 October	(5,699)	(4,862)
Charged to the income statement	(18)	(1,069)
Exchange movements	(605)	232
Net liability at 30 September	(6,322)	(5,699)

The current portion of the deferred tax liability is £0.3m (2021: £0.3m)

Notes to the Group Financial Statements

For the year ended 30 September 2022

25. 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:

	2022 £000	2021 £000
Deferred income tax assets		
Intangible assets	225	281
IFRS16 Leases	352	392
Provisions	1,392	1,210
	1,969	1,883
Deferred income tax liabilities		
Property, plant and equipment	(6,203)	(4,999)
Intangible assets	(2,088)	(2,583)
	(8,291)	(7,582)
Deferred tax balance at 30 September	(6,322)	(5,699)

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

	Intangible assets £'000	IFRS16 leases £'000	Provisions £'000	Property, plant and equipment £'000	Intangible assets £'000	Other timing differences £'000	Total £'000
At 1 October 2020	139	406	887	(4,151)	(2,133)	(10)	(4,862)
Credited / (charged) to income statement	157	-	348	(1,007)	(577)	10	(1,069)
Exchange movements	(15)	(14)	(25)	159	127	-	232
At 1 October 2021	281	392	1,210	(4,999)	(2,583)	-	(5,699)
(Charged)/ credited to income statement	(98)	(107)	(2)	(488)	677	-	(18)
Exchange movements	42	67	184	(716)	(182)	-	(605)
At 30 September 2022	225	352	1,392	(6,203)	(2,088)	-	(6,322)

Overseas tax losses of £11.1m (2021: £9.2m) and UK tax losses of £nil (2021: £0.8m) are available to offset against future profits of the Group. The Group has not recognised a deferred income tax asset of £2.3m (2021: £2.7m) in respect of these losses due to uncertainty as to whether they will be utilised within the foreseeable future.

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

Notes to the Group Financial Statements

For the year ended 30 September 2022

26. Called up share capital

	2022 Number	2021 Number	2022 £000	2021 £000
Issued and fully paid ordinary shares of 20p each				
At 1 October	25,040,919	25,040,919	5,008	5,008
Shares issued and fully paid	-	-	-	-
At 30 September	25,040,919	25,040,919	5,008	5,008

No shares were allotted under share option schemes during the year ended 30 September 2022 or 30 September 2021.

27. Reserves

	Share premium account £000	Merger reserve £000	Cumulative translation reserve £000	Hedging Reserve £000	Retained earnings £000
At 1 October 2020	16,000	7,262	7,675	333	77,075
Profit for the financial year	-	-	-	-	3,404
Dividends paid	-	-	-	-	(1,127)
Fair value of share options	-	-	-	-	735
Currency hedge fair value	-	-	-	(468)	-
Currency translation differences	-	-	(1,621)	-	-
At 30 September 2021	16,000	7,262	6,054	(135)	80,087
At 1 October 2021	16,000	7,262	6,054	(135)	80,087
Loss for the financial year	-	-	-	-	(2,010)
Dividends paid	-	-	-	-	(3,105)
Fair value of share options	-	-	-	-	743
Currency hedge fair value	-	-	-	(1,137)	-
Currency translation differences	-	-	9,774	-	-
At 30 September 2022	16,000	7,262	15,828	(1,272)	75,715

Notes to the Group Financial Statements

For the year ended 30 September 2022

28. Share options

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

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

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	392,276	1.18	247,269	-
Awarded	167,929	-	215,904	2.19
Lapsed	(102,690)	(0.76)	(70,897)	0.12
Outstanding at 30 September	457,515	0.84	392,276	1.18
Exercisable at 30 September	-	-	-	-

The weighted average remaining contractual life of the options outstanding at 30 September 2022 was 1.8 years (2021: 1.4 years).

The total charge for the year relating to share options was £743,000 (2021: £735,000), all of which related to equity-settled share based payment transactions.

Notes to the Group Financial Statements

For the year ended 30 September 2022

28. Share options (continued)

The Gooch & Housego 2013 Long Term Incentive Plan

The Gooch & Housego 2013 Long Term Incentive Plan was adopted on 9 April 2013. Under the plan, awards are made annually to key employees based on a percentage of salary. Subject to the satisfaction of the required Total Shareholder Return performance criteria and Earnings Per Share financial performance, these grants will vest upon publication of the results of the Group three years after the grant date.

There have been ten grants of options under the 2013 Long Term Incentive Plan, which will expire in 2023. The remuneration report provides further details on the share options awarded and exercised during the financial year.

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

The details of awards extant as at 30 September 2022 are summarised below:

	Grant date		
	13 Jan 2022	7 Jan 2021	13 Jan 2020
No. of options granted	142,380	174,781	133,159
Expected volatility	46%	46%	30%
Risk free rate	0.76%	0.76%	0.76%
Option term	3 years	2-3 years	3 years
Fair value (£)	1,119,282	1,751,334	569,331
Exercise price	nil	nil	nil
Expected dividend yield	1%	1%	1%
Share price at grant date	1175p	1198p	1428p

A reconciliation of LTIP option movements is shown below:

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	351,868	-	247,269	-
Awarded	142,380	-	174,781	-
Exercised	-	-	-	-
Lapsed	(95,931)	-	(70,182)	-
Outstanding at 30 September	398,317	-	351,868	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 550.0p per option (2021: 1004.0p per option).

The weighted average remaining contractual life of LTIP options outstanding at 30 September 2022 was 1.9 years (2021: 1.4 years).

The total share-based payments charge for the year ended 30 September 2022 relating to the 2013 LTIP scheme was £669,000 (2021: £706,000).

Notes to the Group Financial Statements

For the year ended 30 September 2022

28. Share options (continued)

The Gooch & Housego PLC Save As You Earn Scheme

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

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	31,284	11.59	-	-
Awarded	-	-	31,749	11.59
Lapsed	(6,587)	11.59	(465)	11.59
Outstanding at 30 September	24,697	11.59	31,284	11.59
Exercisable at 30 September	-	-	-	-

There were no options granted under the Save As You Earn Scheme in the year ended 30 September 2022. The weighted average fair value of options granted in the year ended 30 September 2021 was 359.0p per option.

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

	Exercise price per share option	Number of share options	
		2022	2021
G&H PLC Save As You Earn Scheme	£11.59	24,697	31,284

The weighted average remaining contractual life of SAYE options outstanding at 30 September 2022 was 1.5 years (2021: 2.5 years).

The total share-based payments charge for the year ended 30 September 2022 relating to the SAYE scheme was £20,000 (2021: £20,000).

Notes to the Group Financial Statements

For the year ended 30 September 2022

28. Share options (continued)

The Gooch & Housego PLC Employee Stock Purchase Plan

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

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	9,124	11.14	-	-
Awarded	-	-	9,374	11.14
Lapsed	(172)	11.14	(250)	11.14
Outstanding at 30 September	8,952	11.14	9,124	11.14
Exercisable at 30 September	-	-	-	-

There were no options granted under the Employee Stock Purchase Plan during the year. The weighted average fair value of options granted in the year ended 30 September 2021 was 368.0p.

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

	Exercise price per share option	Number of share options	
		2022	2021
Employee Stock Purchase Plan	£11.14	8,952	9,124

The weighted average remaining contractual life of Employee Stock Purchase Plan options outstanding at 30 September 2022 was 0.5 years (2021: 1.5 years).

The total share-based payments charge for the year ended 30 September 2022 relating to the Employee Stock Purchase Plan was £9,000 (2021: £9,000).

Notes to the Group Financial Statements

For the year ended 30 September 2022

28. Share options (continued)

Gooch & Housego PLC Restricted Stock Units (RSUs)

An award of restricted stock units was made to a senior US based employee who joined the Group during the year. A total of 25,549 units were awarded on 30 May 2022, with a vesting commencement date of 14 April 2022. There are no performance criteria attached to these RSUs, one third of which will vest on 14 April 2024 and the remaining two thirds will vest on 14 April 2025 provided the beneficiary is still employed by G&H on those dates.

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	-	-	-	-
Awarded	25,549	-	-	-
Lapsed	-	-	-	-
Outstanding at 30 September	25,549	-	-	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 990p per option.

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

	Exercise price per share option	Number of share options	
		2022	2021
Restricted stock units	-	25,549	-

The weighted average remaining contractual life of Restricted Stock Units outstanding at 30 September 2022 was 2.2 years.

The total share-based payments charge for the year ended 30 September 2022 relating to the Restricted Stock Units Plan was £45,000 (2021:nil).

Notes to the Group Financial Statements

For the year ended 30 September 2022

29. Financial instruments

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

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

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

	Financial assets		Financial liabilities	
	2022 £000	2021 £000	2022 £000	2021 £000
Pound Sterling	1,914	3,945	1,500	342
US Dollars	3,038	3,315	24,837	17,388
Euro	898	811	-	-
Yen	149	281	-	-
	5,999	8,352	26,337	17,730

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

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

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

Notes to the Group Financial Statements

For the year ended 30 September 2022

29. Financial instruments (continued)

- 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 Group will use derivative financial instruments to hedge risk exposures. During the year ended 30 September 2022, the Group has entered into contracts to sell US Dollars and buy UK Sterling at fixed rates at specific dates in the future. At 30 September 2022, the Group had contracts to sell \$11.0m in the period to 30 September 2023. The fair value of these contracts, a liability of £1.3m, has been included within payables on the balance sheet (2021: contracts to sell \$5.5m in the period to 30 September 2022 with a fair value of negative £0.1m).

i. Market risk

a. Foreign exchange risk

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

Foreign exchange risk arises from

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

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

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

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

As a significant amount of the Group's profit is earned by its US subsidiaries, the Group's profit is sensitive to movements in the US Dollar exchange rate. If the average US Dollar exchange rate for the year had been consistent with the closing exchange rate at 30 September 2021, with all other variables constant, post tax profits for the year would have been £534,000 lower (2021: £84,000 higher) as a result of the translation in US Dollars.

Equity is more sensitive to movement in the US Dollar exchange rate as a significant amount of the Group's net assets are held in the Group's US subsidiaries. If the US Dollar weakened by 10% against Pound Sterling with all other variables held constant, the net assets of the Group would be £4,033,000 lower (2021: £4,617,000 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 £4,929,000 higher (2021: £5,643,000 higher).

b. Cash flow interest rate risk

The Group has cash balances of £6.0m, a proportion of which are held in interest bearing current accounts. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

Notes to the Group Financial Statements

For the year ended 30 September 2022

29. Financial instruments (continued)

The Group's interest rate risk arises from its revolving credit facility. A 1% increase in the cost of the Group's bank borrowings would have resulted in an annualised increase in interest expense of £147,000 (2021: £182,000).

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. During 2021 and 2022, the Group's borrowings at variable interest rates were denominated in Pound Sterling and US Dollars as detailed in Note 23.

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 2022 accounted for 29% of the Group's revenue (2021: 29%). No individual customer made up more than 6% of revenue in either the current or prior year.

The Group's trade receivables are analysed in note 20.

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 Group's facilities comprise a committed revolving credit facility of \$40m (£35.9m) of which \$21.3m (£19.1m) is drawn and an uncommitted flexible acquisition facility of \$30m (£26.9m) which is undrawn. Both are available until 31 March 2027. These are analysed in Note 23.

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 12 months.

30. Commitments

	2022 £000	2021 £000
Capital commitments - authorised and contracted but not provided for	2,451	1,049

All capital commitments relate to property, plant and equipment.

31. Related party transactions

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

Details of key management compensation are given in note 9.

Company Balance Sheet

As at 30 September 2022

	Note	2022 £000	2021 £000
Non-current assets			
Investments	5	35,674	51,638
Property, plant and equipment	6	3,655	4,114
Intangible assets	7	1,282	1,476
Deferred income tax assets	9	330	377
		40,941	57,605
Current assets			
Other receivables	8	17,636	13,255
Cash and cash equivalents		615	885
		18,251	14,140
Current liabilities			
Trade and other payables	10	(3,706)	(3,572)
Net current assets		14,545	10,568
Non-current liabilities			
Deferred income tax liabilities	9	(15)	(172)
Net assets		55,471	68,001
Shareholders' equity			
Called up share capital	11	5,008	5,008
Share premium account		16,000	16,000
Merger reserve		4,591	4,591
Hedging reserve		(1,272)	(135)
Retained earnings			
At 1 October		42,537	36,222
(Loss) / profit for the year		(9,031)	6,707
Other changes in retained earnings		(2,362)	(392)
		31,144	42,537
Total equity		55,471	68,001

The financial statements on pages 119 to 139, were approved by the Board of Directors on 6 December 2022 and signed on its behalf by:


Charlie Peppiatt
Director


Chris Jewell
Director

Company Statement of Changes in Equity

For the year ended 30 September 2022

	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 2020		5,008	16,000	4,591	333	36,222	62,154
Profit for the financial year		-	-	-	-	6,707	6,707
Total comprehensive income for the year		-	-	-	-	6,707	6,707
Dividends	4	-	-	-	-	(1,127)	(1,127)
Share based payments		-	-	-	-	735	735
Loss on cash flow hedge		-	-	-	(468)	-	(468)
Total contributions by and distributions to owners of the parent recognised directly in equity		-	-	-	(468)	(392)	(860)
At 30 September 2021		5,008	16,000	4,591	(135)	42,537	68,001
At 1 October 2021		5,008	16,000	4,591	(135)	42,537	68,001
(Loss) / profit for the financial year		-	-	-	-	(9,031)	(9,031)
Total comprehensive expense for the year		-	-	-	-	(9,031)	(9,031)
Dividends	4	-	-	-	-	(3,105)	(3,105)
Share based payments		-	-	-	-	743	743
Loss on cash flow hedge		-	-	-	(1,137)	-	(1,137)
Total contributions by and distributions to owners of the parent recognised directly in equity		-	-	-	(1,137)	(2,362)	(3,499)
At 30 September 2022		5,008	16,000	4,591	(1,272)	31,144	55,471

Company Cash Flow Statement

For the year ended 30 September 2022

	2022 £000	2021 £000
Cash flows from operating activities		
Cash used in operations	(2,002)	(3,996)
Income tax paid	(102)	(1)
Net cash used in operating activities	(2,104)	(3,997)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	-	(3,250)
Purchase of property, plant and equipment	(4)	(3)
Purchase of intangible assets	(272)	(81)
Dividends received from subsidiary companies	5,215	7,357
Net cash generated by investing activities	4,939	4,023
Cash flows from financing activities		
Dividends paid to ordinary shareholders	(3,105)	(1,127)
Net cash used by financing activities	(3,105)	(1,127)
Net decrease in cash	(270)	(1,101)
Cash at beginning of the year	885	1,986
Cash at the end of the year	615	885

Notes to the Company Cash Flow Statement

For the year ended 30 September 2022

Reconciliation of cash used by operations

	2022 £000	2021 £000
(Loss) / profit before income tax	(8,891)	6,348
Adjustments for:		
- Dividends received from subsidiaries	(5,215)	(7,357)
- Amortisation of intangible assets	466	447
- Depreciation	462	478
- Share based payment obligations	465	508
- Loss on disposal of property, plant and equipment	1	-
- Impairment of investments	16,241	-
Total	12,420	(5,924)
Changes in working capital		
- Trade and other receivables	(4,296)	(6,254)
- Trade and other payables	(1,235)	1,834
Total	(5,531)	(4,420)
Cash used in operating activities	(2,002)	(3,996)

Analysis of net cash

	At 1 Oct 2021 £000	Cash flow £000	At 30 Sep 2022 £000
Cash at bank and in hand	885	(270)	615
Net cash	885	(270)	615

Analysis of net cash

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

Notes to the Company Financial Statements

For the year ended 30 September 2022

1. Company accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention as modified by financial assets and liabilities at fair value and in accordance with UK adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The financial statements have been prepared on a going concern basis.

The Directors have reviewed the budget for FY2023 and the projections for FY2024 developed as part of the annual strategic plan update. They have assessed the future funding requirements of the Company and compared them with available cash balances.

The Directors have considered the going concern review performed for the Group financial statements in assessing the status of the parent company. Noting that work, and the strength of the Company balance sheet, the Directors are satisfied that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. For this reason they continue to adopt the going concern basis in preparing the Company financial statements.

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

New Standards and Interpretations not yet adopted

The following amended standards and interpretations were effective for the financial year ended 30 September 2022, however, they have not had a material impact on our financial statements:

- Amendments to IFRS 7, IFRS 4, and IFRS 16 – Interest rate benchmark reform – Phase 2 (effective 1 January 2021)
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (effective 1 January 2021)
- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions Extension of the practical expedient (effective 1 April 2021).

None of the amendments to the above standards had a material impact on the Financial Statements.

The following other amended standards and interpretations have been issued but were not mandatory for the financial year ended 30 September 2022. These are not expected to have a material impact on the financial statements.

- The Companies (Strategic Report) (Climate – related Financial Disclosure) Regulations 2022 (SI 2022/31), effective for accounting periods beginning on or after 6 April 2022.
- Amendments to IAS 1 – Presentation of Financial Statements on Classification of Liabilities (effective 1 January 2023).

Work will continue in the new financial year to assess the impact of the new standards and interpretations on the Group's Financial Statements.

Pension schemes

The Company operates a money purchase pension scheme for Directors and staff. The assets of the scheme are held in separately administered funds. Contributions are recognised as an employee benefit expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Notes to the Company Financial Statements

For the year ended 30 September 2022

Share options

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

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

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

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

Derivatives and hedging activities

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

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

The hedges entered into during FY2022 have been assessed as effective and therefore the Company has applied hedge accounting. Accordingly, movements in the fair value of the hedges have been recorded in reserves.

Deferred tax

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

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

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

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

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

In the UK and US, the Company is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share options" on the previous page, a compensation expense is recorded in the Company's income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the

Notes to the Company Financial Statements

For the year ended 30 September 2022

accounting and tax bases, a deferred income tax asset is recorded. The deferred income tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity.

Foreign currency translation

a. Functional and presentation currency

The financial statements are presented in Pounds Sterling, which is the Company's presentation currency.

b. Transactions and balances

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

Property, plant and equipment

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

Freehold buildings	2-3%	Straight line
Plant and machinery	6-20%	Straight line
Fixtures and fittings	6-33%	Straight line
Computer equipment	25-33%	Straight line

Intangible assets

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

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

Investments

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

Trade payables

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

Other receivables

Other receivables, which largely comprise amounts due from subsidiary companies, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment of expected credit losses.

Provisions

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

Dividend distribution

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

Notes to the Company Financial Statements

For the year ended 30 September 2022

Share capital

Ordinary shares are classified as equity.

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

Capital risk management

Details of the ways in which the Company manages capital risk are given in note 29 to the Group financial statements.

Critical Accounting Estimates and Judgements

Carrying value of investments

The Directors have assessed the carrying value of the Company's investments during the year. The assessment requires an estimate of the recoverable amount of the investment, which is based on forecast cash flows and is therefore inherently uncertain. See note 5 for details of the carrying value of investments.

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 loss after tax was £9,031,000 (2021: £6,707,000 profit).

Fees payable to the Company auditors for the statutory audit for the year amounted to £17,500 (2021: £17,000).

3. Employee benefit expense

	2022 £000	2021 £000
Wages and salaries	2,567	4,429
Compensation for loss of office	366	-
Social security costs	287	295
Medical and other insurances	39	44
Share based payments	465	508
Other pension costs	87	92
	3,811	5,368

The average number of employees during the year was 21 (2021: 18), all of whom were administrative.

Directors' remuneration and key management compensation

	2022 £000	2021 £000
Directors' remuneration	901	1,383
Compensation for loss of office	366	-
Medical and other insurances	24	22
Directors' pension scheme contributions	10	10
	1,301	1,415

Notes to the Company Financial Statements

For the year ended 30 September 2022

The aggregate emoluments of the highest paid Director including compensation for loss of office of £366,000 were £724,000 (2021: £679,000). Further information is included in the Remuneration Committee report on page 60.

The aggregate gain on Directors' share option exercises in the year was nil (2021: nil).

The number of Directors who are accruing retirement benefits under a money purchase pension scheme is 1 (2021: 1).

4. Dividends

	2022 £000	2021 £000
Final 2021 dividend paid: 7.7p per share. (Final 2020 dividend paid in 2021: nil per share)	1,928	-
2022 Interim dividend paid: 4.7p per share (2021: 4.5p per share)	1,177	1,127
	3,105	1,127

The Directors have proposed a final dividend of 7.9p (2021: 7.7p) for the financial year ended 30 September 2022, making the dividend for the full year 12.6p (2021: 12.2p per share).

5. Investments

	2022 £000	2021 £000
Cost and net book value at 1 October	51,638	51,411
Additions related to share based payments for subsidiary employees	277	227
Impairment of investments	(16,241)	-
Cost and net book value at 30 September	35,674	51,638

The impairment charge of £16.2m related to the Company's investments in Spanoptic Limited and Kent Periscopes Limited. As part of the Group's site rationalisation, the trade and assets of these two companies were transferred to Gooch & Housego (UK) Limited. Following the transfers, the remaining value of these investments was assessed by the Directors as nil, and therefore the carrying value of the investments has been fully impaired.

Notes to the Company Financial Statements

For the year ended 30 September 2022

The subsidiary companies at 30 September 2022, all of which are wholly owned either directly or indirectly, are listed below:

Company Name	% ownership of ordinary shares	Registered office	Activity
Gooch & Housego (UK) Limited*	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Manufacturer of acousto-optic products and precision optics
Gooch & Housego (Torquay) Limited*	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Manufacturer of fibre-optic products
Spanoptic Limited*	100%	Telford Road, Glenrothes, KY7 4 NX	Non trading company
Kent Periscopes Limited*	100%	6 Ffordd Richard Davies St Asaph, LL17 0LJ	Non trading company
Gooch & Housego (Deutschland) GmbH*	100%	Berliner Allee 55, 22850 Norderstedt, Germany	Provider of sales and customer service functions
Gooch & Housego (Ohio) LLC	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Manufacturer of electro-optic products and crystals
Gooch & Housego (California) LLC	100%	5390 Kazuko Court, Moorpark, CA93021, USA	Manufacturer of precision optics
EM4 Inc.	100%	7 Oak Park Drive, Bedford, MA 01730, USA	Manufacturer of fibre optics products
Gooch & Housego (Palo Alto) LLC	100%	44247 Nobel Dr, Fremont, CA94538, USA	Manufacturer of acousto-optic, electro-optic and fibre optic components and systems
StingRay Optics LLC	100%	17A Bradco. Street, Keene, NH 03431 USA	Designer and manufacturer of optical and opto-mechanical subsystems
Gooch & Housego Japan KK*	100%	Level 4, Nikko Shiken Building, 3-2-3 Sakae, Nagoya, Japan	Provider of sales and customer service functions
G&H (Property) Holdings Limited*	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Property holding company
G&H (US Holdings) Limited*	100%	Dowlish Ford, Ilminster, Somerset, TA19 0PF	Holding company
G&H Holdings (Delaware) Inc.	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Holding company
G&H Capital Holdings (Florida) Inc.	100%	676 Alpha Drive, Highland Heights, OH44143, USA	Non trading company
Integrated Technologies Limited	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Development and manufacture of high quality medical and in vitro diagnostic devices
Integrated Technologies (Holdings) Limited	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Non-trading company
ORF Limited	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Non-trading company
VITL Limited*	100%	Viking House, Ellingham Way, Ashford, TN23 6NF	Holding company
ITL (Virginia) Inc.	100%	305 Ashcake Rd, VA23005, USA	Development and manufacture of high quality medical and in vitro diagnostic devices
Integrated Electronic Systems (Shanghai) Ltd	100%	T3-11 Factory Building Unit 201, 5001 Huadong Road, Shanghai 201201 China	Development and manufacture of high quality medical and in vitro diagnostic devices

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

*these investments are held directly by Gooch & Housego PLC. All UK subsidiaries are exempt from the requirement to file audited financial statements by virtue of Section 479A of the Companies Act 2006. As part of this process, the Company has provided statutory guarantees to these subsidiaries.

Notes to the Company Financial Statements

For the year ended 30 September 2022

6. Property, plant and equipment

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 October 2020	4,432	3,987	1,392	230	10,041
Additions	-	-	-	3	3
At 30 September 2021	4,432	3,987	1,392	233	10,044
Additions	-	-	-	4	4
Disposals	-	-	-	(4)	(4)
At 30 September 2022	4,432	3,987	1,392	233	10,044
Accumulated depreciation					
At 1 October 2020	1,011	3,116	1,169	156	5,452
Charge for the year	83	265	93	37	478
At 30 September 2021	1,094	3,381	1,262	193	5,930
Charge for the year	82	266	93	21	462
Disposals	-	-	-	(3)	(3)
At 30 September 2022	1,176	3,647	1,355	211	6,389
Net book value					
At 1 October 2020	3,421	871	223	74	4,589
At 30 September 2021	3,338	606	130	40	4,114
At 30 September 2022	3,256	340	37	22	3,655

Notes to the Company Financial Statements

For the year ended 30 September 2022

7. Intangible assets

	Systems	Computer Software	Other	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 October 2020	2,052	1,310	64	3,426
Additions	73	8	-	81
Disposals	-	(414)	-	(414)
At 30 September 2021	2,125	904	64	3,093
Additions	75	197	-	272
At 30 September 2022	2,200	1,101	64	3,365
Accumulated amortisation				
At 1 October 2020	294	1,245	45	1,584
Charge for the year	411	19	17	447
Disposals	-	(414)	-	(414)
At 30 September 2021	705	850	62	1,617
Charge for the year	425	39	2	466
At 30 September 2022	1,130	889	64	2,083
Net book value				
At 1 October 2020	1,758	65	19	1,842
At 30 September 2021	1,420	54	2	1,476
At 30 September 2022	1,070	212	-	1,282

8. Other receivables

	2022 £000	2021 £000
Prepayments and accrued income	461	188
Intercompany receivables	17,175	13,067
	17,636	13,255

Notes to the Company Financial Statements

For the year ended 30 September 2022

9. Deferred tax

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

	2022 £000	2021 £000
At 1 October	205	1
Credited to the income statement	110	204
At 30 September	315	205

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

	2022 £000	2021 £000
Property, plant and equipment	292	240
Intangible assets	(15)	(127)
Other timing differences	38	92
	315	205

All movements on deferred tax were recognised in the income statement in the year ended 30 September 2022 and 30 September 2021.

The current portion of the deferred tax asset is £0.1m (2021: £0.1m).

Factors affecting the future tax charge

UK tax losses of £nil (2021: £0.8m) are available against future profits of the Group. The utilisation of these losses is not sufficiently certain to recognise a deferred tax asset.

In the Spring budget 2021, the Government announced that from 1 April 2023, the corporation tax rate will increase to 25%. This change was substantively enacted on 24 May 2021; as such deferred tax liabilities and assets have been recalculated and recorded at the rate they are expected to unwind.

Notes to the Company Financial Statements

For the year ended 30 September 2022

10. Trade and other payables

	2022 £000	2021 £000
Trade payables	449	428
Amounts owed to group undertakings	859	371
Taxation and Social Security	90	326
Derivative financial instruments	1,272	135
Accruals and deferred income	1,036	2,312
	3,706	3,572

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 SOFR rate applicable for the year. Non-trading amounts owed to UK group undertakings are charged interest at rates specified in the loan agreements.

11. Called up share capital

	2022 Number	2021 Number	2022 £000	2021 £000
Allotted, issued and fully paid				
At 1 October	25,040,919	25,040,919	5,008	5,008
Shares issued and fully paid	-	-	-	-
At 30 September	25,040,919	25,040,919	5,008	5,008

No shares were issued under share option schemes during the year ended 30 September 2022 (2021: nil shares).

12. Financial instruments

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

The Board's policy on these risks is set out in note 29 to the Group financial statements.

Operations are financed through a mixture of retained profits, cash reserves, group borrowings and leases. The Board's policy is to use variable rate borrowings whenever possible.

Notes to the Company Financial Statements

For the year ended 30 September 2022

12. Financial instruments (continued)

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

	Financial assets		Financial liabilities	
	2022 £000	2021 £000	2022 £000	2021 £000
Pound Sterling	518	733	-	-
US Dollars	55	46	1,272	135
Euro	42	106	-	-
	615	885	1,272	135

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

At the year end, the Company had contracts to sell \$11.0m in the period to 30 September 2023 (2021: contracts to sell \$5.5m in the period to 30 September 2022). The fair value of these contracts, of negative £1.3m, has been included in payables on the balance sheet (2021: £0.1m liability)

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

13. Share options

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

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

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	392,276	1.18	247,269	-
Awarded	167,929	-	215,904	2.19
Lapsed	(102,690)	(0.76)	(70,897)	0.12
Outstanding at 30 September	457,515	0.84	392,276	1.18
Exercisable at 30 September	-	-	-	-

The total charge for the year relating to share options was £465,000 (2021: £508,000), all of which related to equity-settled share based payment transactions.

The weighted average remaining contractual life of the options outstanding at 30 September 2022 was 1.8-years (2021: 1.4 years).

Notes to the Company Financial Statements

For the year ended 30 September 2022

13. Share options (continued)

The Gooch & Housego 2013 Long Term Incentive Plan

The Gooch & Housego 2013 Long Term Incentive Plan was adopted on 9 April 2013. Under the plan, awards are made annually to key employees based on a percentage of salary. Subject to the satisfaction of the required Total Shareholder Return performance criteria and Earnings Per Share financial performance, these grants will vest upon publication of the results of the Company three years after the grant date.

There have been nine grants of options under the 2013 Long Term Incentive Plan. The remuneration report provides further details on the share options awarded and exercised during the financial year.

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

The details of awards extant as at 30 September 2022 are summarised below:

	Grant date		
	13 Jan 2022	7 Jan 2021	13 Jan 2020
No. of options granted	142,380	174,781	133,159
Expected volatility	46%	46%	30%
Risk free rate	0.76%	0.76%	0.76%
Option term	3 years	2-3 years	3 years
Fair value (£)	1,119,282	1,751,334	569,331
Exercise price	nil	nil	nil
Expected dividend yield	1%	1%	1%
Share price at grant date	1175p	1198p	1428p

A reconciliation of LTIP option movements is shown below:

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	351,868	-	247,269	-
Awarded	142,380	-	174,781	-
Lapsed	(95,931)	-	(70,182)	-
Outstanding at 30 September	398,317	-	351,868	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 550.0p per option (2021: 1004.0p per option).

The weighted average remaining contractual life of LTIP options outstanding at 30 September 2022 was 1.9 years (2021: 1.4 years).

The total share-based payments charge for the year ended 30 September 2022 relating to the 2013 LTIP scheme was £463,000 (2021: £506,000).

Notes to the Company Financial Statements

For the year ended 30 September 2022

13. Share options (continued)

The Gooch & Housego PLC Save As You Earn Scheme

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

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	31,284	11.59	-	-
Awarded	-	-	31,749	11.59
Lapsed	(6,587)	11.59	(465)	11.59
Outstanding at 30 September	24,697	11.59	31,284	11.59
Exercisable at 30 September	-	-	-	-

There were no options granted under the Save As You Earn Scheme in the year. The weighted average fair value of options granted in the year ended 30 September 2021 was 359.0p per option.

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

	Exercise price per share option	Number of share options	
		2022	2021
G&H PLC Save As You Earn Scheme	£11.59	24,697	31,284

The weighted average remaining contractual life of SAYE options outstanding at 30 September 2022 was 1.5 years (2021: 2.5 years).

The total share-based payments charge for the year ended 30 September 2022 relating to the SAYE scheme was £2,000 (2021: £2,000).

Notes to the Company Financial Statements

For the year ended 30 September 2022

13. Share options (continued)

The Gooch & Housego PLC Employee Stock Purchase Plan

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

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	9,124	11.14	-	-
Awarded	-	-	9,374	11.14
Lapsed	(172)	11.14	(250)	11.14
Outstanding at 30 September	8,952	11.14	9,124	11.14
Exercisable at 30 September	-	-	-	-

There were no options granted under the Employee Stock Purchase Plan during the year. The weighted average fair value of options granted in the year ended 30 September 2021 was 368.0p.

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

	Exercise price per share option	Number of share options	
		2022	2021
Gooch & Housego Employee Stock Purchase Plan	£11.14	8,952	9,124

The weighted average remaining contractual life of Employee Stock Purchase Plan options outstanding at 30 September 2022 was 0.5 years (2021: 1.5 years).

The total share-based payments charge for the year ended 30 September 2022 relating to the Employee Stock Purchase Plan was £nil (2021: £nil).

Notes to the Company Financial Statements

For the year ended 30 September 2022

Gooch & Housego PLC Restricted Stock Units (RSUs)

An award of restricted stock units was made to a senior US based employee who joined the Group during the year. A total of 25,549 units were awarded on 30 May 2022, with a vesting commencement date of 14 April 2022. There are no performance criteria attached to these RSUs, one third of which will vest on 14 April 2024 and the remaining two thirds will vest on 14 April 2025 provided the beneficiary is still employed by G&H on those dates.

	2022		2021	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 October	-	-	-	-
Awarded	25,549	-	-	-
Lapsed	-	-	-	-
Outstanding at 30 September	25,549	-	-	-
Exercisable at 30 September	-	-	-	-

The weighted average fair value of options granted in the year was 990p per option.

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

	Exercise price per share option	Number of share options	
		2022	2021
Restricted stock units	-	25,549	-

The weighted average remaining contractual life of Restricted Stock Units outstanding at 30 September 2022 was 2.2 years.

The total share-based payments charge for the year ended 30 September 2022 relating to the Restricted Stock Units Plan was £nil (2021: £nil).

Notes to the Company Financial Statements

For the year ended 30 September 2022

14. Related party disclosures

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

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

	2022 £000	2021 £000
EM4 Inc	-	25
Gooch & Housego (Ohio) LLC	8	-
Gooch & Housego (UK) Limited	46	26
Kent Periscopes Limited	-	14
Gooch & Housego (Torquay) Limited	91	79
Gooch & Housego (Deutschland) GmbH	343	293
Gooch & Housego Japan KK	314	286
	802	723

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

	2022 £000	2021 £000
EM4 Inc	687	728
Gooch & Housego (Ohio) LLC	638	601
Spanoptic Limited	-	102
Gooch & Housego (UK) Limited	1,789	1,383
Gooch & Housego (California) LLC	537	489
Gooch & Housego (Palo Alto) LLC	1,560	796
StingRay Optics LLC	550	361
Kent Periscopes Limited	-	363
Gooch & Housego (Torquay) Limited	1,312	1,119
Integrated Technologies Limited	585	525
	7,658	6,467

Notes to the Company Financial Statements

For the year ended 30 September 2022

14. Related party disclosures (continued)

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

	2022 £000	2021 £000
EM4 Inc	(362)	(371)
G&H (US Holdings) Limited	6,184	6,199
Gooch & Housego (UK) Limited	8,040	5,855
Gooch & Housego (Palo Alto) LLC	(140)	(140)
Kent Periscopes Limited	-	1,786
Gooch & Housego (Torquay) Limited	-	(1,318)
Gooch & Housego (Deutschland) GmbH	(357)	(135)
Gooch & Housego Japan KK	20	21
G&H Holdings (Delaware) Inc.	2,759	799
Integrated Technologies Limited	4	-
	16,148	12,696

During the year Gooch & Housego PLC received dividends of £0.2m, £0.6m, £2.7m and £1.7m respectively from G&H (Property) Holdings Limited, Gooch & Housego (Torquay) Limited, Kent Periscopes Limited and Integrated Technologies Limited. In the prior year year Gooch & Housego PLC received dividends of £1.5m and £5.9m respectively from Spanoptic Limited and Integrated Technologies Limited. The total dividend received from subsidiary undertakings during the year was £5.2m (2021: £7.4m).

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

Company Information

Company information

Nominated Adviser and Broker

Investec Bank PLC
2 Gresham Street
London
EC2V 7QP

Independent Auditors

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

Legal Advisers

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

Registrars

Link Asset Services
65 Gresham Street
London
EC2V 7NQ

Company Secretary and Registered Office

Company Secretary

Gareth J Crowe

Register Office

Dowlish Ford
Ilminster
Somerset
TA19 0PF
United Kingdom

Company Number

00526832

Expected Financial Calendar

Annual General Meeting
Interim Results announcement
Financial Year End
Preliminary announcement of results for the year ending 30 September 2023

22 February 2023
June 2023
30 September 2023
December 2023

Notice of Annual General Meeting

You will not receive a form of proxy for the 2023 AGM in the post. Instead, you can vote online at www.signalshares.com. To register you will need your Investor Code, which can be found on your share certificate. Should you require assistance please contact our registrar Link Group on 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales.

Notice is hereby given that the Annual General Meeting of the Company will be held at Dowlish Ford, Ilminster, Somerset, TA19 0PF on 22 February 2023 at 11.00 a.m. for the following purposes:

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

- 1 To receive the Annual Report and Financial Statements for the financial year ended 30 September 2022 together with the Directors' Report and Auditors' Report thereon.
- 2 To receive and approve the Remuneration Committee Report set out on pages 60 to 67 (excluding page 63) of the Annual Report and Financial Statements for the financial year ended 30 September 2022.
- 3 To declare a final dividend, as recommended by the Directors, of 7.7p per ordinary share for the financial year ended 30 September 2022, payable on 24 February 2023 to those members whose names appear in the Company's register of members at the close of business on 20 January 2023.
- 4 To re-elect Gary Bullard as a Director.
- 5 To elect Charlie Peppiatt as a Director.
- 6 To re-elect Chris Jewell as a Director.
- 7 To re-elect Brian Phillipson as a Director.
- 8 To re-elect Louise Evans as a Director.
- 9 To re-elect Jim Haynes as a Director.
- 10 To re-appoint PricewaterhouseCoopers LLP as Auditors to hold office from the conclusion of this meeting to the conclusion of the next meeting at which the Company's annual accounts and reports are laid before the Company.
- 11 To authorise the Directors to fix the remuneration of the Auditors.
- 12 THAT the Directors of the Company be, and they are hereby, generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company on, and subject to, such terms as the Directors may determine. The authority hereby conferred shall, subject to section 551 of the Act, be for a period commencing on the date of the passing of this Resolution and expiring at the conclusion of the next Annual General Meeting of the Company or 22 May 2024 (whichever is the earlier) unless reviewed, varied or revoked by the Company in General Meeting and the maximum nominal amount of shares which may be allotted pursuant to such authority shall be £1,669,395 (representing approximately one third of the total ordinary share capital of the Company in issue at 6 December 2022). The Directors shall be entitled under such authority to make at any time prior to the expiry of such authority any offer or agreement which would or might require shares in the Company to be allotted after the expiry of such authority and the Directors may allot shares in pursuance of such offer or agreement as if such authority had not expired.

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

- 13 (a) THAT the Directors of the Company be, and they are hereby, generally and unconditionally empowered pursuant to section 570 of the Companies Act 2006 (the "Act"), in substitution for any existing authority to the extent unused, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by Resolution 12 above as if section 561 of the Act did not apply to such allotment, provided that the power hereby conferred shall be limited to:
 - (i) the allotment of equity securities in connection with an offer of securities, open for acceptance for a period

Notice of Annual General Meeting

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

(ii) otherwise than pursuant to sub-paragraph (i) above, the allotment of equity securities up to an aggregate nominal amount of £250,409 (representing approximately 5 per cent. of the total ordinary share capital of the Company in issue at 6 December 2022); and

(b) THAT the Directors of the Company be authorised in addition to any authority granted under Resolution 13(a) to allot equity securities (as defined in section 560 of the Act) for cash under the authority conferred by Resolution 12 above as if section 561 of the Act did not apply to any such allotment, provided that the power hereby conferred shall be:

(i) limited to the allotment of equity securities up to an aggregate nominal amount of £250,409 (representing approximately 5 per cent. of the total ordinary share capital of the Company in issue at 6 December 2022); and

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

The powers hereby conferred in this Resolution 13 shall expire at the conclusion of the next Annual General Meeting of the Company or 22 May 2024 (whichever is the earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities in the Company to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

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

(a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 2,504,092 (representing approximately 10 per cent. of the total ordinary share capital of the Company in issue at 6 December 2022);

(b) the minimum price (exclusive of expenses) which may be paid for each ordinary share is 20 pence per share;

(c) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than the higher of:

(i) 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; and

(ii) the higher of the price of the last independent trade and the higher current independent bid on the trading venue where the purchase is carried out.

(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 22 May 2024 (whichever is the earlier); and

(e) the Company may, pursuant to the authority hereby conferred, enter into a contract to purchase ordinary shares which would, will or might be executed wholly or partly after the expiry of such authority and the Company may make a purchase of ordinary shares in pursuance of such contract as if the authority conferred hereby had not expired.

By order of the Board

Gareth J Crowe

Company Secretary 6 December 2022

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

Registered Number: 00526832

Notice of Annual General Meeting

Notes:

- 1 A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. If a member appoints more than one proxy to attend the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by the member.
- 2 Resolution 2 is an advisory vote only. The Remuneration Committee Report is set out on pages 60 to 67 of the Annual Report and Financial Statements for the financial year ended 30 September 2022. Pages 60, 61, 62, 64, 65, 66 and 67 of the Remuneration Committee Report set out the pay and benefits received by each of the directors for the year ended 30 September 2022. The Company's policy on remuneration and potential pay outs to directors in the future, which is set out on page 63 of the Annual Report and Financial Statements for the financial year ended 30 September 2022, is specifically excluded from this Resolution.
- 3 Resolutions 1 to 12 (inclusive) are proposed as Ordinary Resolutions. This means that for those resolutions to be passed, more than half of the votes cast on such resolutions must be in favour of such resolutions. Resolutions 13 and 14 are proposed as Special Resolutions. This means that for those resolutions to be passed, at least three-quarters of the votes cast on such resolutions must be in favour of such resolutions.
- 4 Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company. However, please see Note 1 above.
- 5 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
- 6 A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
- 7 You can vote either:
 - by logging on to www.signalshares.com and following the instructions;
 - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

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

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

- 8 For an electronic proxy appointment to be valid, the appointment must be received by the Company's Registrar, Link Group, no later than 11.00am on 20 February 2023.
- 9 Only those members registered on the register of members of the Company at close of business on 20 February 2023 (or, if the meeting is adjourned, 48 hours before the time of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting. However, please see Note 1 above.
- 10 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

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- 11 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & International Limited's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy, or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in Notes 7 and 8 above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- 12 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & International Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings (www.euroclear.com).
- 13 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
- 14 Unless otherwise indicated on the form of proxy, CREST voting or any other electronic voting channel instruction, the proxy vote will vote as (s)he thinks fit or, at his/ her discretion, withhold from voting.
- 15 Any electronic address provided either in this Notice or in any related documents may not be used to communicate with the Company for any purposes other than those expressly stated.