Focusrite Plc

# Making Music Easy to Make

**Focusrite Plc**
Annual Report and Accounts 2015


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

www.focusriteplc.com

# Highlights

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

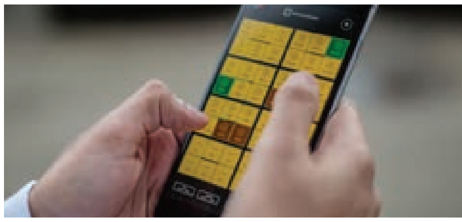
## Operational Highlights

- Successful first year of trading since IPO and admission to AIM in December 2014
- Revenue growth across both operating brands Focusrite and Novation and in all major territories
  - USA growing by 29.3%, Europe, Middle East and Africa by 9.4% and Rest of World by 14.5%
- 19 new products
  - Entry into lucrative higher price range segments with Clarett Thunderbolt and Launchpad Pro
  - Entry into new Live and Broadcast market segment with RedNet audio
- Downloads of Novation's Launchpad App for Apple's iOS platform grew by 87%; and revenue grew by 185%
- Rated, for the fourth consecutive year, as one of the '100 Best Small Companies to Work For' by The Sunday Times

## Financial Highlights

- Group revenue up by 17.2% to £48.0 million (FY14: £41.0 million)
- Adjusted EBITDA[1] up by 13.1% to £9.3 million (FY14: £8.2 million)
- Operating profit up by 10.7% to £6.3 million (FY14: £5.7 million)
- Basic earnings per share up by 1.6% to 10.4p (FY14: 10.3p)
- Adjusted diluted earnings[2] per share up by 4.3% to 10.5p (FY14: 10.1p)
- Net cash up by 62.3% to £6.2 million (FY14: £3.8 million)
- Maiden final dividend of 1.2p recommended, making 1.8p for the year

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



**Strategic Report 01–29**



**Governance 30–40**



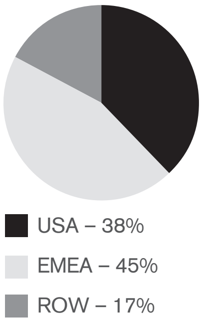
**Financial Statements 41–80**

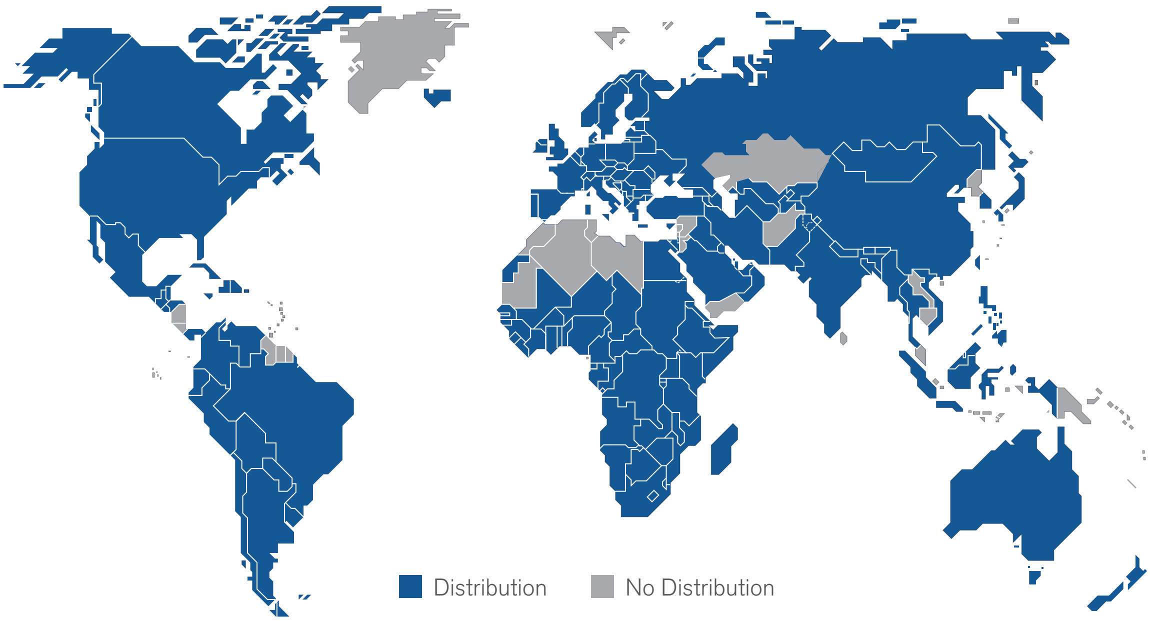
# Focusrite at a Glance

The Group's products are sold in around 160 territories and countries all over the world. Roughly one-third of our business is direct to retailers – online and bricks and mortar, one-third is through distribution and the final third through a hybrid approach in the USA, where we provide marketing and sales support to drive demand. We sold products to 800,000 end-users last year. Our suppliers are chiefly Asian and we use third-party logistics support. We employ around 160 employees in the UK, Germany and USA.

## Distribution: Global Coverage

**Revenue by sector**



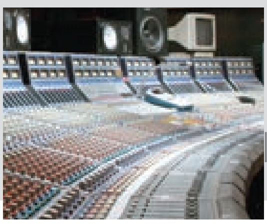

## Product Evolution

**Focusrite Studio Console (1990)**
Renowned as one of the finest sounding recording consoles in history, Focusrite created an exclusive, no-compromise console for the greatest recording studios in the world.

**MBox (2001)**
Digidesign (now Avid) selected Focusrite to develop their first mass-market interface for the world's best-selling digital audio recording system, Pro Tools.

**Launchpad (2009)**
Leading an entirely new approach to music performance, Launchpad shaped the way electronic music makers create, perform and produce today.

**UltraNova (2010)**
Novation synthesisers have been forming signature sounds for some of the world's most influential artists since the early 90s. UltraNova is our most powerful synthesiser to date.



# Focusrite

## ⅔ of Group Revenue

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

# novation

## ⅓ of Group Revenue

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

**Scarlett USB Interfaces (2011)**
Scarlett 2i2 is today's best-selling way to get quality sound into and out of a computer, thanks to a focus on sound quality, build quality, reliability and unparalleled ease of use.

**RedNet (2012)**
Revolutionising the way large-scale studio-quality audio is captured and transported in applications as varied as live concert broadcast, education and theme parks, using standard Cat 5e infrastructure.

**Launchpad App (2013)**
With over three million downloads worldwide, Novation boasts one of the leading platforms for creating, remixing and simply having fun with electronic music on the iOS platform.

**Clarett (2015)**
With the advent of Thunderbolt technology, Clarett sets a new benchmark for sound quality, ease of use and speed, only further cementing Focusrite's domination of the audio interface market.

# Strategy

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

## Innovate

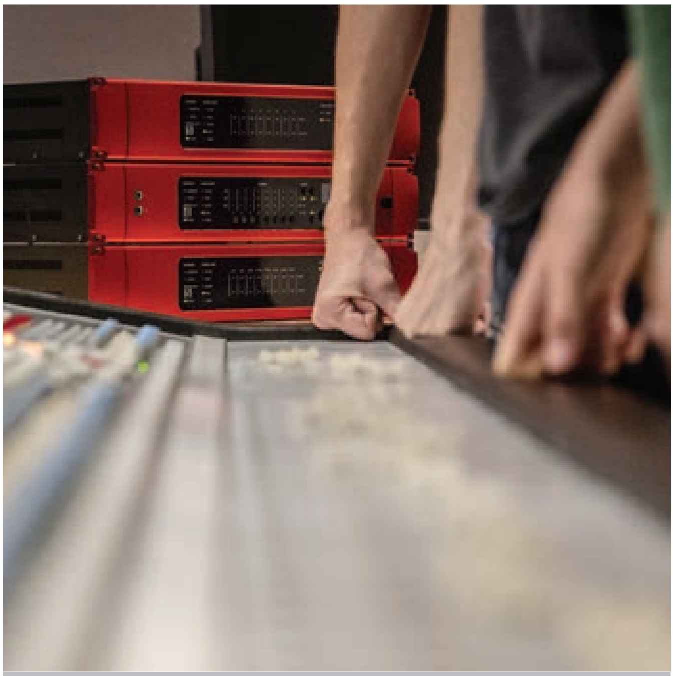
We've grown quickly while we've invested heavily in R&D to turn out innovative, high-quality and attractive products for musicians and audio professionals. We spend 7% of revenue on product development and seek to achieve about a third of our revenue from products launched within the last year. The result: in FY15 we launched 19 new products.

## Disrupt

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

## Make Easy

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



## Expand

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

# Innovate

We've grown quickly while we've invested heavily in R&D to turn out innovative, high-quality and attractive products for musicians and audio professionals. We spend 7% of revenue on product development and seek to achieve about a third of our revenue from products launched within the last year. The result: in FY15 we launched 19 new products.

# Chairman's Statement

## Record revenue and profit for the year

“

**Meeting the aspirational needs of today's global music creation community.**

I would like to express my appreciation to the shareholders that participated in the flotation of Focusrite Plc on AIM in December 2014 and welcome new shareholders that have acquired shares in Focusrite subsequently.

This is the first set of annual results since Focusrite Plc floated and I am pleased that we have performed well, meeting market expectations with record revenues and profit for the year. We issued 19 new products this year and will continue to invest in our research and development programme to develop future generations of product.

Our Group offers its products under two brands; Focusrite, which is the global leader in Audio Interfaces for recording with computers (the modern paradigm), and Novation, a brand acquired 11 years ago that specialises in synthesisers, keyboards and grid controllers for the Electronic Music market.

Both brands have a strong reputation for innovation, quality of build and performance, resulting in ever greater levels of customer satisfaction and resultant growth.

As a 26-year-old business we have a depth of management experience that belies the fact that the average age of our workforce is around 30. We employ new graduates in music technology and audio engineering in the business every year. Most employees are musicians as well as development engineers, sales, support and marketing staff (even Dave Froker, the CEO, is an accomplished rock guitarist!). This means that we have a strong empathy with the aspirations of our customers and indeed all our musician employees use our products in their personal creative endeavours. In turn we are proud that our employees have voted Focusrite as one of the ‘100 Best Small Companies to Work For’ (Sunday Times), for the past four years.

The Group was fortunate to go into the recession following the 2008 financial crisis with no debt and we have built the Group to five times the 2009 revenue since then. Despite having invested heavily in product development and marketing to build the business aggressively to meet the ever-expanding demand, we remain debt free and highly cash generative.

As a result the Directors have recommended a final dividend of 1.2 pence per share, making a total of 1.8 pence per share for the year. The final dividend is subject to shareholder approval, which is being sought at Focusrite's Annual General Meeting to be held in January 2016.

Our largest market by revenue is the United States, where our brands are well represented in all the leading resellers of music equipment, notably Guitar Center – a chain of 280 stores – and Sweetwater Sound, a unique, proactive and online business that sells nationally from a single location in Indiana, as well as Amazon and many independent retailers. This strong brand representation in our product categories is reflected in the UK, Europe and almost everywhere people are recording and performing music.

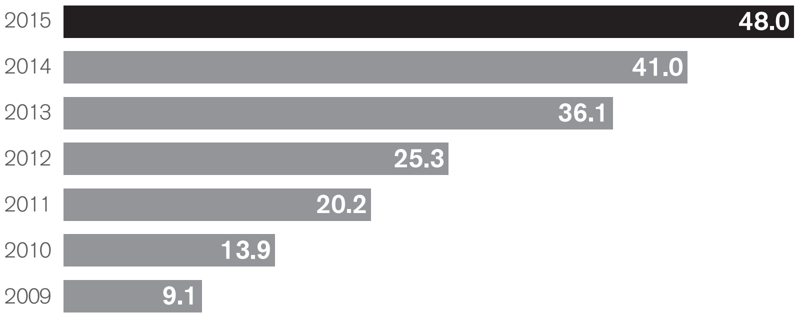
There has never been a better time to be in the musical instrument and music recording market and we are making the best of the opportunity, taking a leading role in the changes that are sweeping our marketplace.

Finally, a big thank you to all the employees in the business for their teamwork and commitment to our collective goals and to our distribution and retail partners for their continued support.

**Philip Dudderidge**
**Executive Chairman**

**Group revenue (£m)**

£48.0m
+17%




## Microsoft Production Studios adding new Focusrite RedNet interfaces

### RedNet is helping position us for the future.

Microsoft Production Studios has expanded its existing RedNet infrastructure at its Redmond, Washington compound, where full-service, state-of-the-art facilities provide all of the resources necessary to produce end-to-end media solutions for Microsoft and third-party clients.

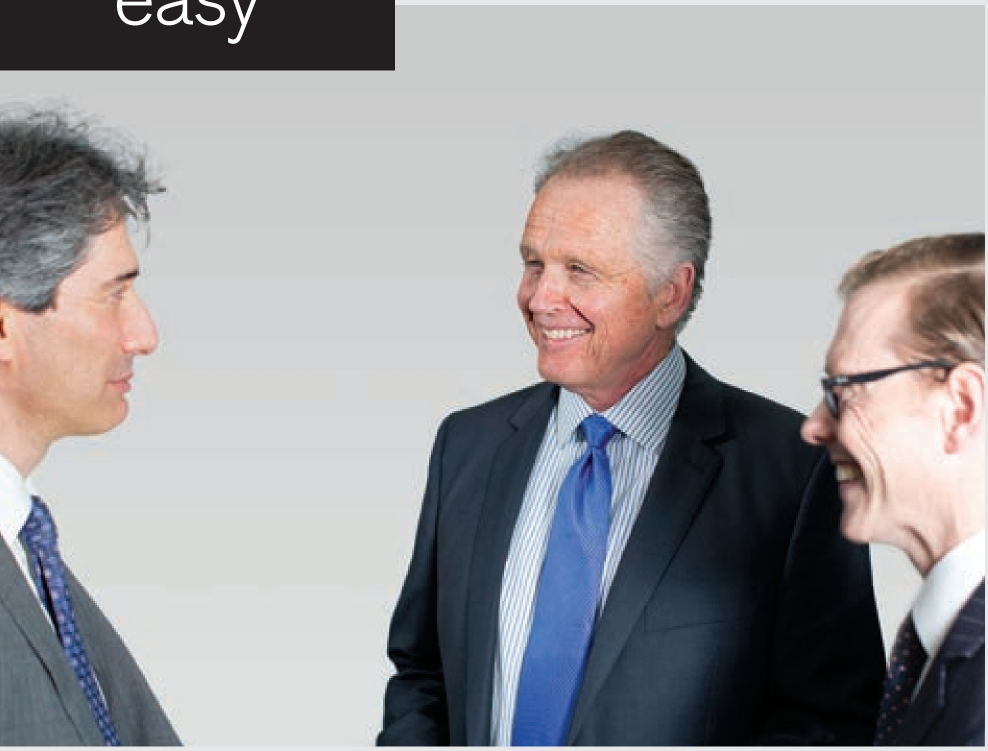

# Disrupt

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


novation
Setup
Shift
Click
Undo
Delete
Quantise
Duplicate
Double
Record Arm
Track Select
Mute
Session
Factory
Send Select
Track Select
Device Select
Device
Mute
Solo
Record Arm

# Chief Executive's Statement

## Make it easy



We intend to continue innovating, which has been the engine of our growth, and we are continuing to disrupt traditional methods of music making. This is liberating musicians with transparent technology that allows them to stay in the flow of creating, producing, recording and distributing their music. And we intend to continue extending the boundaries of our market with steps into adjacent segments.

**Innovating for growth**
On the strength of our 19 new product launches, revenue continued its pattern of annual growth, rising to £48.0 million (2014: £41.0 million) representing a rise of 17.2% (2014: 13.5%). All business segments grew, including Focusrite products rising by 16.3% from £26.8 million to £31.2 million, and Novation products rising by 22.7% from £11.5 million to £14.2 million.

In addition, revenue increased in all regions: USA grew by 29.3%, Europe, Middle East and Africa ('EMEA') by 9.4% and Rest of World by 14.5%. We grew Adjusted EBITDA by 13.1%, with Adjusted EBITDA representing 19.4% of revenue. The growth was relatively consistent across our two brands. Two key new products, the Focusrite Clarett range of audio interfaces and Novation's Launchpad Pro, arrived near the end of the financial year which, along with upcoming new product launches in the new financial year, should provide a good basis for future growth.

**The market**
Globally the overall music gear market is growing, with macroeconomic forces affecting regions differently. The USA, not surprisingly with its relatively healthy economy, is in better shape than the Eurozone and Latin America. Asia continues to grow faster than the rest of the world even with China's slowdown, although that is currently a small part of our business.

**Driving disruption**
More important to our business is the changing nature of music making, production and distribution. Focusrite is well-placed to take advantage of the shift to electronic dance music ('EDM'), mobile ways of making and recording music, and the use of Spotify and YouTube as media for awareness and delivering music to fans. As a measure of both the changing use of musical instruments and the reliance on mobile platforms, downloads of Novation's Launchpad App for Apple's iOS platform grew by 87% and the revenue derived from that app, albeit still a relatively small percentage of overall revenue, grew by 185%.

**Making it easy**
Musicians today face an unending stream of hurdles while creating, producing and performing music. Our drive to make music easy to make – at all levels of expertise – is paying off: the percentage of new owners of our products calling for help from Tech Support continues to decline to 3.5% from

6.5% last year. Critical praise from the press and end-users tells us our focus is paying off.

**Expanding into new segments**
The launch of the Clarett Thunderbolt line of interfaces takes Focusrite into a new, lucrative segment of the market, where products sell for between $500 and $1,500. Initial reviews by users and press experts suggest we'll do well with Clarett. Focusrite, with its lower-priced Scarlett range of interfaces, already claims the number one worldwide position under $500. Launchpad Pro thrusts Novation into a new, higher price segment of grid controllers for the widely used software Ableton Live. Our entry into interfaces for the nascent iOS recording market, the iTrack line, is exploring new markets as musicians are just starting to experiment with mobile recording platforms. Finally, our introduction of RedNet audio networking products is causing excitement in the demanding 'the-show-must-go-on' Live and Broadcast segments. We intend to expand further by continuing to explore new market segments, both through acquisition and home-grown investment.

**Managing margins**
As explained more fully in the Financial Review, gross margin remained similar to the prior year. Our Euro exchange rate hedging kept our performance insulated from the volatility experienced during the year. As ever we kept a close control on product manufacturing costs, which have defied Chinese inflation trends. Operating costs continue to be managed carefully.

**A great place to work**
With our rapid growth we face the enviable but difficult task of hiring the talented people we need to work with us. We place great emphasis on our recruiting, interviewing and hiring decision-making skills. Each employee has a bespoke training programme to raise their skills and further their careers.

Our strategy is clear to employees and their goals and objectives are tied to the Company's overall goals. We are delighted that for the fourth year in a row Focusrite was named one of the '100 Best Small Companies to Work For'. At the same time our continued focus on cost control and efficiency meant our revenue per employee increased. We grew headcount costs by 7.1%, less than revenue and profit growth. We thrive on hard work, fun and results.

**Executing operationally**
In the spring we relaunched the Novation brand, which followed a careful analysis of the brand's strategy, heritage, values and an understanding of customer perception. We also reorganised our R&D department to make it more focused, fleeter of foot, and metric-driven, while we launched 19 new products. Finally we have worked closely with our channel partners and upgraded where necessary.

**Current trading and outlook**
Products launched at the end of the financial year have been well received by the market, with excellent reviews across the industry. Revenue in the first quarter of the current year was ahead of that for FY15, itself a record quarter, in spite of slower than expected initial sales of new products. Pleasingly, existing products continue to perform as expected.

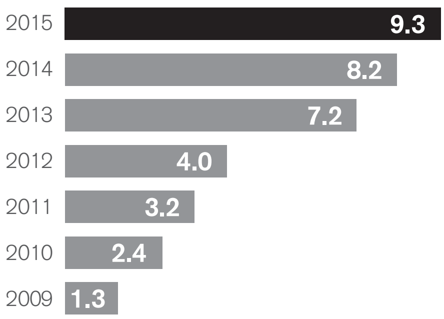
Notwithstanding the weaker Euro, our continued significant investment in R&D and an exciting new launch schedule for the current year gives us confidence that FY16 will be a further year of revenue growth.

**Dave Froker**
**Chief Executive Officer**

A new product, Circuit, is an inspirational grid-based groove box.

**Adjusted EBITDA (£m)**

+13%




## The Group has had a positive year following the IPO and is well set up for future growth.

# Make Easy

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


Fender

# LAUNCHPAD PRO

## RGB buttons

Closer integration with Ableton Live.


## Drum sounds

Spread across the whole grid, on velocity and pressure-sensitive pads which let you create expressive beats.


# Launchpad Pro

## An instrument designed for live performance.

# Instruments

## The grid illuminates as a chromatic keyboard, so you can easily play notes, melodies and chords.

# Financial Review

## Robust financial position helping the strategy

**Revenue has grown in all regions and across both business segments, Focusrite and Novation.**

### Overview
The Group had a positive year in which revenue increased by 17.2% to £48.0 million (2014: £41.0 million), gross margin was consistent at 38.8% and adjusted earnings before interest, tax, depreciation and amortisation ('Adjusted EBITDA') was £9.3 million (2014: £8.2 million), up 13.1%. The balance of cash and cash equivalents at 31 August 2015 was £6.2 million, up from £3.8 million at 31 August 2014.

### Income statement
#### Revenue
Revenue continued its pattern of annual growth, rising to £48.0 million (2014: £41.0 million) representing a rise of 17.2% (2014: 13.5%). All business segments grew, including Focusrite products rising by 16.3% from £26.8 million to £31.2 million, and Novation products rising by 22.7% from £11.5 million to £14.2 million.

In addition, revenue increased in all regions: the USA grew by 29.3%, EMEA by 9.4% and Rest of World by 14.5%.

#### Gross profit
Gross profit comprises the revenue earned from the sale of stock, less the cost of sales of those products including the material cost, freight, storage, royalties and revenue based sales commissions. Gross profit increased to £18.6 million (2014: £15.9 million). Gross margin was consistent with the prior year at 38.8%. At constant exchange rates, the gross margin was 40.1%.

#### Administrative and other expenses
Administrative and other expenses comprise uncapitalised research and development costs, engineering and operations costs, sales and marketing costs, administrative expenses and depreciation and amortisation. Overall, the administrative expenses were £12.3 million.

Within administrative expenses, there are some increased costs associated with the Group now being a quoted company. These totalled £0.5 million. Excluding these, the rise in ongoing administrative costs was 12.7%, less than the increase in the revenue.

In addition, the administrative expenses include one-off costs of £0.7 million (2014: £0.7 million) associated with the Initial Public Offering.

## Income statement

| | 2015 £m Reported | 2015 £m Non-underlying | 2015 £m Adjusted | 2014 £m Reported | 2014 £m Non-underlying | 2014 £m Adjusted |
|---|---|---|---|---|---|---|
| Revenue | **48.0** | **0.0** | **48.0** | 41.0 | 0.0 | 41.0 |
| Cost of sales | **(29.4)** | **0.0** | **(29.4)** | (25.1) | 0.0 | (25.1) |
| Gross profit | **18.6** | **0.0** | **18.6** | 15.9 | 0.0 | 15.9 |
| Administrative expenses and other gains | **(12.3)** | **(0.7)** | **(11.6)** | (10.2) | (0.7) | (9.5) |
| Operating profit | **6.3** | **(0.7)** | **7.0** | 5.7 | (0.7) | 6.4 |
| Net finance income | **0.2** | **0.0** | **0.2** | 0.1 | 0.0 | 0.1 |
| Profit before tax | **6.5** | **(0.7)** | **7.2** | 5.8 | (0.7) | 6.5 |
| Income tax expense | **(1.0)** | **0.0** | **(1.0)** | (0.8) | 0.0 | (0.8) |
| Profit for the period | **5.5** | **(0.7)** | **6.2** | 5.0 | (0.7) | 5.7 |

| | 2015 £m Reported | 2015 £m Non-underlying | 2015 £m Adjusted | 2014 £m Reported | 2014 £m Non-underlying | 2014 £m Adjusted |
|---|---|---|---|---|---|---|
| **Operating profit** | **6.3** | **(0.7)** | **7.0** | 5.7 | (0.7) | 6.4 |
| Less – Profit on disposal of property, plant and equipment | **0.0** | **0.0** | **0.0** | (0.1) | 0.0 | (0.1) |
| Add – Amortisation of intangible assets | **1.9** | **0.0** | **1.9** | 1.5 | 0.0 | 1.5 |
| Add – Depreciation of tangible assets | **0.4** | **0.0** | **0.4** | 0.4 | 0.0 | 0.4 |
| EBITDA | **8.6** | **(0.7)** | **9.3** | 7.5 | (0.7) | 8.2 |

Adjusting for these one-off costs, Adjusted EBITDA increased by 13.1% from £8.2 million to £9.3 million.

### Currency exposure and hedging

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

| Exchange rates | FY15 | FY14 |
|---|---|---|
| Average | | |
| US$:£ | **1.56** | 1.65 |
| €:£ | **1.35** | 1.21 |
| Year end | | |
| US$:£ | **1.54** | 1.68 |
| €:£ | **1.37** | 1.26 |

### US Dollar

The US Dollar has strengthened against Sterling to an average rate of $1.56 (2014: $1.65). The Group purchases stock from several suppliers in China and pays for that stock in US Dollars. The vast majority of that cash outflow is matched by the cash inflow from the US Dollar denominated revenue in the US, Canada, South America and Asia Pacific. This means that a strengthening of the US Dollar leads to an increase in revenue but has little effect on gross profit.

### Euro

During the period, the Euro weakened against Sterling to an average rate of €1.35 (2014: €1.21). Around 27% of the Group's revenue is generated in European countries. There are few costs denominated in Euros. This means that a weakening in the Euro leads to a decrease in revenue and a consequential decrease in gross profit.

### Hedging

To compensate for these movements, the Group has a rolling policy of entering into forward exchange contracts ensuring that the major portion of cash flow movements are hedged for the forthcoming financial year.

In the financial year ended 31 August 2015, the contracts have protected against some of the downside pressure caused by the weakening of the Euro. During the period, the gains realised on the exchange rate hedging totalled £0.8 million and are included within revenue. In addition, under IFRS, the Group is required to fair value the committed future hedge contracts and so, at the period end, an asset of £0.2 million is included on the balance sheet (31 August 2014: an asset of £0.1 million). The change in fair value of these contracts is included within financial income and finance costs in the income statement.

At constant exchange rates, the revenue growth would have been 14.9% compared with the reported growth rate of 17.2%. Conversely, at constant exchange rates, the gross margin would have been 40.1% compared with the reported gross margin of 38.8% (2014: 38.8%).

For the year from September 2015 to August 2016, the total value of Euro hedge contracts is for €15.6 million, comprising €14.4 million to be converted to pounds Sterling at an average protected rate of €1.39:£1.00 and €1.2 million to be converted to US Dollars at an average protected rate of $1.22:€1.00. These forward contracts improve certainty and protect against further currency weakening although they do reflect the weaker Euro from last year's hedged rate of €1.27.

### Corporation tax

The majority of the profit made by the Group is taxed in the UK. The Group benefits from tax allowances (R&D tax credits) on the significant research and development costs explained above, thereby reducing the effective tax rate. In contrast, IPO costs are, typically, not allowable for corporation tax. The total tax charge is calculated as £1.0 million (2014: £0.8 million) representing 15.8% of profit before tax, up from 13.1% in the prior year. Note that, excluding the IPO costs, the effective tax rate is 14.2%.

# Financial Review
continued

### Earnings per share
The adjusted basic and diluted earnings per share figures exclude the impact of the non-underlying costs in each financial year. One factor influencing the EPS growth was the issue of shares prior to the IPO. Were it not for these pre IPO share issues, the adjusted diluted EPS would have increased by 6.9%.

## Balance sheet
### Non-current assets
The major non-current assets are capitalised development costs, shown within other intangible assets, and tooling, shown within property, plant and equipment.

The total value of development costs capitalised during the year was £2.7 million, up from £1.9 million in the prior year. The increased capitalisation was a function of bringing 19 products to market compared with eight in the prior year. These costs are amortised over their useful life which we have deemed to be three years.

Within property, plant and equipment, the total additions during the year were £0.8 million (2014: £0.8 million) of which £0.4 million was tooling for new products.

### Working capital
Working capital comprises inventories plus trade and other receivables, less trade and other payables. Overall, working capital was 16.6% of revenue as at 31 August 2015 compared with 15.3% in the prior year. Generally, receivables and payables increase largely in line with revenue. The main reason for the higher working capital was increased inventories due to new product lines.

### Inventories
Inventories increased to £8.6 million, up from £6.6 million at 31 August 2014. When compared to the annual cost of sales, this represents a stock turn of 3.4 times compared with 3.8 times in the prior year. The stock has been increased partly to support the additional revenue and partly because 14 out of the 19 products were introduced in the second half of the year and the Group invested in stock to support the anticipated demand of new products.

### Trade and other receivables
Trade and other receivables were £7.8 million, up from £6.4 million at 31 August 2014. The primary increase was as a result of increased revenue and the trade receivables represented 49 days of sales, compared with 53 days last year.

### Trade and other payables
Trade and other payables totalled £8.4 million, up from £6.7 million at 31 August 2014. The major element is outstanding invoices for the purchase of stock. This increased as a result of the greater purchases of stock close to the end of the financial year. At the year end, the credit period taken for trade purchases averaged 66 days (31 August 2014: 59 days), helped by one significant supplier changing their accepted terms from 45 days to 60 days.

### Cash
The year end cash balance was £6.2 million, up from £3.8 million at 31 August 2014. The Group does not have any borrowings.

However, on 3 December 2015, after the end of the reported period, the Group completed the arrangement of a committed five-year £10 million revolving credit facility ('RCF') with HSBC. This provides the Group with additional financial resources to take advantage of growth opportunities as well as further strengthening the balance sheet.

## Cash flow
Free cash flow (being net cash from operating activities, less net cash used in investing activities) was £2.7 million (2014: £6.2 million). Particular areas of focus during the year have been an increased spend on research and development costs associated with developing new products and shepherding the production process to ensure that good quality new products are sold to dealers at the planned time. The total of these costs was £3.4 million (2014: £2.5 million). This represents an increase of 37.1% which resulted in 19 new products being introduced in the year, up from eight products in the prior year. The lifespan of new products is normally at least three years so the benefit is expected to accrue over several years. The total capitalised during the year was £2.7 million (2014: £1.9 million).

### Earnings per share

| | **FY15 p** | FY14 p | Growth % |
|---|---|---|---|
| Basic | **10.4** | 10.3 | 1.6% |
| Diluted | **9.3** | 8.8 | 5.6% |
| Adjusted basic | **11.8** | 11.7 | 0.4% |
| Adjusted diluted | **10.5** | 10.1 | 4.3% |

### Balance sheet

| | **2015 £m** | 2014 £m |
|---|---|---|
| Non-current assets | **5.2** | 4.0 |
| Current assets | | |
| Inventories | **8.6** | 6.6 |
| Trade and other receivables | **7.8** | 6.4 |
| Other current assets | **0.2** | 0.1 |
| Cash | **6.2** | 3.8 |
| Current liabilities | **(8.8)** | (7.1) |
| Non-current liabilities | **(0.7)** | (0.6) |
| Net assets | **18.5** | 13.2 |

### Cash flow

| | **2015 £m** | 2014 £m |
|---|---|---|
| Free cash flow | **2.7** | 6.2 |
| Add – Exceptional cash outflows | **1.2** | 0.2 |
| Less – Repayment of related party loan | **0.0** | (1.1) |
| Underlying free cash flow | **3.9** | 5.3 |

The exceptional cash flows comprised mainly the cost of the IPO and the repayment, in the year ended 31 August 2014, of a loan made to a related party during 2012. Adjusting for these, the free cash flow was £3.9 million and represented 8.0% of revenue and 62% of profit after tax adjusted for exceptional items (2014, £5.3 million, representing 13.1% of revenue and 93% of profit after tax adjusted for exceptional items). The main difference was that in 2014, there was a reduction of working capital whereas in 2015 there was an increase in working capital as described previously.

**Dividend**
During the year, the Company paid an interim dividend in respect of the year ended 31 August 2015 of 0.6 pence per share, amounting to £0.3 million. In addition, following the year end, on 9 December 2015, the Directors proposed a final dividend of 1.2 pence per share, making a total of 1.8 pence per share for the year.

The dividend is subject to shareholder approval, which is being sought at Focusrite's Annual General Meeting to be held on 29 January 2016.

The Group intends to adopt a sustainable and progressive dividend policy, subject to ensuring that the business retains sufficient cash to invest adequately in research and development to develop the products which will drive future growth.

**Summary**
In summary, the Group has had a strong year: revenue has grown by 17.2%, Adjusted EBITDA has increased from £8.2 million to £9.3 million and cash generation has been good despite the greater investment in new stock. As a result, the cash balance has increased from £3.8 million to £6.2 million and the Directors believe that this, combined with the new RCF, arranged since the year end, adds further robustness to the Group's balance sheet and will help the Group to execute its strategy.

**Jeremy Wilson**
**Chief Financial Officer**

## Key Performance Indicators ('KPIs')

The main KPIs used by the Group are either financial or related to product, especially new products introduced and customer satisfaction.

**Group revenue** (£m)


**Adjusted EBITDA**[1] (£m)


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

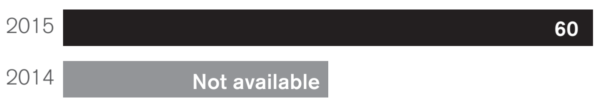
**Underlying free cash flow**[2] (£m)


2 This is free cash flow prior to non-underlying items. It has declined due largely to increased investment in stock and research and development.

**NPI revenue as % of full year revenue**[3] (%)


3 This is the first 12-month revenue for new products as a percentage of total revenue for FY15.

**Net promoter score**[4] (%)




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

**Make easy**[5] (%)


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


# Expand

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

# Better

## Up to 119dB dynamic range, superb low noise, precision 24/192 conversion and eight specially designed mic preamps with a unique analogue 'Air' effect, Clarett 8PreX simply sounds great, easily outperforming other interfaces in its class and beyond.


# Faster

## Amazingly low latency, liberating musicians from workarounds while recording.

# Clarett 8PreX


## Easier

### New control panel software makes setting up and adjusting Clarett a breeze.

# Principal Risks and Uncertainties

**Risk factors**

The risks have not changed significantly from the IPO, however, as this is the first annual results announcement and there is not a prior Annual Report to refer to, they have been disclosed here as well as the Annual Report.

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

| Risk area | Description | Mitigation |
|---|---|---|
| **Economic environment** | The Group operates in the global economy and ultimately within a retail environment to consumer end-user musicians and such operations are influenced by global and national economic factors. | The Group sells products in around 160 territories worldwide via two distinct product categories and so aims to avoid being unduly reliant on any single product or territory. |
| **Technological changes, product innovation and competition** | The market for the Group's products is characterised by continued evolution in technology, evolving industry standards, changes in customer needs and frequent new competitive product introductions. If the Group is unable to anticipate or respond to these challenges, or fails to develop and introduce successful products on a timely basis, it could have an adverse impact on the Group's business and prospects. | The Group invests significantly in its research and development and operates a rigorous, disciplined product introduction process to ensure that as far as possible the fast-changing needs of its target markets are met. In addition, the Board aims to operate an efficient, low-cost business. |
| **Dependence on a small number of suppliers** | The Group is dependent on a small number of suppliers, in particular its largest supplier, which supplies Focusrite interfaces. Failure or material delay by its suppliers to perform or failure by the Group to renew such arrangements could have a material adverse effect on the Group's business, operating results and financial position. | The Group diversifies its risk by using four major Chinese manufacturers for the production of its products. Relationships are long lasting and strong. Typically, members of the Operations department within Focusrite meet each supplier every quarter to review performance and costs. |
| **Key resellers and distributors** | In certain countries, the Group operates via a single distributor or has large individual reseller customers. In certain cases, a failure of or breakdown in the relationship with a key reseller could significantly and adversely affect the Group's business. | In cases where there is a large distributor in a significant market (e.g. the USA), the Group also maintains contact with the major retailers. In addition, the Group carefully monitors customer credit limits and has credit insurance which typically covers 90% of the customer debts outstanding at any point in time. |

| Risk area | Description | Mitigation |
|---|---|---|
| **Development of the channels to market** | Significant change in the methods by which end-users wish to buy Focusrite products could significantly affect the Group's business. | In each market, the Group or its distributors sell to both 'bricks and mortar' and eCommerce retailers so that the Group can satisfy customer demand via both methods. |
| **Currency risks** | The Group is exposed to currency and exchange rate fluctuations which may affect the Group's revenue and costs when reported in Sterling. | There is a largely effective natural hedge for USD transactions in as much as the Group uses its generation of USD to buy product in USD. In addition, the Group mitigates its Euro exposure by entering into forward extra foreign exchange hedging contracts for the conversion of EUR to USD and GBP. |
| **Scarcity of experienced technical personnel** | The nature of the Group's business requires its employees in the technical and development teams to be highly skilled and experienced in their respective fields. The Group is dependent on being able to hire and retain such individuals in order to grow. | The Group is a leading music industry company in the UK and so attracts high quality technical personnel. The Group also attracts graduates from music technology courses at local universities. The Group has wide-ranging share ownership incentives and other employment benefits to aid retention. |
| **Intellectual property and data protection** | The intellectual property and data developed by the Group is valuable and the Group could be harmed by infringement or loss. | The Group has strong data and information technology controls which are reviewed by the Group Board. Additionally, the Group includes data protection provisions in the contracts of all Group employees. The Group also aims to protect its intellectual property and pursues infringements. |

# Corporate Social Responsibility

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

**Impact on society**

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

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

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

**Environmental impact**

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

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

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

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

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

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

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

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

**Relations with suppliers, partners and contractors**

Whilst price will always play an important part in the commercial decision making of Focusrite in terms of suppliers, partners and contractors, it is by no means the only significant consideration. Focusrite prides itself not only on what it does but the way that it does it and this must also be true for those third parties with which it partners.

Examples of this include a strategic partnership with Geodis which provides inbound and outbound third party logistics to Focusrite. Geodis is the fourth largest European transport and logistics supplier and the UK headquarters are located close to Focusrite. Geodis is committed to lowering the negative environmental impact of its operations as well as maximising the positive social impact. It achieves this by reviewing each shipment to determine the most efficient methods of transporting products, both inbound and outbound. Focusrite forward plans the production and shipment of its products so that air freight is not required.

The electricity supplier to Focusrite is Total, which has demonstrated a true year-on-year reduction in $CO_2$ emissions from its power stations, transportation and from its own offices. The fact that Total states that sustainability is its business, its strategy and its future aligns it well with the sustainability ethos of Focusrite.

Focusrite's choice of Chinese contract manufacturers is critical to the business, not only in terms of quality of manufacture but also in terms of social responsibility and sustainability. An example of this is our largest manufacturer, which is ISO9002, TS9000, ISO9001:2000, ISO14001, TL9001, ISO13488 and TS16949 certified as well as a commitment to providing a safe and enjoyable working environment for its 3,500 contract manufacturing staff.

**Modern Slavery Act (2015)**
All of Focusrite's contract manufacturers are responsible employers which comply with local employment law and provide good working and living conditions to their staff. As part of the ongoing relationship with these manufacturers, senior members of the Group visit each supplier around four times per year. These visits include inspection of the production lines, the people working on those production lines and their working, eating and living conditions to ensure that they are acceptable.

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

Focusrite has been awarded a three star accreditation (the highest possible) four years in a row from Best Companies, the organisation which conducts and manages The Sunday Times 100 Best Small Companies to Work For. Focusrite has also been included in the list of The Sunday Times 100 Best Small Companies to Work For from 2011 to 2014.

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

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

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

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

All employees are clear that they are able to contact the Chairman, CEO or either of the Non-executive Directors of the Group if they have an issue which they feel they cannot discuss with their immediate manager.

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

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

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

**Dave Froker**
**Chief Executive Officer**

**Jeremy Wilson**
**Chief Financial Officer**

# Corporate Governance Report

The Board recognises the importance of sound corporate governance and confirms that it has complied with the QCA Corporate Governance Guidelines (as devised by the QCA in consultation with a number of significant institutional small company investors), to the extent appropriate and practicable for a company of its nature and size.

**Board of Directors and Board committees**
The Board comprises five Directors of whom three are Executives and two Non-executives, and reflects a blend of different experience and backgrounds. The Board considers the two Non-executive Directors to be independent. Focusrite Plc was incorporated on 14 November 2014 ahead of the AIM admission on 11 December 2014. Prior to the AIM listing the activities of the Group were carried on by Focusrite Audio Engineering Limited.

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

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

The Board has three committees, each with defined terms of reference. They are the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board meets on a regular basis. During the year from 1 September 2014, the Board met 12 times. Formal agenda and briefings are prepared for Board meetings, allowing all Directors to participate in the meetings. The Directors all have access to independent advice, if required, in respect of their duties from a variety of professional advisers. The Company maintains an appropriate Directors' and Officers' insurance policy in respect of any legal actions against the Directors or Officers.

**Board committees**
Ahead of the IPO the Board established three committees with clearly defined terms of reference. The members of the committees and their duties are set out below.

**Audit Committee**
The Audit Committee assists the Board in discharging its responsibilities, within agreed terms of reference, with regard to corporate governance, financial reporting and external and internal audits and controls. This includes, amongst other things, reviewing the Group's annual financial statements, reviewing the auditor's findings from the audit including discussion with the auditors without executive management being present. It also includes the appointment of external auditors, the approval of their fees, reviewing and monitoring the extent of the non-audit services undertaken by external auditors. Additionally, the Audit Committee reviews the effectiveness of the Group's internal controls and risk management systems including monitoring the implementation of financial policy and procedure enhancements identified at the time of the IPO. With regard to Internal Audit, the Group does not have a formal Internal Audit function at present. The committee have considered this and believe that internal processes currently adopted are appropriate for a group of this size and complexity, but the need for a formal Internal Audit function will be assessed on an ongoing basis. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. Membership of the Audit Committee comprises the two independent Directors and is chaired by Paul Dean. The Audit Committee meets formally not less than three times every year and otherwise as required.

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

| | Board | | Audit Committee | | Remuneration Committee | | Nomination Committee | |
|---|---|---|---|---|---|---|---|---|
| | Number | Attended | Number | Attended | Number | Attended | Number | Attended |
| Dave Froker | 12 | 12 | – | – | – | – | – | – |
| Jeremy Wilson* | 7 | 7 | – | – | – | – | – | – |
| Phil Dudderidge | 12 | 12 | – | – | – | – | 1 | 1 |
| David Bezem* | 7 | 7 | 3 | 3 | 4 | 4 | 1 | 1 |
| Paul Dean* | 7 | 7 | 3 | 3 | 4 | 4 | 1 | 1 |

* Directors were appointed on 11 December 2014.

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

### Investor relations
The Chief Executive and Chief Financial Officer meet analysts and institutional shareholders of the Company after the interim and annual results announcements and on an as-needed basis at other times in the year to update shareholders on the progress of the Group. Additionally, the Non-executive Directors are available to meet shareholders if requested. The Directors encourage the participation of all shareholders, including private shareholders, at the Annual General Meeting. The Annual Report and Accounts are published on the Company's website, www.focusriteplc.com, and can be accessed by shareholders and potential investors.

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

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

At the time of the IPO, the Group identified key financial policies and procedures that it needed. Since then the Group has enhanced the existing internal financial control procedures and monitoring systems including:

- an annual budgetary process to set appropriate measurable targets for monitoring Group progress;
- documented financial policies and approval processes to ensure proper authorisation is obtained for spending;
- segregation of duties within financial management;
- maintenance of proper records for the production of accurate and timely financial information; and
- detailed monthly reporting to the Board against the operating budget and analysis of cash management.

### Auditor independence
The Audit Committee and the external auditors, KPMG LLP, have safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised. These safeguards include the auditors' report to the Audit Committee on the actions they take to comply with the professional and regulatory requirements and best practice designed to ensure their independence from the Company. In addition, a formal policy for audit and non-audit services has been agreed by the Audit Committee, ensuring that there is appropriate high level authorisation before the auditors are engaged in providing a non-audit service. One important non-audit service provided by the auditors in the last year was the audit of the financial information included in the Admission Document. It was felt that appointment of the auditors did not compromise their independence and provided beneficial continuity of knowledge.

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

The annual appointment of auditors by shareholders in the Annual General Meeting is a fundamental safeguard of auditor independence, but beyond this, appropriate consideration is given to whether additional work performed by the auditors may be appropriate for sound commercial and practical reasons, including confidentiality. Examples of work that would fall into this category include regulatory advice, taxation services and financial due diligence work.

# Board of Directors and Company Secretary

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

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

**Jeremy Wilson**
**Chief Financial Officer**
Jeremy was appointed Chief Financial Officer of Focusrite in September 2014. Jeremy has prior public market experience in a number of finance roles. Most recently, Jeremy was Chief Financial Officer to Atex Group Ltd, a leading worldwide developer of content management and advertising software to the media industry. Previously, Jeremy was CFO at Regenersis plc, the AIM-quoted support services business. Prior to his CFO roles, Jeremy held several senior finance roles at DHL Express (UK) Limited and Electrocomponents Plc. He qualified as a Chartered Accountant at KPMG in 1992.

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

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

**Michael 'Mike' Warriner**
**Company Secretary and General Counsel**
Mike joined Focusrite in January 2010 as Legal Counsel and Head of Business Development, but was promoted to Commercial Director in July of the same year and, subsequently, Finance Director from January 2013 to September 2014. Prior to joining Focusrite, Mike was a founder and partner at the specialist corporate and technology law firm White & Black Legal LLP, where he headed up the Technology and IP practice from June 2007. Prior to this, he worked at the Oxford-based firm Darbys Solicitors LLP as a lawyer in the Corporate, Technology and Finance team. Mike attended Trinity College of Music where he achieved a Postgraduate Diploma in Performance for the Double Bass.

# Directors' Report
## For the year ended 31 August 2015

The Directors present their report for the year ended 31 August 2015 in accordance with section 415 of the Companies Act 2006. Certain disclosure requirements for inclusion in the Directors' Report have been incorporated by way of cross-reference to content elsewhere in the Annual Report and referenced below. In addition, this report should be read in conjunction with information concerning employee share schemes, which can be found in the Directors' Remuneration Report on page 38 and in note 32 to the financial statements, and which is incorporated by way of cross-reference into the Directors' Report. The Company did not make any political donations during the year.

**Results and dividends**
The results for the year are set out in the consolidated statement of comprehensive income on page 43. During the year the Directors approved the payment of an interim dividend of 0.6 pence per share. Following the year end the Directors assessed the appropriateness of the Group declaring a final dividend and are recommending that a dividend of 1.2 pence should be paid. This dividend recommendation shall be put to the shareholders to vote on at the Annual General Meeting ('AGM') to be held on 29 January 2016.

**Directors**
The individuals who have acted as Directors of the Company during the year and biographical details setting out their experience are set out on pages 32 to 33. The Executive Directors have service contracts in place, with a six-month notice period. The Non-executive Directors were appointed on 11 December 2014. The Non-executive Directors will initially serve for a three-year term. Details of each Director's contractual arrangements, including notice periods, are included as part of the Directors' Remuneration Report on pages 36 to 39 and that information is incorporated by reference into the Directors' Report. The Board considers that all Directors continue to be effective, committed to their roles and able to devote sufficient time to discharge their responsibilities. Each of the Directors will seek election at the Company's forthcoming Annual General Meeting in accordance with the Company's Articles of Association. This requires at each subsequent Annual General Meeting of the Company one-third of the Directors (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) to retire from office by rotation. Subject to the Company's Articles of Association, the Companies Act 2006 and any directions given by the Company by special resolution and any relevant statutes and regulations, the business of the Company, including in relation to the allotment and issuance of ordinary shares, is managed by the Board which may exercise all the powers of the Company. Matters reserved for the Board are detailed on page 30 of the Corporate Governance Statement.

The Directors who served during the year were as follows:

P Dudderidge
D Froker
J Wilson
D Bezem
P Dean

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

The number of ordinary shares of the Company in which the Directors were beneficially interested at 31 August 2015 is set out in the Directors' Remuneration Report on page 39.

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

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

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

**Share capital**
Details of the Company's share capital are set out in note 28 to the financial statements. The Company has one class of share capital: 58,075,000 ordinary shares with a nominal value of £0.001 each which, following the Company's Initial Public Offering, were admitted to the London Stock Exchange Alternative Investment Market on 11 December 2014. The rights and obligations attached to the ordinary shares are governed by UK law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at general meetings. On a show of hands, every shareholder present in person or by proxy (or a duly authorised corporate representative) shall have one vote and, on a poll, every member who is present in person or by proxy (or a duly authorised corporate representative) shall have one vote for every share held. Other than the general provisions of the Articles of Association and prevailing legislation, there are no specific restrictions on the size of a holding of the Company's share capital. The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction on the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

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

### Major interests in shares

As at 31 August 2015, the following substantial interests (3% or more) in voting rights attaching to the Company's ordinary shares had been notified to the Company:

| Shareholder | Number of voting rights as at 31 August 2015 | % voting rights as at 31 August 2015 |
|---|---|---|
| Philip Dudderidge and family | **30,249,000** | 52.09% |
| Focusrite Employee Benefit Trust | **5,676,000** | 9.77% |
| Schroder Investment Management | **4,911,108** | 8.46% |
| Focusrite Plc Employees and Related Parties | **3,141,016** | 5.41% |
| Investec Asset Management | **2,381,000** | 4.10% |
| Polar Capital | **2,291,752** | 3.95% |
| Highclere International Investors | **2,257,662** | 3.89% |

### Financial risk management

The Group uses financial instruments to manage certain types of risks, including those relating to credit and foreign currency exchange. The Group's objectives and policies on financial risk management including information on liquidity, capital, credit and risk can be found on page 69 of the financial statements and in the risks section on pages 26 to 27.

### Future business developments

The strategy of the Group is explained in the Strategic Report section of this Annual Report and Accounts.

### Research & Development

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

### Health and safety

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

### Going concern

The Company's business activities, together with risk factors which potentially affect its future development, performance or position can be found in the Strategic Report on pages 1 to 29. Details of the Company's financial position and its cash flows are outlined in the Financial Review on pages 18 to 21. The Directors consider that the Group and the Company have adequate financial resources together with a strong business model to ensure they continue to operate for the foreseeable future. The Company is a cash-generative business that, when required, has access to borrowing facilities to meet the Group's future cash requirements. Accordingly, the Directors have adopted the going concern basis in preparing the financial statements.

### Auditors

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

### Audit information

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

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

### Annual General Meeting

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

The Directors' Report has been approved by the Board of Directors on 9 December 2015.

Signed on behalf of the Board.

**Michael Warriner**
**Company Secretary**
9 December 2015

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

Company number: 9312676

# Directors' Remuneration Report

Welcome to Focusrite's Remuneration Report for the year to 31 August 2015 and the first Remuneration Report following the Initial Public Offering in December 2014. During its inaugural year the newly constituted Remuneration Committee thoroughly examined the pre-existing Executive Directors' remuneration structures as well as conducting a review of the remuneration of the other senior managers of the Group. In particular, this review considered what, if any, changes were required to normalise the Group's policy compared to companies of similar size and complexity as well as those in related sectors quoted on AIM. This provided an opportunity to modernise the overall packages for the Executive Directors and senior executives and formulate challenging but realistic performance targets in respect of both short and long-term performance.

Whilst the Company is not required to comply with section 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Company has used them as guidance and voluntarily presented selected disclosures in this report where it considers them to be relevant and appropriate.

**Remuneration Committee and advisers**
The members of the Remuneration Committee during the financial year ended 31 August 2015 were David Bezem (Chairman) and Paul Dean, the independent Non-executive Directors. Only members of the Remuneration Committee have the right to attend and vote at its meetings; however, the Executive Chairman, Chief Executive and Company Secretary are invited to attend where it is deemed appropriate or necessary.

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

During FY15, the committee sought advice relating to executive remuneration from Kepler Associates, now a brand of Mercer Limited. In particular, Kepler were commissioned to carry out a bench-marking exercise for the Remuneration Committee comparing the remuneration of the Executive Directors and senior executives against a suitable peer group. Neither Kepler nor Mercer provides any other services to the Company. Following that exercise, and with the benefit of Kepler and appropriate legal advice, the Remuneration Committee decided to put in place a new long-term incentive scheme in the form of a performance share plan ('PSP'). This is described below in more detail. It was also decided to change some of the terms of the Chief Executive's remuneration package in respect of FY16 and these changes are also described below.

**Remuneration policy**
The Remuneration Committee is responsible for determining, on behalf of the Board, the Company's policy on the remuneration of the Executive Directors, the Chairman and other senior executives of the Group. The committee's overarching aims in setting the remuneration policy are to attract, retain and motivate high-calibre senior management and to focus them on the delivery of the Group's strategic and business objectives, to promote a strong and sustainable performance culture, to incentivise growth, and to align the interests of Executive Directors and senior managers with those of shareholders.

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

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

- basic salary;
- performance-related annual bonus;
- long-term incentive plans;
- pension contribution; and
- benefits.

**Basic salary**
Basic salaries for each Executive Director are reviewed annually and determined by individual performance, relative pay levels within the Group and reference to external market data such as other AIM quoted companies of similar size and complexity and operating in related industries. The Executive Directors' basic salaries for FY15 are set out on the table on page 39.

Having taken into consideration the Kepler report on executive remuneration referred to above, the committee reviewed the basic salary of the Chief Executive Officer, Dave Froker, and decided to increase his basic salary to the same level as that of the Chief Financial Officer, Jeremy Wilson. This change took effect in the new financial year from 1 September 2015.

### Performance-related annual bonus

Dave Froker and Jeremy Wilson were awarded a performance-based bonus for the financial year ending 31 August 2015. Phil Dudderidge, the Executive Chairman, does not receive an annual bonus. The bonus awards for the last financial year were based on EBITDA targets as set out in the table below which shows the lower and upper boundaries and the actual bonuses achieved:

| | | Performance range – Below which no bonus is paid and above which no additional bonus is paid, and calculated on a straight-line basis in between | | |
|---|---|---|---|---|
| | | Lower boundary | Upper boundary | FY15 bonus payout – EBITDA achieved £9.30m |
| Dave Froker | EBITDA target | £9.22m | £12.675m | £9.30m |
| | Bonus payout | £35,091 | £100,000 | £35,608 |
| | % salary | 22.8% | 65% | 23.1% |
| Jeremy Wilson | EBITDA target | £9.22m | £12.675m | £9.30m |
| | Bonus payout | £35,091 | £100,000 | £35,608 |
| | % salary | 21.2% | 60.6% | 21.6% |

For FY16 the annual performance bonus parameters have been set by the Remuneration Committee and these are also based on the achievement of certain EBITDA thresholds. Following the committee's review of the Directors' and senior executives' remuneration structure, the most significant change is that Dave Froker's entitlement to an annual bonus will now represent a greater proportion of his basic salary than in this financial year. His maximum achievable annual bonus in FY16 has been increased relative to his basic salary to a maximum of 75% as compared with 65% this year. Details of the FY16 annual performance bonus plan thresholds and awards will be published in next year's Annual Report and Accounts.

In addition to the performance related annual bonus described above, Jeremy Wilson was entitled to, and received in the year, a one-off bonus of £30,000 following the successful admission of the Company to AIM.

### Long-term incentive plans

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

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

1 During FY15 the vesting threshold of £9 million EBITDA was exceeded and consequently the Remuneration Committee approved the vesting of the 619,000 options.

As part of the post-IPO review of the remuneration structures, the Remuneration Committee looked at the role of long-term incentive plans for both the Executive Directors and other senior management within the Group. This resulted in the introduction of a new PSP during the financial year, as mentioned above, the terms of which are set out on page 38 for your information. Currently the PSP is not being used for the Executive Directors due to their pre-existing long-term incentive awards; however, it is the intention to do so in the future. Awards were made to certain senior managers over a total of 138,876 shares during the year as part of the Remuneration Committee's ambition to retain, reward and incentivise individuals whose contribution is considered to be a significant factor in the Group's overall performance.

# Directors' Remuneration Report
continued

### PSP key terms

| Key term | Operation within PSP |
|---|---|
| Award types | Share option grants, allocation of shares or cash |
| Performance condition | Flexible and can be set at each grant of an award. In the case of awards to Executive Directors the performance condition shall be set over a minimum of three years |
| Holding period | At the Board's discretion a post vesting holding period can be specified |
| Universal award limit | The awards under this scheme or any other share scheme, other than awards to be satisfied by shares held by the EBT at the time of the IPO, shall not in aggregate be more than 10% of Focusrite Plc's issued share capital over any rolling ten-year period post the IPO |
| Exercise price to awardee | At the Board's discretion and in any event not less than nominal value of share |
| Malus provisions | At the Board's discretion but it is the Committee's intention to apply malus provisions to awards to Executive Directors |
| Clawback provisions | At the Board's discretion but it is the Committee's intention to apply clawback provisions to awards to Executive Directors |
| Employer NI to be paid by awardee | At the Board's discretion |
| Individual award limit | 2x basic salary |
| Dividend accrual payment | At the Board's discretion |
| General terms | The PSP contains provisions, in accordance with best practice, for good and bad leavers as well as a change of control |

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

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

| Plan | Maximum number of shares relating to award | % of issued share capital |
|---|---|---|
| Dave Froker LTIP | 1,897,000 | 3.27% |
| Jeremy Wilson LTIP | 400,000 | 0.69% |
| Senior management PSP | 138,876 | 0.24% |
| Other general employee share option plans | 4,719,455 | 8.13% |
| Options outstanding at end of period | 7,155,331 | |
| Less: Issued shares held in EBT[1] | (5,676,000) | (9.77%) |
| Potential net dilution | 1,479,331 | 2.55% |

1 As at IPO.

### Pension contributions
Dave Froker and Jeremy Wilson are members of a money purchase pension scheme. The Company makes defined contributions, currently set at 1% of gross salary including any annual bonus. The Company does not have any final salary pension schemes.

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

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

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

### Directors' emoluments table

| Executive Directors | | Salary/fees £'000 | Other taxable benefits £'000 | Annual bonus £'000 | Pension contribution £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Dave Froker | FY14 | 154 | 2 | 43 | – | 199 |
| | FY15 | 154 | 2 | 36 | 2 | 194 |
| Jeremy Wilson[1] | FY14 | – | – | – | – | – |
| | FY15 | 161 | – | 66 | 2 | 229 |
| Phil Dudderidge | FY14 | 140 | – | – | 200 | 340 |
| | FY15 | 168 | – | – | – | 168 |
| **Non-executive Directors** | | | | | | |
| David Bezem[2] | FY14 | – | – | – | – | – |
| | FY15 | 26 | – | – | – | 26 |
| Paul Dean[2] | FY14 | – | – | – | – | – |
| | FY15 | 26 | – | – | – | 26 |

1 Jeremy Wilson joined the Group on 9 September 2014 with a basic salary of £165,000 per annum. The annual bonus comprises a performance bonus of £35,608 and a one-off bonus of £30,000 in respect of the successful admission to AIM.
2 The remuneration for David Bezem and Paul Dean each comprise a basic fee of £30,000 per annum, for their roles as Non-executive Directors of the Group, and an additional £5,000 per annum for their roles as Chairmen of Board committees. They joined on 5 December 2014.

Prior to the incorporation, these Directors' emoluments were paid via Focusrite Audio Engineering Limited. Since the incorporation of Focusrite Plc as the ultimate parent company, these emoluments have been paid by Focusrite Plc.

### Directors' interest in shares
The interests of the Directors and their families in the shares of the Company at the date of admission to AIM and the end of the financial year were as follows:

| | 0.1p ordinary shares as at 31 August 2015 | Outstanding options over shares as at 31 August 2015 | 0.1p ordinary shares as at 11 December 2014 |
|---|---|---|---|
| Phil Dudderidge | 30,249,000 | – | 30,249,000 |
| Dave Froker | 1,202,000 | 1,897,000[1] | 1,202,000 |
| Jeremy Wilson | 31,746 | 400,000 | 31,746 |
| David Bezem | 7,937 | – | 7,937 |
| Paul Dean | 7,937 | – | 7,937 |

1 During FY15 the vesting threshold of £9 million EBITDA was exceeded and consequently the Remuneration Committee approved the vesting of 619,000 options.

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

**David Bezem**
**Chairman of the Remuneration Committee**
9 December 2015

# Statement of Directors' Responsibilities in respect of the Annual Report and Accounts

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements[1]; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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

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

1 Large companies only.

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

We have audited the financial statements of Focusrite Plc for the year ended 31 August 2015 set out on pages 41 to 80. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

**Respective responsibilities of Directors and auditors**
As explained more fully in the Directors' Responsibilities Statement set out on page 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

**Opinion on financial statements**
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

**Peter Meehan (Senior Statutory Auditor)**
for and on behalf of KPMG LLP
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

9 December 2015

# Consolidated Income Statement
## For the year ended 31 August 2015

| | Note | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Revenue** | 5 | **48,029** | 40,965 |
| Cost of sales | | **(29,381)** | (25,068) |
| **Gross profit** | | **18,648** | 15,897 |
| Other gains and losses | 10 | **–** | 15 |
| Administrative expenses | | **(12,328)** | (10,202) |
| **Adjusted EBITDA (non-GAAP measure)** | | **9,302** | 8,228 |
| Depreciation and amortisation | | **(2,278)** | (1,796) |
| Non-underlying items | | **(704)** | (722) |
| **Operating profit** | | **6,320** | 5,710 |
| Finance income | 9 | **164** | 186 |
| Finance costs | 11 | **–** | (86) |
| **Profit before tax** | | **6,484** | 5,810 |
| Income tax expense | 15 | **(1,022)** | (763) |
| **Profit for the period from continuing operations** | | **5,462** | 5,047 |

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Earnings per share** | | | |
| From continuing operations | | | |
| Basic (pence per share) | 17 | **10.4** | 10.3 |
| Diluted (pence per share) | 17 | **9.3** | 8.8 |

# Consolidated Statement of Comprehensive Income
## For the year ended 31 August 2015

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Profit for the period** | **5,462** | 5,047 |
| Exchange differences on translation of foreign operations | **–** | – |
| **Total comprehensive income for the period** | **5,462** | 5,047 |
| **Profit attributable to:** | | |
| Equity holders of the Company | **5,462** | 5,047 |
| | **5,462** | 5,047 |

Notes 1 to 36 form part of the financial statements.

# Consolidated Statement of Financial Position
## As at 31 August 2015

| | Note | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 18 | **419** | 419 |
| Other intangible assets | 19 | **3,522** | 2,616 |
| Property, plant and equipment | 20 | **1,323** | 939 |
| Deferred tax asset | 25 | **–** | 34 |
| **Total non-current assets** | | **5,264** | 4,008 |
| **Current assets** | | | |
| Inventories | 22 | **8,633** | 6,596 |
| Trade and other receivables | 23 | **7,737** | 6,367 |
| Other investments including derivatives | 24 | **223** | 118 |
| Cash and cash equivalents | 31 | **6,173** | 3,803 |
| Total current assets | | **22,766** | 16,884 |
| **Total assets** | | **28,030** | 20,892 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 28 | **58** | 52 |
| Merger reserve | 29 | **14,595** | – |
| Merger difference reserve | 29 | **(13,147)** | 1,448 |
| Translation reserve | 29 | **(6)** | (6) |
| Treasury share reserve | 29 | **(6)** | – |
| Retained earnings | 30 | **16,984** | 11,714 |
| **Equity attributable to owners of the Company** | | **18,478** | 13,208 |
| **Total equity** | | **18,478** | 13,208 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | **8,406** | 6,688 |
| Current tax liabilities | | **403** | 432 |
| **Total current liabilities** | | **8,809** | 7,120 |
| **Non-current liabilities** | | | |
| Deferred tax | 25 | **743** | 564 |
| **Total liabilities** | | **9,552** | 7,684 |
| **Total equity and liabilities** | | **28,030** | 20,892 |

The financial statements were approved by the Board of Directors and authorised for issue on 9 December 2015. They were signed on its behalf by:

**Dave Froker**
**Chief Executive Officer**

**Jeremy Wilson**
**Chief Financial Officer**

The notes on pages 47 to 73 form part of the financial statements.

# Consolidated Statement of Changes in Equity
## For the year ended 31 August 2015

| | Share capital £'000 | Merger reserve £'000 | Merger difference reserve £'000 | Translation reserve £'000 | Treasury share reserve £'000 | Share-based payment reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 September 2013** | 49 | – | 1,218 | (6) | – | 128 | 10,771 | 12,160 |
| Profit for the period | – | – | – | – | – | – | 5,047 | 5,047 |
| **Total comprehensive income for the period** | – | – | – | – | – | – | 5,047 | 5,047 |
| **Transactions with owners of the Company:** | | | | | | | | |
| Issue of ordinary shares | 3 | – | 230 | – | – | – | – | 233 |
| Share-based payments | – | – | – | – | – | 12 | – | 12 |
| Dividends | – | – | – | – | – | – | (4,244) | (4,244) |
| **Balance at 31 August 2014** | 52 | – | 1,448 | (6) | – | 140 | 11,574 | 13,208 |
| Profit for the period | – | – | – | – | – | – | 5,462 | 5,462 |
| **Total comprehensive income for the period** | – | – | – | – | – | – | 5,462 | 5,462 |
| **Transactions with owners of the Company:** | | | | | | | | |
| Issue of ordinary shares | 6 | – | – | – | – | – | – | 6 |
| Ordinary shares issued to the EBT | – | – | – | – | (6) | – | – | (6) |
| Share for share exchange | – | 14,595 | (14,595) | – | – | – | – | – |
| Share-based payments | – | – | – | – | – | 122 | – | 122 |
| Dividends | – | – | – | – | – | – | (314) | (314) |
| **Balance at 31 August 2015** | **58** | **14,595** | **(13,147)** | **(6)** | **(6)** | **262** | **16,722** | **18,478** |

The notes on pages 47 to 73 form part of the financial statements.

# Consolidated Cash Flow Statement

## For the year ended 31 August 2015

| | Note | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Net cash from operating activities** | 31 | **6,243** | 8,804 |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | 20 | **(782)** | (783) |
| Investment in intangible assets | 19 | **(2,778)** | (1,887) |
| Proceeds from disposal of non-current assets | | **1** | 100 |
| **Net cash from/(used in) investing activities** | | **(3,559)** | (2,570) |
| **Financing activities** | | | |
| Issue of equity shares | | **–** | 233 |
| Equity dividends paid | 16 | **(314)** | (4,244) |
| **Net cash (used in) financing activities** | | **(314)** | (4,011) |
| **Net increase/(decrease) in cash and cash equivalents** | | **2,370** | 2,223 |
| **Cash and cash equivalents at beginning of year** | | **3,803** | 1,580 |
| **Cash and cash equivalents at end of year** | 31 | **6,173** | 3,803 |

# Notes to the Financial Statements
## For the year ended 31 August 2015

**1 General information**
Focusrite Plc (the 'Company'), is a company incorporated in the United Kingdom. The consolidated financial statements ('financial statements') as at and for the year ended 31 August 2015 comprised the Company and its subsidiaries (together referred to as the 'Group').

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

**Basis of preparation**
**Statement of compliance**
The financial statements for the year ended 31 August 2015 are presented in pounds Sterling ('GBP'). This is the functional currency of the Group. The financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS'), International Accounting Standards ('IAS') and interpretations currently endorsed by the International Accounting Standards Board ('IASB') and its committees as adopted by the EU and as required to be adopted by UK companies.

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

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

These financial statements were authorised for issue by the Company's Board of Directors on 9 December 2015.

**2 Adoption of new and revised standards**
In the current year, the Group has applied a number of amendments to IFRSs that are mandatorily effective for an accounting period that begins on or after 1 January 2014. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities' – As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the adoption of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

Amendments to IAS 36 'Recoverable Amount Disclosures for Non-financial Assets' — These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 'Fair Value Measurement.' The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

IFRIC 21 'Levies' – The interpretation provides guidance on how different levy arrangements should be accounted for; in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' — As the Group does not have any financial assets or financial liabilities that qualify for offset, the adoption of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

IFRS 11 (amendments) 'Accounting for Acquisitions of Interests in Joint Operations' — As the Group does not have any interest in joint operations, the adoption of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

IFRS 10 and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' — The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

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

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

The Directors intend to assess the impact of adopting these new or amended standards and interpretations.

# Notes to the Financial Statements continued
## For the year ended 31 August 2015

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

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

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

**Basis of consolidation**
On 11 December 2014, Focusrite Plc was admitted to trading on AIM. In preparation for the IPO, the Group was restructured. On 4 December 2014, the Company obtained control of 100% of the share capital of Focusrite Audio Engineering Limited in a share for share exchange, thereby inserting Focusrite Plc as the Parent Company of the Group. There were no changes in rights or proportion of control exercised as a result of this transaction.

Although the share for share exchange resulted in a change of legal ownership, in substance the financial statements reflect the continuation of the pre-existing Group, headed by Focusrite Audio Engineering Limited.

As a result, the comparative figures for the year ended 31 August 2014 presented in these financial statements are the consolidated results of Focusrite Audio Engineering Limited. For the detailed impact on the earnings per share calculation, see note 17.

The statement of financial position at 31 August 2014 reflects the share capital structure of Focusrite Audio Engineering Limited. The statement of financial position at 31 August 2015 presents the legal change in ownership of the Group, including the share capital of Focusrite Plc and the merger reserve arising as a result of the share for share exchange transaction.

The basis for the comparative financial information for the year ended 31 August 2014 was the audited financial statements for Focusrite Audio Engineering Limited, prepared using UK Generally Accepted Accounting Practices. The historical financial information was converted to International Financial Reporting Standards as adopted by the EU ('EU IFRS') for publication in the Admission Document, dated 5 December 2014, on which an unqualified accountant's report opinion was issued. Hence the comparative financial information has been shown as audited.

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

**Going concern**
The Group's business activities and position in the market are described in the Strategic Report. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertainties within the global economy. The Group has considerable financial resources, ongoing revenue streams and a broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further detail is contained in the Strategic Report on pages 1 to 29.

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

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

For the period reported, the Group has chosen to present an adjusted EPS (note 17) calculation with profit adjusted for non-underlying items to aid comparability and to provide a consistent measure of performance.

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

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

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

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

**Revenue recognition**
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of sales taxes and discounts.

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Revenue is classified as follows:

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

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

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

# Notes to the Financial Statements continued
## For the year ended 31 August 2015

**3 Significant accounting policies** continued

**Leasing**

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

**Foreign currencies**

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

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

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

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

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

**Retirement benefit costs**

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

**Equity-settled share-based payments**

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

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

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

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

**Taxation**

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

**Current tax**

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

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

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

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

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

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

## Tangible and intangible assets
### Property, plant and equipment
The Group has held no land and buildings for the period covered by the consolidated financial information.

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

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

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

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

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

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

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

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

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

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

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

# Notes to the Financial Statements continued
## For the year ended 31 August 2015

**3 Significant accounting policies continued**

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the revaluation balance is greater than the impairment loss.

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

**Inventories**

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

**Trade and other receivables**

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

**Financial instruments**

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

**Financial assets**

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

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

**Effective interest method**

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

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

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line in the income statement. Fair value is determined in the manner described in note 34.

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

*Available for sale financial assets*
The Group holds no financial assets classified as available for sale.

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

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

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

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

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

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

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

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

# Notes to the Financial Statements continued
## For the year ended 31 August 2015

**3 Significant accounting policies** continued
**Financial liabilities**
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line in the income statement. Fair value is determined in the manner described in note 34.

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

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

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

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

**Derivative financial instruments**
The Group is able to enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps. Further details of derivative financial instruments are disclosed in note 34.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

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

### Hedge accounting
Up to 31 August 2015 the Group has not adopted hedge accounting for the foreign currency forward contracts purchased to hedge against short-term movements in cash flows of the underlying hedged item. The exposure has been short-term and involves relatively few but highly predictable transactions. Whilst the exposure to foreign currency risk remains relatively low, the cost of implementing the required controls and administration processes to perform hedge accounting is judged to be uneconomic at present. Should these circumstances change the Group will review the adoption of hedge accounting.

Notes 24 and 34 set out details of the fair values of any derivative instruments used for hedging purposes.

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

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

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

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

Further details regarding the Scheme are set out in note 32.

### Recoverability of internally-generated intangible asset
Management reconsidered the recoverability of its internally-generated intangible asset for development costs which is included in the balance sheet at 31 August 2015 at £3,419,000 (2014: £2,568,000). These projects continue to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project.

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

### Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at 31 August 2015 was £419,000 (2014: £419,000). Further details are given in note 18.

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

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

| | Year ended 31 August | |
|---|---|---|
| | **2015 £'000** | 2014 £'000 |
| **Continuing operations** | | |
| USA | **18,498** | 14,307 |
| Europe, Middle East and Africa | **21,460** | 19,612 |
| Rest of World | **8,071** | 7,046 |
| Consolidated revenue | **48,029** | 40,965 |

# Notes to the Financial Statements continued
## For the year ended 31 August 2015

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

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

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

| | Year ended 31 August | |
|---|---|---|
| | **2015 £'000** | 2014 £'000 |
| **Revenue from external customers** | | |
| Focusrite | **31,187** | 26,820 |
| Novation | **14,169** | 11,544 |
| Distribution | **2,673** | 2,601 |
| **Total** | **48,029** | 40,965 |
| **Segment profit** | | |
| Focusrite | **14,221** | 12,814 |
| Novation | **6,842** | 6,270 |
| Distribution | **846** | 918 |
| | **21,909** | 20,002 |
| Central distribution costs and administrative expenses | **(14,885)** | (13,570) |
| Adjusted operating profit before non-underlying items | **7,024** | 6,432 |
| Non-underlying items | **(704)** | (722) |
| Operating profit | **6,320** | 5,710 |
| Finance income | **164** | 186 |
| Finance costs | **–** | (86) |
| Profit before tax | **6,484** | 5,810 |
| Tax | **(1,022)** | (763) |
| Profit after tax | **5,462** | 5,047 |

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

Central administration costs comprise principally the employment-related costs and other overheads incurred by Focusrite and its US subsidiary, net of inter-Company commission income. Also included within central administration costs is the charge relating to the share option scheme (note 32) of £122,000 for the year ended 31 August 2015 (2014: £12,000).

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

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

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| **Non-current assets** | | |
| USA | **29** | 14 |
| Europe, Middle East and Africa | **4,683** | 3,714 |
| Rest of World | **552** | 280 |
| **Total non-current assets** | **5,264** | 4,008 |

**Revenues from major products and services**
The Group's revenues from its major products and services are disclosed in note 5.

**Information about major customers**
Included in revenues shown for 2015 is £18.5 million (2014: £14.3 million) attributed to the Group's largest customer, American Music & Sound. Amounts owed at end of year is £2.7 million (2014: £3.2 million).

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

| | Note | Continuing operations Year ended 31 August 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| Net foreign exchange (gains)/losses | 9,11 | **(53)** | 86 |
| Research and development costs | | **743** | 620 |
| IPO related costs | 14 | **704** | 552 |
| Depreciation and impairment of property, plant and equipment | 20 | **374** | 423 |
| Profit on disposal of property, plant and equipment | | **(1)** | (100) |
| Amortisation of intangibles | 19 | **1,902** | 1,461 |
| Operating lease rental expense | 26 | **156** | 130 |
| Cost of inventories recognised as an expense | | **25,606** | 20,681 |
| Staff costs | 12 | **6,059** | 5,656 |
| Impairment loss recognised on trade receivables | 23 | **12** | 41 |
| Change in fair value of financial instruments | 34 | **(105)** | (127) |
| Share-based payments charge to profit and loss | 32 | **122** | 12 |

## 8 Auditor's remuneration

| | Continuing operations Year ended 31 August 2015 £'000 | 2014 £'000 |
|---|---|---|
| Fees payable to the Company's auditors for the audit of Company's annual accounts | **20** | – |
| Fees payable to the company's auditor and its associates for other services: | | |
| Audit of the accounts of subsidiaries pursuant to legislation | **29** | 19 |
| Audit-related assurance services | **9** | – |
| Other assurance services | **313** | 219 |
| Tax compliance services | **11** | 5 |
| | **382** | 243 |

## 9 Finance income

| | Continuing operations Year ended 31 August 2015 £'000 | 2014 £'000 |
|---|---|---|
| Interest on loan to related party | **–** | 53 |
| Bank deposit interest | **6** | 6 |
| Exchange gain | **53** | – |
| Change in fair value of financial instrument | **105** | 127 |
| Finance income | **164** | 186 |

## 10 Other gains and losses

| | Continuing operations Year ended 31 August 2015 £'000 | 2014 £'000 |
|---|---|---|
| Rent receivable | **–** | 15 |
| | **–** | 15 |

# Notes to the Financial Statements continued
## For the year ended 31 August 2015

### 11 Finance costs

| | Continuing operations Year ended 31 August | |
|---|---|---|
| | **2015 £'000** | 2014 £'000 |
| Exchange loss | **–** | 86 |
| Finance costs | **–** | 86 |

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

### 12 Staff costs

| | Continuing operations Year ended 31 August | |
|---|---|---|
| | **2015 £'000** | 2014 £'000 |
| Wages and salaries | **5,250** | 4,758 |
| Social security costs | **587** | 545 |
| Other pension costs | **222** | 353 |
| | **6,059** | 5,656 |

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

| | **2015 Number** | 2014 Number |
|---|---|---|
| Research and development | **50** | 41 |
| Sales and marketing | **43** | 39 |
| Operations | **39** | 32 |
| Administration and central | **23** | 18 |
| | **155** | 130 |

### 13 Directors' remuneration
A detailed analysis of Directors' remuneration, including salaries, bonuses and long-term incentives, and the highest paid Director, is provided in the remuneration table in the Directors' Remuneration Report, which forms part of these financial statements (page 39).

### 14 Non-underlying items
In December 2014, the Group floated on the London Stock Exchange AIM market. Non-recurring IPO related costs totalled £704,000, which were charged to the income statement (31 August 2014: 552,000). In addition, in 2014 the Group made a non-recurring pension contribution of £170,000 to the Chairman.

### 15 Tax

| | Year ended 31 August | |
|---|---|---|
| | **2015 £'000** | 2014 £'000 |
| **Corporation tax charges:** | | |
| Overprovision in prior year | **(69)** | – |
| Current year | **878** | 627 |
| | **809** | 627 |
| **Deferred taxation** | | |
| Current year | **213** | 136 |
| | **1,022** | 763 |

Corporation tax is calculated at 20.58% (2014: 22.17%) of the estimated taxable profit for the year. Taxation for the US subsidiary is calculated at the rates prevailing in the respective jurisdiction.

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

| | Year ended 31 August 2015 £'000 | Year ended 31 August 2014 £'000 |
|---|---|---|
| **Current taxation** | | |
| Profit before tax on continuing operations | **6,484** | 5,810 |
| Tax at the UK corporation tax rate of 20.58% (2014: 22.17%) | **1,334** | 1,288 |
| Effects of: | | |
| Expenses that are not deductible in determining taxable profit | **564** | 128 |
| R&D tax credit | **(816)** | (633) |
| Overseas tax | **36** | 22 |
| Prior period adjustment | **(69)** | – |
| Other reconciling items | **–** | 1 |
| Effect of change in standard rate of corporation tax | **(27)** | (43) |
| Current tax charge for period | **1,022** | 763 |

## 16 Dividends

The following equity dividends have been declared and paid.

| | Year ended 31 August 2015 £'000 | Year ended 31 August 2014 £'000 |
|---|---|---|
| 0.6p per qualifying ordinary share (2014: equivalent to 8.1p per qualifying ordinary share) | **314** | 4,244 |
| | **314** | 4,244 |

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2015 of 0.6 pence per share, amounting to £314,394.

On 9 December 2015, the Directors recommended a final dividend of 1.2 pence per share, making a total of 1.8 pence per share for the year.

## 17 Earnings per share

### Reported earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| Earnings | Year ended 31 August 2015 £'000 | Year ended 31 August 2014 £'000 |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share being net profit for the period | **5,462** | 5,047 |

| Number of shares | Year ended 31 August 2015 Number '000 | Year ended 31 August 2014 Number '000 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share calculation | **52,399** | 49,208 |
| Effect of dilutive potential ordinary shares | **6,416** | 8,143 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share calculation | **58,815** | 57,351 |

| Earnings per share | **Pence** | Pence |
|---|---|---|
| Basic earnings per share | **10.4** | 10.3 |
| Diluted earnings per share | **9.3** | 8.8 |

At 31 August 2015, the total number of ordinary shares issued and fully paid was 58,075,000 as shown in note 28. This included 5,676,000 shares held by the Employee Benefit Trust to satisfy options vesting in future years. The operation of this Employee Benefit Trust is funded by the Group so the EBT is required to be consolidated, with the result that the weighted average number of ordinary shares for the purpose of the basic earnings per share calculation is the net of the total number of shares in issue (58,075,000) less the number of shares held by the Employee Benefit Trust (5,676,000). It should be noted that the only right relinquished by the Trustees of the Employee Benefit Trust is the right to receive dividends. In all other respects, the shares held by the Employee Benefit Trust have full voting rights.

# Notes to the Financial Statements continued

## For the year ended 31 August 2015

### 17 Earnings per share continued

The effect of dilutive potential ordinary share issues is calculated in accordance with IAS 33 and arises from the employee share options currently outstanding, adjusted by the profit element as a proportion of the average share price during the period. Diluted EPS in 2014 has not been restated for any subsequent changes in assumptions made in calculating the effect of dilutive potential ordinary share issues, such as average share price.

**Adjusted earnings per share**

| Earnings | Year ended 31 August<br>**2015**<br>**£'000** | <br>2014<br>£'000 |
|---|---|---|
| Profit for the financial period | **5,462** | 5,047 |
| Non underlying items | **704** | 722 |
| Total underlying profit for adjusted earnings per share calculation | **6,166** | 5,769 |

| Number of shares | Year ended 31 August<br>**2015**<br>**Number**<br>**'000** | <br>2014<br>Number<br>'000 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share calculation | **52,399** | 49,208 |
| Effect of dilutive potential ordinary shares | **6,416** | 8,143 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share calculation | **58,815** | 57,351 |

| Earnings per share | **Pence** | Pence |
|---|---|---|
| Adjusted basic earnings per share | **11.8** | 11.7 |
| Adjusted diluted earnings per share | **10.5** | 10.1 |

### 18 Goodwill

| | Total<br>£'000 |
|---|---|
| **Cost** | |
| At 1 September 2013 | 419 |
| At 31 August 2014 | 419 |
| **At 31 August 2015** | **419** |

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

| | |
|---|---|
| **Carrying amount** | |
| At 31 August 2013 | 419 |
| At 31 August 2014 | 419 |
| **At 31 August 2015** | **419** |

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

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

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

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

## 19 Other intangible assets

| | Intellectual property £'000 | Development costs £'000 | Licences £'000 | Computer software £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 September 2013 | 160 | 5,372 | – | – | 5,532 |
| Additions | 22 | 1,865 | – | – | 1,887 |
| At 31 August 2014 | 182 | 7,237 | – | – | 7,419 |
| Additions | 72 | 2,667 | 29 | 10 | 2,778 |
| Transfers between classes | (182) | – | 182 | – | – |
| Transfer from property, plant and equipment | – | – | – | 97 | 97 |
| **At 31 August 2015** | **72** | **9,904** | **211** | **107** | **10,294** |
| **Depreciation** | | | | | |
| At 1 September 2013 | 126 | 3,216 | – | – | 3,342 |
| Charge for the year | 8 | 1,453 | – | – | 1,461 |
| At 31 August 2014 | 134 | 4,669 | – | – | 4,803 |
| Charge for the year | 30 | 1,816 | 31 | 25 | 1,902 |
| Transfers between classes | (134) | – | 134 | – | – |
| Transfer from property, plant and equipment | – | – | – | 67 | 67 |
| **At 31 August 2015** | **30** | **6,485** | **165** | **92** | **6,772** |
| **Carrying amount** | | | | | |
| **At 31 August 2015** | **42** | **3,419** | **46** | **15** | **3,522** |
| At 31 August 2014 | 48 | 2,568 | – | – | 2,616 |
| At 31 August 2013 | 34 | 2,156 | – | – | 2,190 |

# Notes to the Financial Statements continued

## For the year ended 31 August 2015

### 20 Property, plant and equipment

| | Plant, tooling equipment and machinery £'000 | Fixtures, fittings & leasehold improvements £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 September 2013 | 2,052 | 442 | 658 | 3,152 |
| Additions | 217 | 458 | 108 | 783 |
| Exchange differences | – | (2) | (3) | (5) |
| Disposals | – | – | (3) | (3) |
| At 31 August 2014 | 2,269 | 898 | 760 | 3,927 |
| Additions | 540 | 133 | 109 | 782 |
| Transfer to other intangible assets | – | – | (97) | (97) |
| Disposals | (2) | – | (8) | (10) |
| **At 31 August 2015** | **2,807** | **1,031** | **764** | **4,602** |
| **Accumulated depreciation and impairment** | | | | |
| At 1 September 2013 | 1,592 | 392 | 588 | 2,572 |
| Charge for the year | 319 | 28 | 76 | 423 |
| Exchange differences | – | (2) | (2) | (4) |
| Eliminated on disposals | – | – | (3) | (3) |
| At 31 August 2014 | 1,911 | 418 | 659 | 2,988 |
| Charge for the year | 215 | 90 | 69 | 374 |
| Exchange differences | – | (2) | (4) | (6) |
| Transfer to other intangible assets | – | – | (67) | (67) |
| Eliminated on disposals | (2) | – | (8) | (10) |
| **At 31 August 2015** | **2,124** | **506** | **649** | **3,279** |
| **Carrying amount** | | | | |
| **At 31 August 2015** | **683** | **525** | **115** | **1,323** |
| At 31 August 2014 | 358 | 480 | 101 | 939 |
| At 31 August 2013 | 460 | 50 | 70 | 580 |

### 21 Subsidiaries

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

| Name | Country of registration or incorporation | Principal activity | Class of shares | **2015 %** | 2014 % |
|---|---|---|---|---|---|
| Focusrite Audio Engineering Limited | England and Wales | Manufacture and distribution | Ordinary | **100** | 100 |
| Focusrite Novation Inc[1] | United States of America | Marketing services | Ordinary | **100** | 100 |

1 Owned indirectly through Focusrite Audio Engineering Limited.

### 22 Inventories

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Raw materials | **65** | 386 |
| Finished goods | **8,568** | 6,210 |
| | **8,633** | 6,596 |

No inventories have been pledged as security against borrowings (2014: £nil). Stock days recorded against cost of sales amounted to 123 days in 2015 (2014: 111 days).

## 23 Trade and other receivables

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Amount receivable for the sale of goods | **6,499** | 6,018 |
| Allowance for doubtful debts | **(36)** | (24) |
| | **6,463** | 5,994 |
| Other debtors | **1,109** | 46 |
| Prepayments | **165** | 327 |
| | **7,737** | 6,367 |

### Trade receivables

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

The average credit period offered on sales of goods during 2015 was 45 days (2014: 30 days). The average days' sales outstanding ('DSO') in 2015 was 48 days (2014: 48 days).

The Group has not charged interest for late payment of invoices in 2014 or 2015.

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

Before accepting any significant new customer, the Group uses a variety of credit scoring systems to assess the potential customer's credit quality and to define credit limits for each customer. Limits and scoring attributed to customers are reviewed regularly. A single major distributor accounted for 45% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2015 (2014: 42%). No other single customer accounted for more than 10% of the total balance of trade receivables net of allowances for doubtful debts during the period under review.

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

### Ageing of not impaired receivables:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Not overdue | **5,225** | 4,632 |
| Overdue between 0–30 days | **1,098** | 1,277 |
| Overdue between 31–60 days | **140** | 72 |
| Overdue between 61–90 days | **–** | 3 |
| Overdue between 91–120 days | **–** | 4 |
| Overdue more than 120 days | **–** | 6 |
| | **6,463** | 5,994 |

### Movement in the allowance for doubtful debts:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Balance at the beginning of the period | **24** | 24 |
| Impairment losses recognised | **12** | 41 |
| Amounts written off during the year as uncollectible | **–** | (41) |
| Amounts recovered during the year | **–** | – |
| Impairment losses reversed | **–** | – |
| Balance at the end of the period | **36** | 24 |

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

# Notes to the Financial Statements continued
## For the year ended 31 August 2015

### 23 Trade and other receivables continued
**Ageing of impaired trade receivables:**

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Overdue up to 30 days | – | – |
| Overdue between 31–60 days | – | – |
| Overdue between 61–90 days | – | – |
| Overdue between 91–120 days | – | – |
| Overdue more than 120 days | 36 | 24 |
| | 36 | 24 |

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Gross value of not impaired receivables | 6,464 | 5,994 |
| Gross value of impaired receivables | 36 | 24 |
| Allowance for doubtful debts | (36) | (24) |
| | 6,464 | 5,994 |

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

### 24 Other investments including derivatives
During 2015 and 2014 the Group entered into a number of foreign currency forward contracts to provide economic hedging for known cash flow transactions. The fair values of the contracts outstanding at the year end are summarised below. In each case the forward contracts were settled during the year with any realised gain or loss recognised in profit and loss.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Fair value of outstanding forward contracts: | | |
| Euro to US Dollar | 76 | 18 |
| Euro to pounds Sterling | 147 | 100 |
| | 223 | 118 |

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

| | Accelerated tax depreciation £'000 | Other temporary differences £'000 | Unrelieved tax losses £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 September 2013 | 394 | – | – | 394 |
| Credit to profit or loss | 136 | – | – | 136 |
| At 31 August 2014 | 530 | – | – | 530 |
| Credit to profit or loss | 213 | – | – | 213 |
| **At 31 August 2015** | **743** | **–** | **–** | **743** |

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Deferred tax liabilities | 743 | 564 |
| Deferred tax assets | – | (34) |
| At 31 August 2014 | 743 | 530 |

### 26 Operating lease arrangements

| | Minimum lease payments | |
|---|---|---|
| | **2015** **£'000** | 2014 £'000 |
| Lease payments under operating leases recognised as an expense during the year | **156** | 130 |

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

| | Present value of minimum lease payments | |
|---|---|---|
| | **2015** **£'000** | 2014 £'000 |
| Within one year | **167** | 166 |
| In the second to fifth years inclusive | **654** | 658 |
| After five years | **383** | 703 |
| | **1,204** | 1,527 |

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

### 27 Trade and other payables

| | **2015** **£'000** | 2014 £'000 |
|---|---|---|
| Trade payables | **5,197** | 4,094 |
| Accrued expenses | **2,976** | 2,594 |
| Other taxation and social security payable | **233** | – |
| | **8,406** | 6,688 |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 66 days (2014: 59 days). No interest costs have been incurred in relation to trade payables. The Group policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities.

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

### 28 Share capital

| | **2015** **Number** | 2014 Number |
|---|---|---|
| **Issued and fully paid:** | | |
| Ordinary shares of £1 each | **–** | 52,399 |
| Ordinary shares of £0.001 each | **58,075,000** | – |

| | **2015** **£** | 2014 £ |
|---|---|---|
| **Issued and fully paid:** | | |
| Ordinary shares of £1 each | **–** | 52,399 |
| Ordinary shares of £0.001 each | **58,075** | – |
| | **58,075** | 52,399 |

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

# Notes to the Financial Statements continued
## For the year ended 31 August 2015

### 29 Other reserves
#### Merger reserve

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Balance at 1 September | **–** | – |
| Share for share exchange | **14,595** | – |
| Balance at 31 August | **14,595** | – |

#### Merger difference reserve

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Balance at 1 September | **1,448** | 1,218 |
| Share for share exchange | **(14,595)** | 230 |
| Balance at 31 August | **(13,147)** | 1,448 |

#### Treasury share reserve

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Balance at 1 September | **–** | – |
| Shares transferred to EBT | **(6)** | – |
| Balance at 31 August | **(6)** | – |

#### Translation reserve
Exchange differences relating to the translation of the net assets of the Group's USA subsidiary from its functional currency into the parent's functional currency are recognised directly in the translation reserve.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Balance at 1 September | **(6)** | (6) |
| Exchange differences on translating the net assets of foreign operations | **–** | – |
| Balance at 31 August | **(6)** | (6) |

### 30 Retained earnings

| | £'000 |
|---|---|
| Balance at 1 September 2013 | 10,899 |
| Net profit for the year | 5,047 |
| Share-based payments credit | 12 |
| Dividends | (4,244) |
| Balance at 31 August 2014 | 11,714 |
| Net profit for the year | 5,462 |
| Share-based payments credit | 122 |
| Dividends | (314) |
| **Balance at 31 August 2015** | **16,984** |

## 31 Notes to the cash flow statement

| | Note | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| Profit for the financial year | | **5,462** | 5,047 |
| Adjustments for: | | | |
| Income tax expense | 15 | **1,022** | 763 |
| Net interest | 9,11 | **(164)** | (100) |
| (Profit) on disposal of property, plant and equipment | | **(1)** | (100) |
| Amortisation of intangibles | 19 | **1,902** | 1,461 |
| Depreciation of property, plant and equipment | 20 | **368** | 423 |
| Share-based payments charge | 32 | **122** | 12 |
| Operating cash flows before movements in working capital | | **8,711** | 7,506 |
| (Increase)/decrease in trade and other receivables | | **(1,370)** | 1,378 |
| (Increase)/decrease in inventories | | **(2,037)** | 307 |
| Increase in trade and other payables | | **1,718** | 466 |
| Operating cash flows before interest and tax paid | | **7,022** | 9,657 |
| Net interest received | | **6** | 59 |
| Income taxes paid | | **(838)** | (826) |
| Cash generated by operations | | **6,190** | 8,890 |
| Net foreign exchange movements | | **53** | (86) |
| Net cash from operating activities | | **6,243** | 8,804 |

### Cash and cash equivalents

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Cash and bank balances | **6,173** | 3,803 |

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

# Notes to the Financial Statements continued

## For the year ended 31 August 2015

### 32 Share-based payments

#### Equity-settled share option schemes

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

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

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

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

No options over Focusrite Plc's shares were exercised during the year ended 31 August 2015. The weighted average share price at the date of exercise for share options exercised during the period ended 31 August 2014 was £103.80. For the share options outstanding at the end of the year, the weighted average remaining contractual life was 3.2 years (2014: 6.7 years).

| | **2015 Number of options** | **2015 Weighted average exercise price £** |
|---|---|---|
| FAEL options rolled over into options over shares in Focusrite Plc: | **–** | **–** |
| 2014 EMI Scheme: D Froker | **1,004,000** | **0.10** |
| Unapproved Option Agreement: D Froker | **893,000** | **0.10** |
| 2014 EMI Scheme: J Wilson | **400,000** | **0.15** |
| 2014 EMI Scheme: Other employees | **5,085,097** | **0.15** |
| Options outstanding upon admission to AIM | **7,382,097** | **0.14** |
| Granted during the period: 2015 Performance Share Plan | **138,876** | **1.74** |
| Cancelled during the period: 2014 EMI Scheme other employees | **(365,642)** | **0.15** |
| Outstanding at end of period | **7,155,331** | **0.17** |
| Exercisable at end of period | **619,000** | **0.10** |

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Expense arising from share-based payment transactions | **122** | 12 |

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

| | Grant date 18 Sept 2014 | Grant date 1 Sept 2014 |
|---|---|---|
| Share price at date of grant | £0.15 | £1.74 |
| Exercise price | £0.15 | £1.74 |
| Expected volatility | 51.80% | 51.80% |
| Dividend yield | 1.50% | 1.50% |
| Contractual life of option | 3.2 years | 3.2 years |
| Risk free interest rate | 0.56% to 1.93% | 1.93% |

## 33 Retirement benefit scheme

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

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

The pension charge for the period represents contributions payable to the fund and amounted to £222,000 for the year ended 31 August 2015 (2014: £353,000). Contributions totalling £20,000 (2014: £nil) were payable to the fund at the balance sheet date and are included in trade and other payables.

## 34 Financial instruments

### Capital risk management

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

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

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

### Categories of financial instruments

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **6,173** | 3,803 |
| Forward exchange contracts | **223** | 118 |
| Trade receivables | **6,464** | 5,409 |
| | **12,860** | 9,330 |
| **Financial Liabilities** | | |
| **Amortised cost** | | |
| Trade payables | **5,197** | 4,094 |
| | **5,197** | 4,094 |

### Financial risk management objectives

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

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

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

# Notes to the Financial Statements continued
## For the year ended 31 August 2015

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

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

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

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| US Dollars | **4,844** | 3,745 | **6,544** | 3,430 |
| Euro | **20** | 22 | **2,135** | 1,322 |
| GB pound Sterling | **3,947** | 3,353 | **5,232** | 5,209 |
| | **8,811** | 7,120 | **13,911** | 9,961 |

**Foreign currency sensitivity analysis**
The Group is mainly exposed to the Euro and US Dollar.

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

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

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

| | Euro impact[1] | | US Dollar impact[2] | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| Profit or loss | **211** | 130 | **170** | (31) |

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

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

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

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

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

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

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

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

| | Weighted average effective interest rate % | Less than 1 month £'000 | 1–3 months £'000 | 3 months to 1 year £'000 | 1–5 years £'000 | 5+ years £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | |
| Non-interest bearing | | 2,887 | – | – | – | – | 2,887 |
| Variable interest rate instruments | 1.4% | 916 | – | – | – | – | 916 |
| | | 3,803 | – | – | – | – | 3,803 |
| **2015** | | | | | | | |
| Non-interest bearing | | **4,414** | **–** | **–** | **–** | **–** | **4,414** |
| Variable interest rate instruments | **0.4%** | **1,759** | **–** | **–** | **–** | **–** | **1,759** |
| | | **6,173** | **–** | **–** | **–** | **–** | **6,173** |

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

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

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

*Valuation techniques and assumptions applied for the purposes of measuring fair value*
The fair values of financial assets and financial liabilities are determined as follows.

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

# Notes to the Financial Statements continued

## For the year ended 31 August 2015

### 34 Financial instruments continued

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

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

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

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

| | 2014 | | | |
|---|---|---|---|---|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| **Financial assets/(liabilities) at FVTPL** | | | | |
| Financial assets designated at FVTPL | – | 118 | – | 118 |
| Total | – | 118 | – | 118 |

| | **2015** | | | |
|---|---|---|---|---|
| | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
| **Financial assets/(liabilities) at FVTPL** | | | | |
| Financial assets designated at FVTPL | **–** | **223** | **–** | **223** |
| Total | **–** | **223** | **–** | **223** |

### 35 Contingent liabilities

The Company and its subsidiaries are currently, and may be from time to time, involved in a number of legal proceedings that are incidental to their operations. However, in the opinion of the Directors, the Company and its subsidiaries are not involved currently in any legal proceedings which, at 31 August 2015 and for the period up to the date of approval of these financial statements, have had a significant effect on the financial position or profitability of the Company and its subsidiaries.

In respect of these specific legal proceedings, further information is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The Company is vigorously defending its position and has sought appropriate legal counsel. As a result of this the Company has concluded that it is not probable that there will be a material potential outlay and, hence, no provision has been recognised at 31 August 2015.

### 36 Related party transactions

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

#### Remuneration of key management personnel

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

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Short-term employee benefits | **1,378** | 1,670 |
| Share-based payments | **15** | 12 |
| Pension contributions | **50** | 9 |
| | **1,443** | 1,691 |
| Aggregate emoluments of the highest paid Director | **229** | 340 |

### Transactions involving Directors and key management personnel

**Loans to related parties**

On 31 October 2012 the Company made a secured term loan to Disruptive Limited. Mr P Dudderidge, a Director and shareholder of the Company was also a shareholder in Disruptive Group Holdings Limited, the parent company of Disruptive Limited. The loan principal was £1.5 million and attracted interest at a fixed rate of 8% per annum, which was considered by management to be determined on an arm's length basis.

The amount outstanding at 31 August 2015 amounted to £nil (2014: £nil) following the early repayment of the loan on 29 August 2014 which included accrued interest of £52,144.

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

**Other related party transaction**

During the period, the Company entered into a commercial lease agreement in Lincoln Road, High Wycombe. Mr P Dudderidge, a Director and shareholder of the Company, is the landlord of the property in Lincoln Road, High Wycombe. The annual rental is £15,000.

# Company Balance Sheet
## As at 31 August 2015

| | Note | 2015 £'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Investment in subsidiaries | 6 | **14,647** |
| **Total fixed assets** | | **14,647** |
| **Current assets** | | |
| Trade and other receivables | 7 | **1,847** |
| Corporate tax recoverable | | **38** |
| Cash at bank and in hand | | **847** |
| **Net current assets** | | **2,732** |
| **Total assets less current liabilities** | | **17,379** |
| **Net assets** | | **17,379** |
| **Capital and reserves** | | |
| Share capital | 8 | **58** |
| Merger reserve | 9 | **14,595** |
| Treasury share reserve | 10 | **(6)** |
| Retained earnings | 11 | **2,732** |
| **Total equity and shareholders' funds** | | **17,379** |

The financial statements were approved by the Board of Directors and authorised for issue on 9 December 2015. They were signed on its behalf by:

**Dave Froker**
Chief Executive Officer

**Jeremy Wilson**
Chief Financial Officer

The notes on pages 77 to 80 form part of the financial statements.

# Company Statement of Changes in Equity
## For the year ended 31 August 2015

| | Note | Share capital £'000 | Merger reserve £'000 | Treasury share reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Balance at 14 November 2014** | | – | – | – | – | – |
| Profit for the financial period | 11 | – | – | – | 3,046 | 3,046 |
| Issue of ordinary shares | 8, 9 | 58 | 14,595 | – | – | 14,653 |
| Dividends | 5 | – | – | – | (314) | (314) |
| Ordinary shares issued to the EBT | | – | – | (6) | – | (6) |
| **Net movement** | | 58 | 14,595 | (6) | 2,732 | 17,379 |
| **Equity shareholders' funds at end of period** | | **58** | **14,595** | **(6)** | **2,732** | **17,379** |

The notes on pages 77 to 80 form part of the financial statements.

# Company Cash Flow Statement

| | Note | 2015 £'000 |
|---|---|---|
| Profit for the financial year | | **(148)** |
| Adjustments for: | | |
| Income tax expense | | **(38)** |
| Operating cash flows before movements in working capital | | **(186)** |
| (Increase)/decrease in trade and other receivables | | **(17)** |
| Increase in trade and other payables | | **203** |
| Operating cash flows before interest and tax paid | | **–** |
| Net cash from operating activities | | **–** |
| **Net cash from operating activities** | | **–** |
| **Investing activities** | | |
| Dividend received | | **1,161** |
| **Net cash from/(used in) investing activities** | | **1,161** |
| **Financing activities** | | |
| Equity dividends paid | 5 | **(314)** |
| **Net cash (used in) financing activities** | | **(314)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **847** |
| **Cash and cash equivalents at beginning of year** | | **–** |
| **Cash and cash equivalents at end of year** | | **847** |

# Notes to the Company Accounts
## For the year ended 31 August 2015

**1 Authorisation of financial statements and statement of compliance with FRS 101**
The Parent Company financial statements of Focusrite plc (the 'Company') for the period from its incorporation on 14 November 2014 to 31 August 2015 were authorised for issue by the Board of Directors on 9 December 2015 and the balance sheet was signed on the Board's behalf by Dave Froker and Jeremy Wilson.

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

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

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 August 2015.

**2 Basis of preparation and summary of significant accounting policies**
**Basis of preparation**
The Company has adopted FRS 101 early which is permitted under the Standard. The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 August 2015.

The principal accounting policies applied in the presentation of these financial statements are set out below.

**Going concern**
The Group's business activities and position in the market are described in the Strategic Report. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertainties within the global economy. The Group has considerable financial resources, recurring revenue streams and a broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further detail is contained in the Strategic Report on pages 1 to 29.

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

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

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

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

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

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

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

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

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

# Notes to the Company Accounts continued
## For the year ended 31 August 2015

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

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

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

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

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

### 3 Directors' remuneration

| | 2015 £'000 |
|---|---|
| Salaries | **417** |
| Social security costs | **58** |
| Pension costs | **3** |
| | **478** |

During the year retirement benefits were accruing to three Directors (2014: none) in respect of defined contribution pension schemes. The highest paid Director received remuneration of £126,000 (2014: £nil).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £nil (2014: £nil). During the year, no share options were exercised by Directors (2014: nil).

The Directors' remuneration since incorporation:

| **Executive Directors** | | Salary/fees £'000 | Other taxable benefit £'000 | Annual bonus £'000 | Vested share options £'000 | Pension contribution £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Dave Froker | FY14 | – | – | – | – | – | – |
| | FY15 | 115 | 2 | – | – | 1 | 118 |
| Jeremy Wilson | FY14 | – | – | – | – | – | – |
| | FY15 | 124 | – | 30 | – | 2 | 156 |
| Phil Dudderidge | FY14 | – | – | – | – | – | – |
| | FY15 | 126 | – | – | – | – | 126 |
| **Non-executive Directors** | | | | | | | |
| David Bezem | FY14 | – | – | – | – | – | – |
| | FY15 | 26 | – | – | – | – | 26 |
| Paul Dean | FY14 | – | – | – | – | – | – |
| | FY15 | 26 | – | – | – | – | 26 |
| Total | | 417 | 2 | 30 | – | 3 | 452 |

## 4 Staff costs

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

| | 2015 £'000 |
|---|---|
| Wages and salaries | **563** |
| Social security costs | **71** |
| Other pension costs | **17** |
| | **651** |

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

| | 2015 Number |
|---|---|
| Management and administration | **7** |
| | **7** |

## 5 Dividends

The following equity dividends have been declared and paid.

| | 2015 £'000 |
|---|---|
| Dividend on ordinary shares – representing £0.006 per £0.001 ordinary share | **314** |

## 6 Investments in subsidiaries

| | 2015 £'000 |
|---|---|
| Additions in the period | **14,647** |
| **At 31 August 2015** | **14,647** |

The investments in subsidiaries comprise:

| Name | Country of registration or incorporation | Principal activity | Class of shares | 2015 % |
|---|---|---|---|---|
| Focusrite Audio Engineering Limited | England and Wales | Manufacture and distribution | Ordinary | **100** |
| Focusrite Novation Inc[1] | United States of America | Marketing services | Ordinary | **100** |

1 Owned indirectly through Focusrite Audio Engineering Limited.

## 7 Debtors

| | 2015 £'000 |
|---|---|
| Other debtors | **17** |
| Amounts owed by Group undertakings | **1,830** |
| | **1,847** |

# Notes to the Company Accounts continued

## For the year ended 31 August 2015

### 8 Share capital

| | 2015 Number |
|---|---|
| **Issued and fully paid:** | |
| Ordinary shares of £0.01 each | **58,075,000** |
| | **58,075,000** |

| | 2015 £ |
|---|---|
| **Issued and fully paid:** | |
| Ordinary shares of £0.01 each | **58,075** |
| | **58,075** |

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

### 9 Merger reserve

| | 2015 £'000 |
|---|---|
| Transferred in the period | **14,595** |
| **At 31 August 2015** | **14,595** |

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

### 10 Treasury reserve

| | 2015 £'000 |
|---|---|
| Transferred in the period | **(6)** |
| **At 31 August 2015** | **(6)** |

### 11 Retained earnings

| | 2015 £'000 |
|---|---|
| Net profit for the period | **3,046** |
| Dividend | **(314)** |
| **At 31 August 2015** | **2,732** |

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

# Advisers

**Registered office**
Windsor House
Turnpike Road
High Wycombe
Buckinghamshire
HP12 3FX

**Company number**
09312676

**Auditors**
**KPMG LLP**
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

**Nominated Advisers and Broker**
**Panmure Gordon (UK) Limited**
One New Change
London
EC4M 9AF

**Legal Advisers**
**Stephenson Harwood**
1 Finsbury Circus
London
EC2M 7SH

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

**Financial Public Relations**
**Belvedere Communications Limited**
43 Manchester Street
London
W1U 7LP

**Company Secretary**
**Michael Warriner**

**Designed and produced by Emperor**
www.emperordesign.co.uk +44 (0)20 7729 9090


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

**www.focusriteplc.com**