Making music easy to make

Focusrite

Annual Report 2017

Focusrite Plc is a global music and audio products group that develops and markets proprietary hardware and software products. Our portfolio is used by both audio professionals and amateurs alike in order to enhance the creative process and realise the highest quality production of recorded and live sound.

Contents

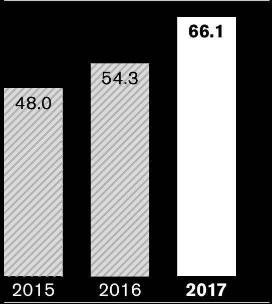
Highlights

FY17 has been another busy and productive year, during which we have expanded our product portfolio; launched two new brands; and refined our growth strategy to optimise our expansion opportunities now and for the future.

- Strong growth continued across both our major segments, Focusrite and Novation
- In Focusrite, Scarlett, Clarett and RedNet ranges all grew leading to total segment revenue growth of 18.6%
- In Novation, the growth of Launchpad and Launchkey both accelerated resulting in segment revenue growth of 37.8%
- All major geographic regions grew, including the USA, our largest market, where revenue growth was 30.9% in the year
- Ten new products launched over the year with positive early industry and user feedback
- Continued investment in the Software division has generated continued growth – now three apps with approximately 550,000 active users
- e-commerce website now established and delivering products globally

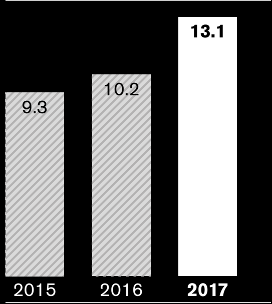
Group revenue
£66.1m
+21.6%
(constant currency[3]: 13%)

£ million



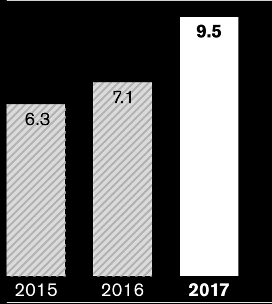
Adjusted EBITDA[1]
£13.1m
+27.9%

£ million



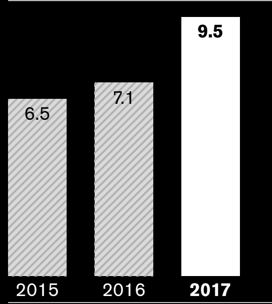
Operating profit
£9.5m
+32.6%

£ million



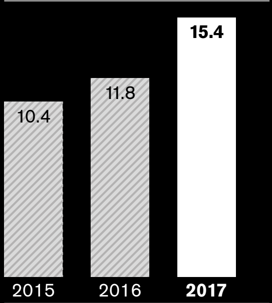
Profit before tax
£9.5m
+33.5%

£ million



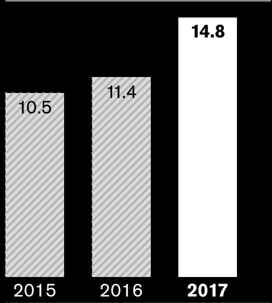
Basic earnings per share
15.4p
+30.5%

Pence



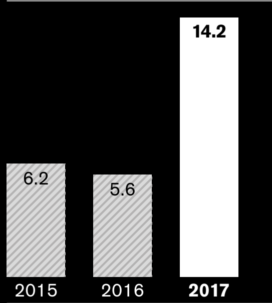
Adjusted[2] diluted earnings per share
14.8p
+29.8%

Pence



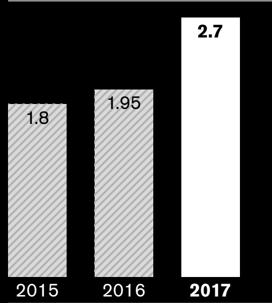
Net cash
£14.2m
+£8.6m

£ million



Proposed total dividend
2.7p
+38.5%

Pence



1 Comprising of earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items (see page 21).
2 Adjusted for non-underlying items (see note 13).
3 Constant currency revenue growth is calculated by taking the sterling value of FY17 revenue; converting to FY16 annual average exchange rates and comparing with the reported revenue for FY16. In addition, all foreign exchange movements disclosed in revenue are excluded from both years.

Focusrite at a Glance

A worldwide leader in music and audio products

Key strengths

1 Global leadership

With continued innovation and a strategically diverse portfolio of premium-quality offerings, we remain the number one global audio interface manufacturer with our Focusrite-branded solutions. Additionally, Focusrite Pro, led by our RedNet line of enterprise level audio over internet protocol ('AOIP') solutions continues to show widespread adoption in all professional audio facilities. Our Ampify-branded music creation apps (Launchpad, Blocs Wave and Groovebox) have been downloaded by over 7.5 million customers. With Novation, we continue to shape the sound of electronic music today with market-leading keyboard controllers, synthesisers and grid-based musical instruments.

2 Innovation

We continue to spend around 6–7% of our total revenue on research and development, enhancing existing products and bringing new solutions to market that further the art of audio production. From this investment, we net a healthy balance of both new product introductions as well as next generations and enhancements of our core product base.

3 Solid financials

Since 2009, we have grown our revenue from £9.1 million to £66.1 million. Our EBITDA has also realised significant growth from £1.3 million to £13.1 million and we have been highly cash-generative over that period, with a closing net cash balance of £14.2 million (FY16: £5.6 million).

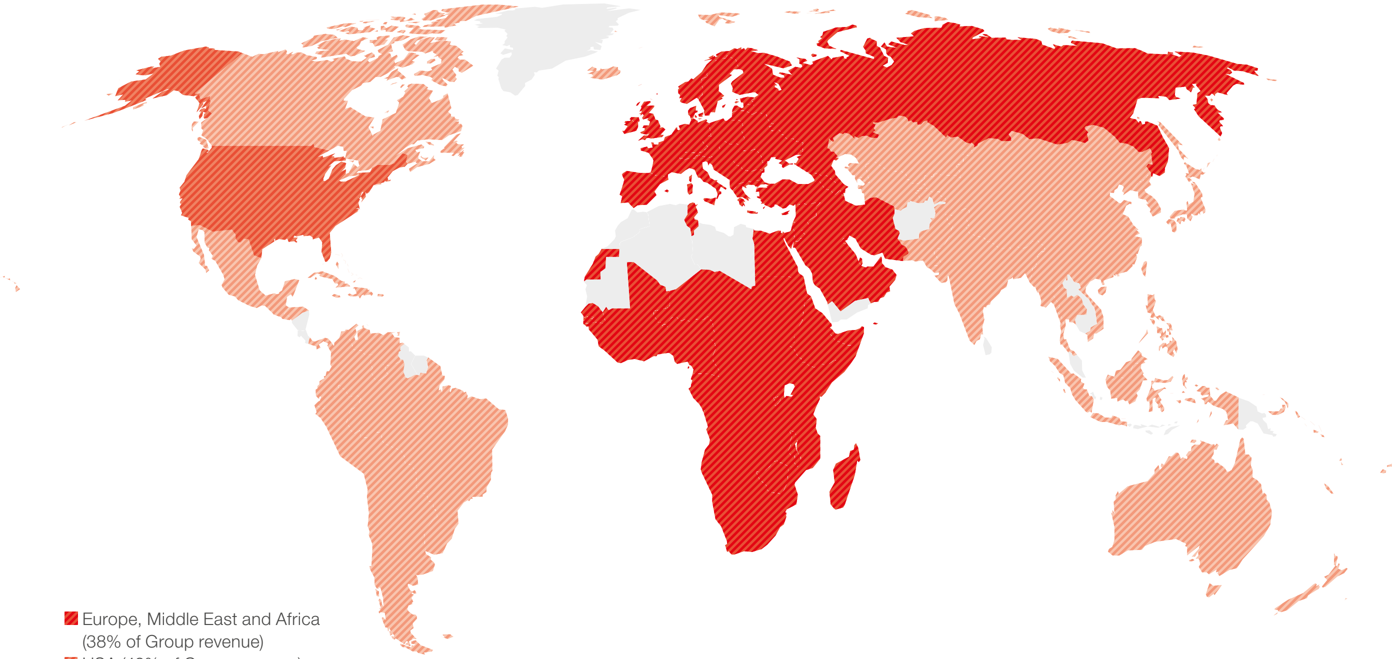
4 People with a shared passion for music making

Our employee base is very passionate about the art of making great audio. Many are musicians, audio engineers, DJs and producers that use our products in real-world environments every week, bringing to work that same drive, to push the boundaries of musical creativity and modern-day audio production. Our employee footprint continues to expand in our High Wycombe, London, Los Angeles and Hong Kong offices, as well as with remote employees all over the globe.

Our global coverage

The Group's products are sold globally through distribution and our e-commerce platform. We utilise an effective mix of retailers – online and 'bricks and mortar' distributors in areas where localisation is a factor, a hybrid approach in the USA utilising a distributor with our own demand generation team, and direct business to consumer with our e-commerce store and in-app software purchases.

Over 800,000 physical products were sold to end-users last year. Our music creation apps were downloaded 2.7 million times in FY17, with approximately 700,000 in-app customer transactions. Our suppliers are chiefly based in China and we use third-party logistics support. We employ around 190 people in the UK, USA, Germany and Hong Kong.



- Europe, Middle East and Africa (38% of Group revenue)
- USA (42% of Group revenue)
- Rest of World (20% of Group revenue)

Our divisions

Focusrite

Focusrite

Originally the Focusrite division sold large studio consoles. Since that starting point 28 years ago, the division has evolved to provide a spectrum of highly advanced technologically-driven products. These range from recording equipment for hobbyists all the way to audio networking systems for large organisations, such as NBC and Microsoft. Importantly, the Focusrite name has always meant legendary, top-of-the-range sound quality. Through product innovation we now offer the best value to a wide range of different market segments. As a result, we've become the number one producer of audio interfaces in the world.

novation

Novation

Novation, a brand well known for synthesisers, was acquired by Focusrite in 2004, 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.

Chairman's Statement

Another successful year

I am very pleased to report that FY17 has proved to be another successful year, exceeding our expectations for revenue, at £66.1 million (+21.6%), profit and cash flow.

Phil Dudderidge
Founder and Executive Chairman

The Company's products have continued to grow market share in our established and growth markets. Revenue and profits have been boosted by the strengthening of the Euro and US Dollar but, even on a constant currency basis, the Company has enjoyed excellent growth.

This is our first set of results with Tim Carroll as Chief Executive Officer, having joined the Company in January 2017. He has successfully established himself with the management team and the Company more broadly and is building on Focusrite's strong foundations. Tim enjoyed almost 20 years with Avid Technology Inc, a respected business in our marketplace, in global sales roles and latterly heading the audio division, as a result of which he has an unmatched experience of the markets that Focusrite seeks to serve, from the professional to amateur.

FY17 has seen continued development of our sales channels. I am particularly pleased with the progress of our e-commerce platform, only in its second year and which is now offering the Company's products globally. Sales in the Far East, notably China, continue to grow faster than most other regions of the world. In response to this demand, the Company has established a Hong Kong office to manage our third-party distributors and marketing in the Asia-Pacific region and to provide customer support to Asian customers. This office continues to grow and, importantly, enables us to provide support to customers who use our products all over the world, 24/7. Looking forward, new distribution initiatives in Japan promise to underpin growth prospects in this important but challenging market.

Last year, I reported on the launch of the second generation of Focusrite's Scarlett range of audio interfaces. Scarlett is the market-leading range globally and our results very much reflect the outstanding success and growth of this range, that provides musicians and the wider recording community with outstanding performance and reliability. Focusrite Clarett is a premium range of interfaces for those whose recordings are more likely to have commercial potential.

“I am delighted Focusrite Plc has delivered another strong year of growth. Our foundations as a company that has a history at the leading edge of music technology innovation, with an established, global customer base for its market-leading brands and a strong culture, make us well placed for further growth.”

Our Novation brand of musical instruments comprising synthesisers, keyboard controllers and the Launchpad grid controller family enjoyed a 37.8% uplift in demand compared with a flat 2016. A new flagship synthesiser, Peak, was launched to much acclaim.

Focusrite continues to build demand for products designed for a professional audience and business enterprises, namely the RedNet and Red ranges. A Focusrite Pro team has been formed to develop the professional and commercial sales channels, as well as bringing better focus to product development and marketing to these specialist vertical markets that include broadcast, post-production, education and entertainment facilities. This market segment is seen as an exciting growth opportunity where our investment in this segment over recent years is expected to pay off handsomely.

I am delighted Focusrite Plc has delivered another strong year of growth. Our foundations as a company that has a history at the leading edge of music technology innovation, with an established, global customer base for its market-leading brands and a strong culture, make us well placed for further growth. The Company has no debt, continues to be highly cash-generative and continues to consider acquisition opportunities that would complement the existing business.

I would like to take this opportunity to thank our employees, manufacturing partners, distribution partners and professional advisers for their contributions to our success.

Phil Dudderidge
Founder and Executive Chairman

Market Context

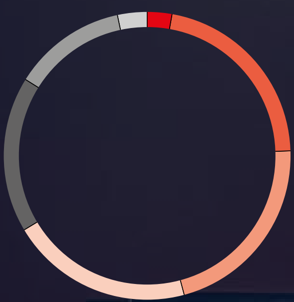
A Rising Generation of New Customers

A recent survey of our customer base confirmed what we believed, that our customers are starting to produce and record music at an ever-younger age. 3% are aged between 13 and 17 while 18–25 year olds account for 22%. 26–34 year olds account for 21%, the same percentage as 35–44 year olds. 45–54 year olds account for 18% while 55–65 year olds still account for 13% and 3% are those customers aged over 65 (it's never too late to make music!).

These are very promising statistics suggesting that we have the potential opportunity to engage people for their entire adult lifetimes.

Music technology now features in music education from the age of 14 in many schools and is in increasing demand at colleges and universities around the world, many hosting extensive recording and performance complexes. This development is driving the demand from students themselves to invest in audio interfaces and production hardware/software while the faculties themselves are an important customer segment, for teaching equipment and audio infrastructure, that we are successfully addressing.

Our customers by age



13–17	2.80%
18–25	21.90%
26–34	21.30%
35–44	20.40%
45–54	17.70%
55–65	12.70%
66 or older	3.20%

Worldwide leader with room to grow

Four highly successful brands (Focusrite, Focusrite Pro, Novation and Ampify) with global distribution and industry recognition in their respective verticals.

- Distributed in approximately 160 countries.
- Number one in sales of audio interfaces but, overall, only approximately 11% market share across all ranges as the Group enters new markets.
- Moved successfully into post, broadcast and live sound markets with RedNet audio networking.
- Introduced iOS apps with over 7.5 million downloads to date.
- Disrupting how new music is made with grids, groove stations and apps.

Focusrite

The Focusrite brand of home and mobile audio interfaces is the largest selling brand of audio interfaces in the world. Our Scarlett range, now with a global market share of approximately 50%, continues to lead the industry in both innovation, sound quality and ease of use. Extending our range is the Clarett line, which offers our customers even more features and capabilities for their production needs.

Focusrite Pro

Designed, tested and supported with professional audio facilities front of mind, our Red and RedNet products are taking centre stage in many of the largest post production facilities, and on media arts campuses, and live and broadcast stages all around the world. A dedicated product, sales and support team who understand the requirements and ever-evolving workflow challenges in these environments, Focusrite Pro leads the way in implementing AOIP.

Novation

Our widely acclaimed Novation brand is a market leader in keyboard controllers and grid-based controllers and instruments. 'Launchpadding' and Groove Stations are now common terms in the world of electronic music, enabling anyone to create electronic music with little or no computer or classical music know-how. These innovative electronic instruments are great enablers for us to continue to increase our core customer base and bring the art of music making to people all around the world. Our portfolio of keyboard controllers provide deep, unique integration with the most popular music creation software titles (including our own). Rounding out the Novation brand is our new flagship synthesiser, Peak, catering to the most discerning professional electronic musicians.

Ampify

Ampify is our software division, creating and marketing a world-class suite of creative applications to inspire anyone to create their own music. Intuitive and importantly requiring no previous music education or additional gear, our apps such as Launchpad, Blocs Wave and Groovebox open up the world of electronic music creation to anyone with an iOS device. Utilising a freemium model, our apps have had over 7.5 million downloads and an active user base of approximately 550,000.

Chief Executive's Statement

A refined growth strategy

This is my first full year report, having joined the Company in January 2017, and I am delighted to update shareholders on another year of operational and financial success.

Tim Carroll
Chief Executive Officer

Introduction

It has been another busy and productive year, during which we have expanded our product portfolio; launched two new brands; and refined our growth strategy to optimise our expansion opportunities now and for the future.

Focusrite is a business I knew well before I joined; with a well-earned reputation for high-quality products and a history of innovation and disruption, and I was honoured and proud to be asked to lead the Company into its next phase of growth. One of the primary factors that led to my decision to join the Company was the passion that came through from the employees. Many of our people are musicians, audio engineers, or DJs themselves and they use our products in real-world environments every week, bringing to work a real drive to push the boundaries of modern-day audio production. Our employee footprint continues to expand in our High Wycombe, London, Los Angeles and Hong Kong offices, as well as with remote employees all over the globe. It is a great pleasure and privilege to help guide and lead them and I thank them for their hard work and dedication.

Overview

The Group's products are now sold in approximately 160 territories and countries all over the world. We utilise an effective mix of retailers – online and 'bricks and mortar' locations, distributors in areas where localisation is a factor, a hybrid approach in the USA utilising a distributor with our own demand generation team, and direct business to consumer with our own e-commerce store and in-app software purchases.

We sold approximately 800,000 physical products to end-users last year, and our music creation apps were downloaded 2.7 million times with around 700,000 in-app customer transactions. Our manufacturing partners are located in South China and we use third-party logistics support. We employ around 190 people in the UK, USA, Germany and Hong Kong.

This is a business of considerable scale with scope for further growth and our market position, products, people and customer base are the envy of many in the industry.

The market

The global audio production market continues to grow and we believe we remain well poised to increase our market share with existing products and also to exploit opportunities to expand into adjacent product categories that would make commercial sense and are a strategic fit for our existing business. This can be done organically and, when it makes commercial and economic sense, by acquisition.

For many personal and professional audio recording customers, Focusrite technology and solutions are a cornerstone of their set-ups and creative workflows. We know that puts

us in a unique position to expand our offerings and participate in more of the economic value chain. Alongside that, we recognise the opportunity to continue to make audio recording technology easier to use and more accessible to a larger addressable market.

Operating review

This year has seen further operational progress and this has translated into financial success with careful management of our cost base and a focus on cash generation. Revenues grew by 21.6% to £66.1 million, delivering an operating profit of £9.5 million, representing year-on-year growth of 32.6%. These results were materially ahead of forecasts and represent a very pleasing outcome for the Group.

This positive performance has been driven by a number of factors, including a wider market acceptance and growth of share in many of our core products; along with a suite of new innovative offerings, giving us more depth to our portfolio and the opportunity to sell more to our customer base.

The Group continues to penetrate new market segments and price points with best-in-class, user-friendly products. Customer and sales channel satisfaction feedback remains strong on new and existing products and continued high levels of end-user satisfaction are illustrated by our top net promotor scores for individual products.

Focusrite

Within Focusrite, our Scarlett, Clarett and RedNet ranges all grew, leading to total segment revenue growth of 18.6%. In each category we increased market share and experienced growth beyond the industry norms.

Sales of our second generation Scarlett USB audio interface range, upgraded and launched in June last year, were particularly strong. The Scarlett family has earned the reputation as a best-in-class, premium solution at affordable pricing. This product line remains the number one selling audio interface product in the world.

The Clarett range continues to set new price/performance standards in our mid-range interface offerings and, with an advanced set of features catered to creative professionals, we are very pleased to see that Clarett has been warmly received and enjoyed numerous accolades from the industry.

Our commercial and pro-audio range, led by RedNet, is gaining momentum as applications for its use and potential customers grow, especially in post-production, education and broadcast markets. This year we have witnessed some of the top production facilities in the world transition their entire infrastructure to RedNet and reap numerous benefits in efficiency, costs and productivity.

During the year we also launched the Focusrite Pro brand to support our growing Red/RedNet business and bring key sales talent and focus to this market. This additional investment will continue next year. We believe that our portfolio of professional AOIP solutions are well poised to become industry standards in post-production, broadcast, installed and live sound.

Novation

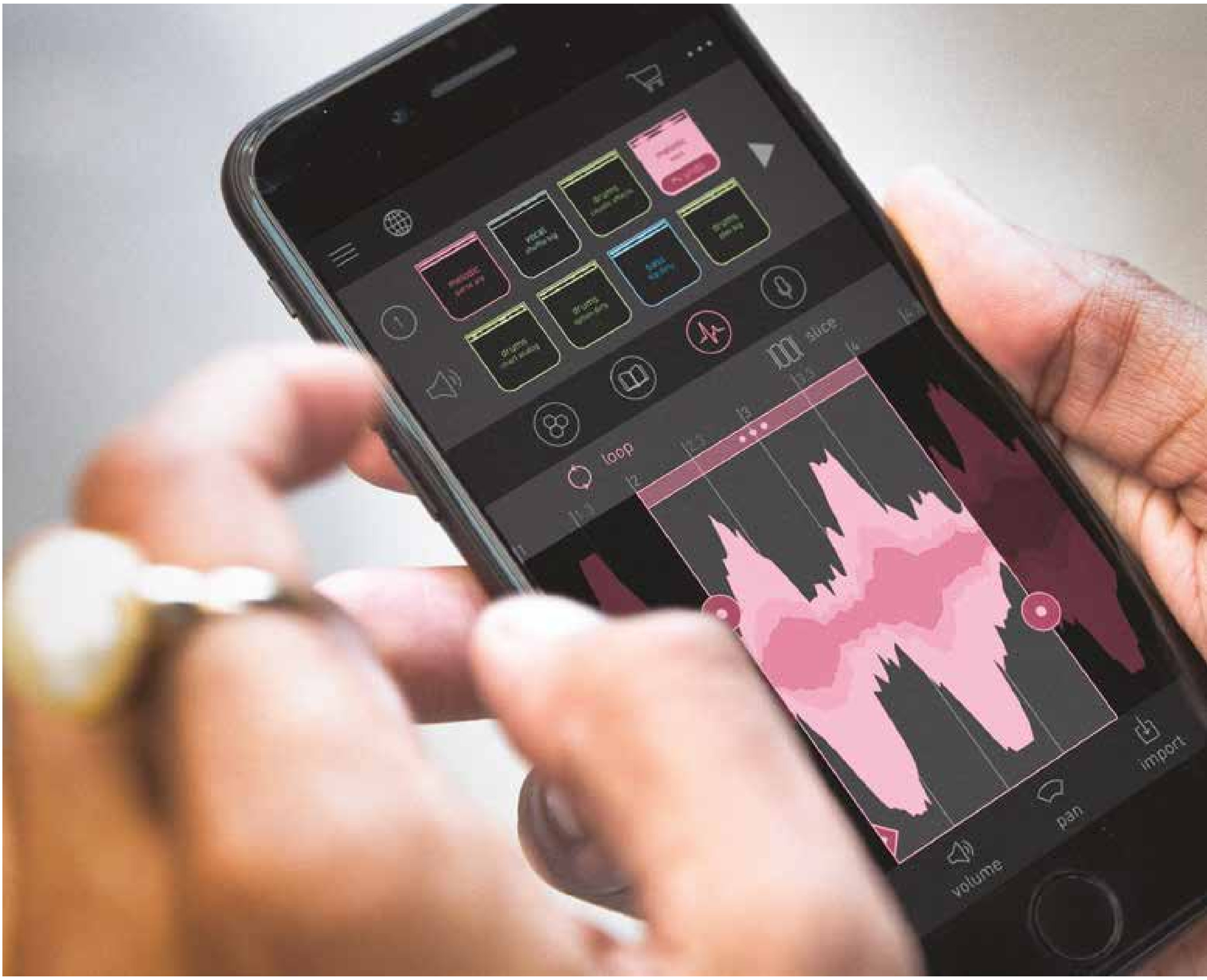
The Novation segment now consists of Novation and Ampify, the Group's own software brand.

Launchpad, Launchkey, and the synthesiser product categories all experienced accelerated sales growth, with overall growth in this business segment of 37.8%.

Wider market acceptance of grid-based controllers in the electronic music space, coupled with larger penetration from online distribution channels such as Amazon, has driven demand for Launchpad. This product range experienced significant worldwide uplift in demand with year-on-year sales volume growth of 39.0%.

Our Launchkey family of keyboard controllers also enjoyed significant uplift in worldwide demand, with its intuitive feature set and extensive integrated control features with top music-making software such as Ableton Live.

Chief Executive's Statement continued



Our new flagship synthesiser, Peak, has seen widespread adoption within the professional music community and won numerous accolades from the industry as a true next-generation synthesiser; building off the legacy of the Novation brand and its many famous earlier synthesiser products.

During the year we rebranded our apps division to Ampify: a brand on which we will continue to develop powerful audio software tools for new customers and our existing customers alike. We are investing substantially in Ampify, as we aim to grow the Company's own software capability. This investment is starting to be rewarded with operational progress and we now have three music-making apps with around 550,000 active users. Revenues are still small when seen as a percentage of total Group revenue, but growing significantly year-on-year as we continue to increase our library of in-app purchases for these customers. Our apps consistently rank in the top ten for music creation tools on Apple's app store and are currently displayed in Apple stores worldwide. We recently launched Groovebox – 'a new beats and synth music studio' for iPad and iPhone – and to date it has had over 200,000 downloads and is growing fast.

Innovation

Innovation is key driver of growth and we continue to spend around 6% to 7% of revenue on research and development so as to provide a constant stream of new and relevant products for our various customer channels.

"By improving the product and customer experience we will seek to extend the customer life cycle, keeping them using our products longer throughout their music-making lifetime."

During the year we launched eight new hardware and two new software products, including: Red 8 Pre, Clarett OctoPre, Scarlett OctoPre, Scarlett OctoPre Dynamic, iTrack One Pre and Circuit Components update.

These new products are across different price segments and target customer markets, giving us further penetration and reach. Feedback from the consumer, retailer and distribution channels has been positive and acceptance so far has been pleasing.

We continue to enhance our offerings with improved drivers, new tool sets and capabilities that make our solutions easier to install and use, netting us industry-leading Net Promoter Scores and overall customer experience statistics.

Additionally, we have focused some of our development resources on the 'out-of-the-box' experience for new customers, as we believe that ensuring customers have a great first experience with our products is paramount to our overall success and growth strategy.

Geographic overview

I am pleased to report that our success this past year was truly global and sales in all major regions grew.

The USA finished with a 30.9% rise in revenue when compared with last year. Europe experienced 11.4% growth. Finally, the Rest of the World (incorporating Asia, Latin America and Canada) finished the year with 24.9% year-on-year growth.

The USA market, the largest market for our portfolio and currently 42% of total Group sales, remains a key focus for our sales efforts and we continue to expand the team in our Los Angeles office.

In Europe, where we saw increased competition between the major continental resellers, our growth was lower than our other regions but still ahead of industry averages in our segment.

Within the Rest of the World, Asia-Pacific sales were strong across most countries, especially in China, and our Hong Kong office is now fully functional and integrated with our Company systems. Additionally, we are investing in more sales talent to scale for what we believe is still a large opportunity in this region.

Finally, Latin America and Canada both had healthy growth and we will continue to invest in resources and tools to grow these regions into this next year and beyond.

Distribution and logistics initiatives

Focusrite's distribution of adjacent products, such as KRK monitors and sE Electronics microphones, remains a small overall proportion of Group revenue. It remains important to us as it offers add-on products within the music-making industry and provides us with invaluable market feedback, insight and knowledge.

e-commerce initiatives

The Group's e-commerce store, which launched in March last year, accounted for over 1% of the Group's revenue and this continues to improve. With a global presence but specific emphasis on markets where localised content, language support and swift delivery to end-users are key to success, we believe this segment will grow further.

Summary and outlook

We are focused on three core goals: growing our customer base; increasing the lifetime value of our customers; and expanding into new market segments both from a price and product perspective. To achieve this we will continue to innovate, disrupt, grow our audience and ultimately continue in our tradition of making the creative process of music creation and audio recording easier for our customers.

Although competitive pressures remain strong, changes in technology and new customer requirements can emerge quickly, and macroeconomic and political factors affect our end customers and distributors alike, we remain committed to keeping abreast of these risks in order to continue to deliver strong growth.

Since the year end, revenue and cash have both grown further. We continue to see strong market acceptance across our expanding portfolio and our new product pipeline continues to grow. Our solid momentum has continued into the current year and we continue to look forward with confidence.

Tim Carroll
Chief Executive Officer

Our Strategy

Building a more resilient strategy for continued growth

Focusrite's growth strategy comprises three fundamental goals: grow our core customer base; increase the lifetime value of our customers; and expand into new markets. We will achieve these through continued innovation, disruption and expansion of our product portfolio.

Our strategic pillars

Grow core customer base

- **Continued innovation in our core markets**
- **Hardware and software solutions focused on our customers' requirements and success**
- **Disruptive technologies that make our customers' creative endeavours easy to achieve**

Focusrite is passionately committed to providing best-in-class solutions at every strategic price point. We look to retain our existing users and gain additional core customers by providing highly differentiated solutions that enable success in their creative endeavours.

Increase lifetime value of our customers

- **Add-on software and content**
- **Focus on a connected experience across our entire portfolio**
- **Participation in more of the traditional value chain**

Focusrite strives to increase the lifetime value of both existing and new customers with additional hardware, content and software that augments the creative process of music making and audio production.

Expand into new markets

- **Leverage current portfolio to enter new markets**
- **Careful consideration of acquisitions**

Focusrite plans for and achieves growth through entering new geographical markets, marketing to new verticals where our portfolio is relevant and pursuing more efficient routes to market. In addition, the Group is investigating the possible entry of related market segments, either organically or by acquisition.

Continued investment in R&D and people

- **Continued, material investment in R&D**
- **Promoting a culture that embodies our strategic pillars and encourages employee participation**

All of these strategic pillars are underpinned by our continued investment in R&D and our people, which strengthen our culture of advancing the creative process and bringing to market superior solutions for our customers.

Our strategy in action

Innovate

We continue to invest heavily in R&D to bring to market cutting-edge, premium products that make our customers' creative lives easier. Our spend on research and development is consistently around 6–7% of revenue, which provides us with a robust suite of new product offerings, as well as next generation versions and enhancements of our current portfolio. Innovation affords us the opportunity to grow our core customer base, participate in more of the economic value chain of audio production and continue to find new ways to differentiate ourselves in ways that have true value for our customers.

Pages 14–15

Disrupt

The art of audio production continues to go through a period of profound change. How music and audio is created, and the formats in which it is delivered, evolve continuously. Focusrite has been at the forefront of these sweeping changes for decades. Disruptive products like our Scarlett Gen 2 audio interfaces, Launchpad and iOS music apps have removed many barriers of entry to the new music maker, democratising the art of music creation. Our RedNet portfolio of professional solutions has afforded audio facilities across the globe to scale and deploy audio networks in ways unimaginable just a few years ago. We believe disruption is a key element in growing our core customer base and differentiating ourselves.

Pages 16–17

Expand

Focusrite's current addressable market is approximately 11% for musical instruments and professional audio products. We believe that the strength of our brand and success in our core portfolio are a great foundation to enter into new segments, both organically and through carefully considering acquisitions. We are increasingly focused on the lifetime value of our customers and believe there is ample opportunity to participate in more of the audio and music production ecosystem.

Pages 18–19

Keep up to date with new developments at **focusriteplc.com**

Our Strategy in Action

Innovative software that transforms how music is made

Innovate

Ampify – the future of mobile music creation

With over 7.5 million downloads, the new mobile-focused innovation team known as Ampify has taken the app world by storm. Ampify apps are some of the top revenue-generating and most downloaded music-making apps on the App Store, which makes Ampify a strong source of future growth for the Company.

Their suite of freemium apps allows new music makers to create songs in minutes, even with no prior experience. Make and remix music in Launchpad, record ideas in Blocs Wave, and build beats and melodies in Groovebox. A range of in-app purchase features and sounds are available, accessibly priced for new creators.

> **“Enables you to make amazing-sounding loops in minutes.”**
>
> Stuff magazine

> **“Arguably one the most fun music apps.”**
>
> Fact magazine

Our Strategy in Action continued

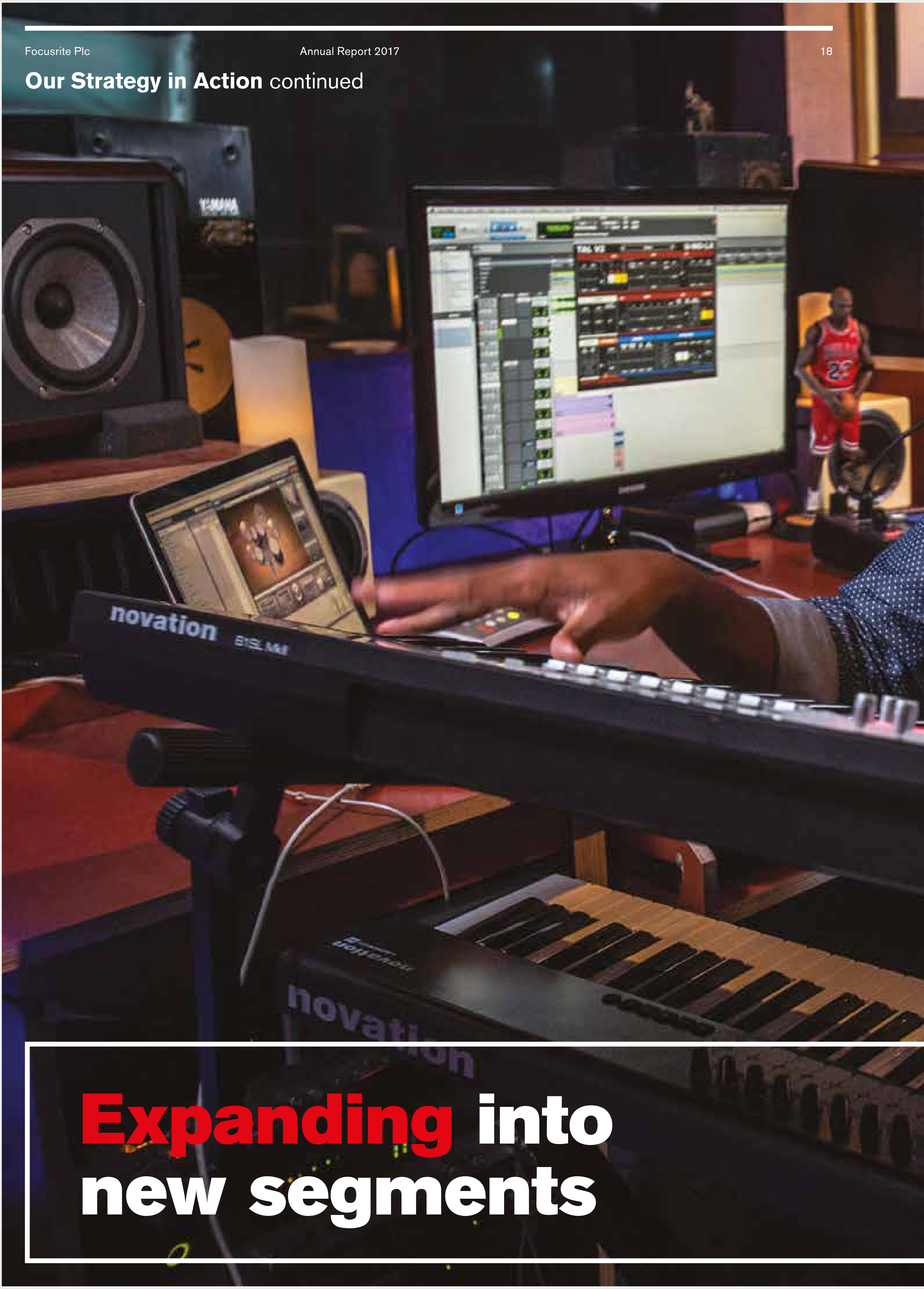
Disruptive products at the forefront of audio production

Focusrite's RedNet systems give the University of North Texas ultimate connectivity

The College of Music at the University of North Texas recently completed a large installation of RedNet components from Focusrite. A total of 44 RedNet units, which act as interfaces for the Dante™ Ethernet-based AOIP network infrastructure, now connect the school's two main performance halls, each of which has its own recording control room, and a portable jazz workshop with a total of 64 I/O.

"It was a very good fit for what they wanted to do… We needed a good connectivity solution that would encompass the entire facility, in two buildings, and increase the number of channels we had available. The combination of RedNet and Dante did exactly that."

Blair Liikala
Director of Recording Services at the University's College of Music



Expanding into new segments

Expand

Keith Harris – multi-instrumentalist, writer, producer and musical director

When LA-based multi-instrumentalist Keith Harris toured with will.i.am, Backstreet Boys and CeeLo Green in the capacity of musical director, his task was to make sure all the musical elements of the show ran smoothly to give the audience the best possible experience. On a huge tour, performing that role can get more and more intense – particularly as a growing number of human and computer sources become involved.

"I love Novation gear. In my studio, I have the Impulse and SL MkII controllers, plus the MiniNova. They are an irreplaceable part of my powerhouse."

Keith Harris

Financial Review

Growing, profitable and cash-generative

The Group has had an excellent year, with revenue growth of 21.6% leading to higher growth in profit and cash.

Jeremy Wilson
Chief Financial Officer

Overview

The Group has had an excellent year, with revenue growth of 21.6%, adjusted EBITDA growth of 27.9% and adjusted diluted earnings per share up by 29.8%. In addition, the Group has managed working capital tightly, leading to good cash generation.

Income statement

Revenue

Revenue grew from £54.3 million to £66.1 million, a rise of 21.6%. Since 2009, when the Group revenue was £9.1 million, the Group has grown revenue every year at a growth rate of at least 10%.

The largest segment, Focusrite, grew by 18.6%, from £37.6 million to £44.6 million, as the second generation of the Scarlett range continued to gain market share following its launch in June 2016. Scarlett is approximately three-quarters of the Focusrite segment by revenue and the Group has developed related ranges of products such as Clarett and RedNet, which are diversifying the Focusrite segment as they also grow and establish themselves in their markets.

The Novation segment consists of Novation and Ampify, the Group's new software brand. The combined revenue was £18.9 million, up 37.8% on £13.7 million last year. The Novation segment is relatively diverse: the largest range is Launchpad, which is approximately half of the segment revenue and, for which, demand grew strongly. Approximately a quarter of segment revenue is the Launchkey range and the remainder is split between synthesisers, Circuit and the remaining products.

In the UK, the Group distributes products such as microphones and monitors manufactured by other organisations. Revenue was £2.6 million, down 13.6% from £3.1 million in 2016.

All regions grew. Regionally, the USA is the largest market in the music industry and the largest market for the Group's products. Revenue in the USA grew 30.9% (constant currency: 18%) to £28.0 million, Europe grew 11.4% (constant currency: 7%) to £25.2 million and the Rest of the World grew by 24.9% (constant currency: 13%) to £12.9 million. The primary drivers of growth in the USA were the further consolidation of the Scarlett range in the market and strong growth of Novation. In Europe, there was increased competition between the major continental resellers which held back growth. In the Rest of the World, the major portion of the revenue is in Asia, which continues to grow as

Income statement

	2017 £m Reported	2017 £m Non-underlying	2017 £m Adjusted	2016 £m Reported	2016 £m Non-underlying	2016 £m Adjusted
Revenue	**66.1**	**–**	**66.1**	54.3	–	54.3
Cost of sales	**(39.7)**	**–**	**(39.7)**	(33.4)	–	(33.4)
Gross profit	**26.4**	**–**	**26.4**	20.9	–	20.9
Administrative expenses	**(16.9)**	**–**	**(16.9)**	(13.8)	0.5	(13.3)
Operating profit	**9.5**	**–**	**9.5**	7.1	0.5	7.6
Net finance income	**(0.0)**	**–**	**(0.0)**	(0.0)	–	(0.0)
Profit before tax	**9.5**	**–**	**9.5**	7.1	0.5	7.6
Income tax expense	**(0.9)**	**–**	**(0.9)**	(0.8)	(0.1)	(0.9)
Profit for the period	**8.6**	**–**	**8.6**	6.3	0.4	6.7

	2017 £m Reported	2017 £m Non-underlying	2017 £m Reported	2016 £m Reported	2016 £m Non-underlying	2016 £m Adjusted
Operating profit	**9.5**	**–**	**9.5**	7.1	0.5	7.6
Add – amortisation of intangible assets	**2.9**	**–**	**2.9**	2.1	–	2.1
Add – depreciation of tangible assets	**0.7**	**–**	**0.7**	0.5	–	0.5
EBITDA	**13.1**	**–**	**13.1**	9.7	0.5	10.2

the new regional sales office in Hong Kong becomes more established.

Exchange rates were important this year. In essence, in FY16 there were ten months ‘pre-Brexit’ and two months post. Therefore, there was a more pronounced effect this year of the stronger US Dollar and Euro. At constant currency, revenue grew by 13%.

Gross profit

Gross profit increased to £26.4 million, up from £20.9 million in FY16. This represented a gross margin of 39.9% (FY16: 38.4%). This growth in gross margin was driven by several factors: closer attention paid to the fluctuations of market prices and then management of discounts given to resellers; the stronger Euro and a minor range mix impact.

Administrative expenses

Administrative expenses consist of sales, marketing, operations, the uncapitalised element of research and development and central functions such as legal, finance and the Group Board. These expenses were £16.9 million, up from £13.7 million last year. Directionally, the greater growth was on sales and marketing as the Group invested, via the profit and loss account, in key initiatives such as the Asia office and e-commerce.

Adjusted EBITDA

Adjusted EBITDA increased by 27.9% to £13.1 million (FY16: £10.2 million).

In FY17, there were no non-underlying costs. In FY16, there was a non-underlying cost of £0.5 million due to legal disputes relating to intellectual property and distribution contracts, which have no significant effect on our ongoing business. All of these legal disputes have now been resolved, with no further cost to the Group.

Foreign exchange and hedging

The Brexit vote in June 2016 changed the exchange rates substantially but there has been greater stability since then. Therefore, the average exchange rates show a strengthening of US Dollar and Euro, whereas the year-end rates are more similar.

Exchange rates	2017	2016
Average		
USD:GBP	**1.27**	1.45
EUR:GBP	**1.16**	1.29
Year end		
USD:GBP	**1.29**	1.31
EUR:GBP	**1.09**	1.18

The Group buys product in US Dollars and approximately 60% of its revenue is in US Dollars so there is a natural hedge. Therefore, the US Dollar strengthening from \$1.45 to \$1.27 increased revenue but had little effect on gross profit.

Approximately a quarter of revenue is in Euro but little cost. The Group enters into forward contracts to convert Euro to GBP. In FY16, approximately three-quarters of Euro flows were hedged at €1.39, thereby creating a blended exchange rate of approximately €1.37. In FY17, the equivalent hedging contracts were at €1.28 (a blended rate of approximately €1.26). For FY18, the equivalent rate for the forward contracts is €1.12.

Hedge accounting is used, meaning that the hedging contracts have been matched to income flows and, providing the hedging contracts remain effective, movements in fair value are shown in a hedging reserve in the balance sheet, until the hedge transaction occurs.

Corporation tax

Corporation tax as a proportion of profit before tax was 10.1% (FY16: 12.2%). The effective tax rate is lower than the headline rate, largely due to enhanced tax relief on R&D, a small element of vesting share options and a lower than expected payment in the prior year. In addition, the UK headline tax rate has been reduced by 1 percentage point to 19% within the last year.

Financial Review continued

Earnings per share

	2017 p	2016 p	Growth %
Basic	**15.4**	11.8	30.5%
Diluted	**14.8**	10.7	38.3%
Adjusted basic	**15.4**	12.6	22.2%
Adjusted diluted	**14.8**	11.4	29.8%

Balance sheet

	2017 £m	2016 £m
Non-current assets	**6.3**	6.4
Current assets		
Inventories	**8.3**	11.4
Trade and other receivables	**13.0**	11.2
Cash	**14.2**	5.6
Current liabilities	**(8.7)**	(10.4)
Non-current liabilities	**(0.2)**	(0.3)
Net assets	**32.9**	23.9

Cash flow

	2017 £m	2016 £m
Free cash flow[1]	**9.4**	0.2
Add – non-underlying cash outflows	**0.1**	0.2
Underlying free cash flow	**9.5**	0.4

1 Defined as net cash from operating activities less net cash used in investing activities.

Earnings per share

The basic earnings per share for the year was 15.4 pence, up 30.5% from 11.8 pence in FY16. This rise was driven largely by the rise in profit and the fact that there were no non-underlying items in FY17. The more comparable measure, excluding non-underlying items and including the small dilutive effect of share options, is adjusted diluted earnings per share. This was 14.8 pence, up 29.8% from 11.4 pence in FY16.

Balance sheet

Non-current assets

The non-current assets comprise mainly capitalised R&D costs. Between 70% and 80% of R&D costs are capitalised and they are amortised over three years. The typical product life is three to six years. This policy is unchanged from last year.

Working capital

Working capital fell from 22.4% of revenue to 19.1%. The main driver of this reduction was stock, which was reduced from £11.4 million to £8.3 million. The reduction in stock was achieved through lower levels of safety stock and the rising sales of new products, launched in FY15 and FY16, for which the Group had bought larger initial quantities to protect against possible 'stock-outs' should demand have risen more quickly than expected. As commented on in last year's Annual Report, stock quantities have been reduced as the demand pattern for these products has become more predictable. There have been no significant changes in payment terms relating to either customers or suppliers.

Cash flow

Cash at the year end was £14.2 million, up from £9.4 million at the half year and £5.6 million at 31 August 2016, driven by the higher profit and lower working capital explained previously. Free cash flow was strong, at £9.4 million (FY16: £0.2 million), which represented 14.3% of revenue (FY16: 0.4%). Finally, the Group has a £10 million revolving credit facility with HSBC.

Dividend

The Board is proposing a final dividend of 1.95 pence per share (FY16 final dividend: 1.3 pence), which would result in a total of 2.7 pence per share for the year (FY16: 1.95 pence). At this level, the dividend is covered approximately 5.5 times by earnings. This represents the first step towards an ongoing target dividend cover of between 4 and 5 times. The Group is focused on, and investing in, future growth and therefore maintains a strong dividend cover whilst maintaining a sustainable and progressive annual dividend.

Going concern

As required, the Board have considered the ability of the Group to continue as a going concern. The Board reviewed the cash position, the management of working capital, the strategic plans, the forecast cash flow and the borrowing arrangements and capacity. The Board have concluded that the Group will remain as a going concern and that this Annual Report should be prepared on that basis.

Summary

The Group has had an excellent year. Revenue has grown by 21.6%, adjusted EBITDA by 27.9%, adjusted diluted earnings per share by 29.8% and the cash balance has increased from £5.6 million to £14.2 million. The Board remains focused on extending our track record of growth in future years.

Jeremy Wilson
Chief Financial Officer
21 November 2017

Key performance indicators (‘KPIs’)

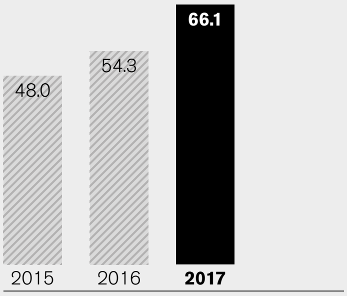
The main KPIs used by the Group are either financial or related to product, especially new products introduced and customer satisfaction.

Group revenue

£66.1m

+21.6%

£ million

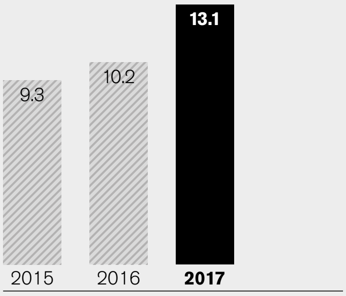


Adjusted EBITDA[1]

£13.1m

+27.9%

£ million



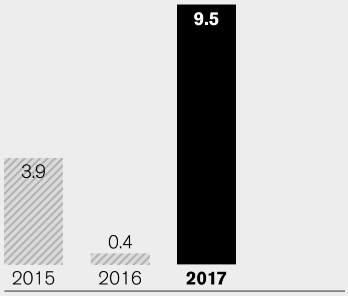
1 Comprising of earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items.

Underlying free cash flow[2]

£9.5m

+£9.1m

£ million

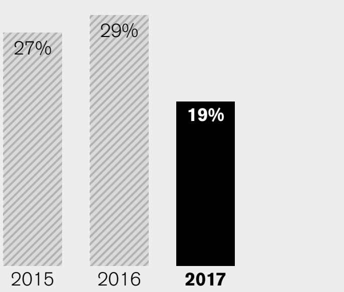


2 This is free cash flow prior to non-underlying items.

NPI revenue as % of full year revenue[3]

19%

%

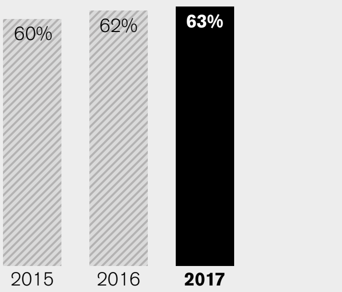


3 This is the first 12-months revenue for new products as a percentage of total revenue. This year was lower following the launch of Scarlett Gen 2 in 2016.

Net promotor score[4]

63%

%

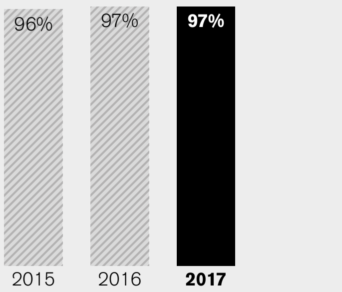


4 This asks the question ‘How likely are you to recommend Focusrite to a friend or colleague?’. The score is based on subtracting the percentage of detractors (score 0–6, unhappy customers) from the percentage of promoters (score 9–10, loyal enthusiasts) and yields the Net Promoter Score of the Company.

Make Easy[5]

97%

%



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%.

Principal Risks and Uncertainties

Risk factors

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

Risk area	Description	Mitigation
Economic environment	The Group operates in the global economy and ultimately within a retail environment to consumer end-user musicians. Such operations are influenced by global and national economic factors.	The Group sells products in around 160 territories worldwide via two distinct product categories and so aims to avoid being unduly reliant on any single product or territory.
UK exit from the European Union	The impact of the decision to exit the European Union remains uncertain. There has already been foreign exchange volatility and it is possible that, in future, the UK may not be part of the European free trade zone or the customs union.	The Group has increased selling prices in the UK to correct the imbalance caused by the significant foreign exchange rate changes. The Group will continue to monitor other possible effects of Brexit and act accordingly as they become known.
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 R&D 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 aims to diversify its risk by using four major Chinese manufacturers for the production of its products. The Group maintains appropriate levels of insurance to mitigate the financial impacts of a failure of one of its suppliers. 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 or distributor, or even the failure of a major customer of that distributor, 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 distributor purchased £28 million of stock in FY17), the Group also maintains relationships with the major retailers. In addition, the Group carefully monitors customer credit limits and has credit insurance which typically covers the majority of the customer debts outstanding at any point in time.

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.	The Group or its distributors sell to both 'bricks and mortar' and e-commerce retailers so that the Group can satisfy customer demand via both methods.
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 US Dollar transactions in as much as the Group uses its generation of US Dollars to buy product in US Dollars. In addition, the Group mitigates its Euro exposure by entering into forward foreign exchange hedging contracts for the conversion of Euros to Sterling.
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 for its continued success on being able to hire and retain such individuals.	The Group is a leading music industry company in the UK and so attracts high-quality technical personnel. The Group also attracts graduates from music technology courses at local universities. The Group has wide-ranging share ownership incentives and other employment benefits to aid retention.
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 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.
Information security	Information security and cyber threats are currently a priority across all industries and remain a key Government agenda item.	The Group has carried out a detailed review of IT systems to identify elements requiring upgrade. There has already been a widespread upgrade of core IT functionality and the improvement of backup and disaster recovery processes. The Group has moved core ERP systems to cloud with robust SLAs in place to ensure data availability and security. There is an improving business continuity framework and a dedicated internal IT support team aided by external support providers.

Corporate Social Responsibility

'Acting in a responsible and considerate way'

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 a number of renowned universities. Each year Focusrite takes on approximately six 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 universities.

Moving further afield, Focusrite works with four major Chinese contract manufacturers. Focusrite visits its contract manufacturers 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 cycle to work scheme, in 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 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 Group 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 substituted the use of expanded polyethylene foam with moulded recycled pulp paper.

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

Relations with suppliers, partners and contractors

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

Examples of this include a strategic partnership with Kuehne + Nagel, which provides inbound and outbound third-party logistics to Focusrite. Kuehne

+ Nagel is committed to lowering the negative environmental impact of its operations as well as maximising the positive social impact. It achieves this by reviewing each shipment to determine the most efficient methods of transporting products, both inbound and outbound. Focusrite forward plans the production and shipment of its products so that air freight is rarely 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 ISO 9002, TS 9000, ISO 9001:2000, ISO 14001, TL 9001, ISO 13488 and TS 16949 certified, as well as having a commitment to providing a safe working environment for its 4,000 contract manufacturing staff.

Slavery and human trafficking

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

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

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

Relations with employees

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

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

To assist in the dynamic flow of knowledge within the Group, 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 Group has a comprehensive documented Health and Safety Policy in place which is reviewed by the Compliance Committee regularly.

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

Relations with customers

Focusrite has three types of customer: distributor, retailer and end-user. Ultimately, Focusrite makes product for the end-users of those products and that is where its customer attention is most acutely focused. Communicating with end-users is realised through direct e-communications, 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, Google+ and YouTube.

Both the Focusrite and Novation brands have worldwide recognition as being class-leading. With over 10% of the Group'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 R&D team, either to effect improved usability of a product or to influence future product innovation and design.

The Strategic Report has been approved by the Directors and signed by order of the Board.

Tim Carroll
Chief Executive Officer

Jeremy Wilson
Chief Financial Officer
21 November 2017

Board of Directors

PHILIP DUDDERIDGE
Executive Chairman and Founder

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

TIMOTHY CARROLL
Chief Executive Officer

Tim was appointed Chief Executive Officer of Focusrite in January 2017. Previously, he was VP of Avid Technology, responsible for product development, commercialisation and delivery on all of Avid's audio portfolio, including the industry standard Pro Tools audio workstation, the S6 Control surface, the Venue and S6L Live Sound solutions and Sibelius notation and music learning applications. He is a professional musician by background, having recorded and toured for nearly 20 years as a keyboard player before joining Avid.

JEREMY WILSON
Chief Financial Officer

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

DAVID BEZEM
Independent Non-executive Director

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

PAUL DEAN
Independent Non-executive Director

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

Executive Management Team

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

From left to right
Giles Orford
Mike Warriner
Tim Dingley
Tim Carroll
Rob Jenkins
Damian Hawley
Jeremy Wilson
Phil Dudderidge
Simon Holt

Corporate Governance Report

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

Board of Directors and Board Committees

The Board comprises five Directors, of whom three are Executives and two Non-executives, and reflects a blend of different experience and backgrounds. The Board considers the two Non-executive Directors to be independent. Biographical details of all the Directors at the date of this Report are set out on pages 28 to 29.

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 schedule of matters reserved for its consideration which includes, but is not limited to, matters of strategy, risk management, consideration and approval of financial budgets, major capital expenditure decisions, acquisitions and disposals, approval of the interim and final results and the recommendation of any dividends.

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

All the Directors have access to the advice and services of the General Counsel and Company Secretary, who are responsible for ensuring compliance with applicable rules, regulations and Board procedures. Individual Directors have the right to request that any concerns they have are recorded in the appropriate Committee or Board minutes.

The Board has arranged a schedule of meetings to consider strategy, performance and the framework of internal controls and will both support and challenge the management team to deliver the objectives set. The Board has established Audit, Remuneration and Nomination Committees with formally delegated duties and responsibilities. The terms of reference for these Committees are available on the Company's website. To enable the Board and its Committees to discharge their responsibilities, the Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board and Committee 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 and Officers.

Re-election of Directors

The Company's Articles provide that one-third of the Directors for the time being (excluding any Director appointed since the previous AGM) or, if their number is not divisible by three, the number nearest to but not exceeding one-third, shall retire from office by rotation. However, it has been decided that all Directors should be subject to annual election by shareholders.

Information and professional development

The Chairman is responsible for ensuring that Directors receive a comprehensive induction including:

- an overview of the Group;
- briefings on Directors' regulatory and compliance responsibilities;
- detailed reviews of strategic projects and initiatives under way; and
- one-to-one meetings with senior managers.

Directors are encouraged to keep abreast of developments and attend training courses to assist them with their duties.

In order that Directors continue to further their understanding of the issues facing the Group and are able to challenge constructively and help develop proposals on strategy, the Board receives regular business presentations from members of the Operations Board on strategy and performance.

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

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

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Number	Attended	Number	Attended	Number	Attended	Number	Attended
Dave Froker (resigned 31 December 2016)	4	3	–	–	–	–	–	–
Tim Carroll (appointed 1 January 2017)	7	7	–	–	–	–	–	–
Jeremy Wilson	11	11	–	–	–	–	–	–
Phil Dudderidge	11	11	–	–	–	–	2	2
David Bezem	11	11	3	3	4	4	2	2
Paul Dean	11	11	3	3	4	4	2	2

Meetings of the Board and its Committees

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

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

Board Committees

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

Audit Committee

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

This includes, amongst other things, reviewing the Group's interim and annual financial statements and reviewing the auditor's findings from the audit including discussions with the auditor without executive management being present. The interim and annual reporting processes also include review of key risks, going concern, judgements and significant accounting policies.

The areas of risk, or areas requiring judgement, reviewed during the year included revenue recognition, inventory valuation and provisions, debtor provisions, capitalisation and impairment of intangible assets, non-underlying costs, share option accounting, the tax charge, management override of controls and alternative performance measures. In each case, the Audit Committee concluded that there was an appropriate management of risk and financial judgement made.

The Committee's work also includes the appointment of external auditors, the agreement and approval of their audit plan and fees, reviewing and monitoring the extent of the non-audit services undertaken by external auditors. Additionally, the Audit Committee reviews the effectiveness of the Group's internal controls and risk management systems.

The Group's internal audit work during the year focused on the replacement of the core enterprise business systems, including the management information system and the payroll system. Areas of perceived higher financial control risk were identified and internal reviews carried out so that the replacement system could address current control weaknesses. The resultant findings and recommendations were documented, discussed with local management and then the final reports presented to the Audit Committee for their review. The Committee believes that the Group's internal review processes are appropriate for a group of this size and complexity, and will continue to assess this on an ongoing basis.

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

Remuneration Committee

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

Nomination Committee

The Nomination Committee has responsibility for reviewing the structure, size and composition of the Board and recommending to the Board any changes required, for succession planning, and for identifying and nominating for approval of the Board candidates to fill vacancies as and when they arise. The Committee is also responsible for reviewing the results of any Board performance evaluation process and making recommendations to the Board concerning the Board's Committees and the re-election of Directors at the AGM. Membership of the Nomination Committee comprises the two independent Directors and Phil Dudderidge. The Committee is chaired by David Bezem.

The Nomination Committee meets not less than once a year and at such other times as the Chairman of the Committee shall require. Following Dave Froker's decision to retire at the end of 2016, the Nomination Committee led the process to appoint his successor with the assistance of Odgers Berndtson, an international executive search firm.

Corporate Governance Report continued

Board evaluation
During 2017, the Nomination Committee undertook a formal evaluation of the Board. It was noted that the Board was continuing to function in a satisfactory manner. It was also noted that there were only two Non-executive Directors compared with three Executive Directors and it was agreed to start the process to recruit a third Non-executive Director.

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

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

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

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

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

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

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

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

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

Directors' Report
For the year ended 31 August 2017

The Directors present their Report for the year ended 31 August 2017 in accordance with section 415 of the Companies Act 2006. Particulars of important events affecting the Group, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 27 which is incorporated into this Report by reference together with the Corporate Governance Report on pages 32 to 34. 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 40 and in note 29 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 48. During the year, the Directors approved the payment of an interim dividend of 0.75 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 1.95 pence should be paid. This dividend recommendation shall be put to the shareholders to vote on at the AGM to be held on 10 January 2018.

Directors
During the year, Dave Froker retired as Chief Executive Officer and his successor, Tim Carroll, took up his post in January 2017. As noted in the Corporate Governance Report, at the AGM to be held on 10 January 2018 all Directors should be subject to annual election by shareholders. Directors' biographical details are set out on pages 28 to 29.

The Executive Directors have service contracts in place with a six-month notice period. The Non-executive Directors were appointed on 11 December 2014 to serve for an initial three-year term. These contracts are in the process of being renewed. Details of each Director's contractual arrangements, including notice periods, are included as part of the Directors' Remuneration Report on pages 37 to 41 and that information is incorporated by reference into the Directors' Report.

The Directors who served during the year were as follows:

P Dudderidge
T Carroll (appointed 1 January 2017)
D Froker (resigned 31 December 2016)
J Wilson
D Bezem
P Dean

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

The number of ordinary shares of the Company in which the Directors and their families were beneficially interested at 31 August 2017 is set out below:

	0.1p ordinary shares as at 31 August 2017	**Outstanding options over shares as at 31 August 2017**	0.1p ordinary shares as at 31 August 2016
Phil Dudderidge	**30,249,000**	**–**	30,249,000
Tim Carroll	**–**	**–**	–
Jeremy Wilson	**31,746**	**400,000**	31,746
David Bezem	**7,937**	**–**	7,937
Paul Dean	**7,937**	**–**	7,937

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

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

Directors' Report continued

Major interests in shares

As at 13 September 2017, 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 2017	% voting rights as at 31 August 2017
Philip Dudderidge and family	**30,249,000**	52.09%
Schroder Investment Management	**4,911,108**	8.46%
Charles Stanley	**3,547,562**	6.11%
Hargreave Hale Limited	**3,227,030**	5.56%
Focusrite Employee Benefit Trust	**2,546,845**	4.39%

Financial risk management

The Group uses financial instruments to manage certain types of risks, including those relating to credit and foreign currency exchange. The Group's objectives and policies on financial risk management including information on liquidity, capital, credit and risk can be found in note 33 of the financial statements and in the risks section on pages 24 to 25.

Future business developments

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

R&D

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

Health and safety

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

Going concern

The Company's business activities, together with risk factors which potentially affect its future development, performance or position can be found in the Strategic Report on pages 1 to 27. Details of the Company's financial position and its cash flows are outlined in the Financial Review on pages 20 to 23.

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

Auditor

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

Audit information

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

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

AGM

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

The Directors' Report has been approved by the Board of Directors on 21 November 2017.

Signed on behalf of the Board.

Prism Cosec
Company Secretary
21 November 2017

Focusrite Plc
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Turnpike Road
High Wycombe
Buckinghamshire
HP12 3FX

Company number: 9312676

Directors' Remuneration Report

Introduction

I am pleased to introduce the Directors' Remuneration Report ('DRR') for the year ended 31 August 2017, the third since the Company's flotation on AIM. The main themes this year have been a very strong performance by the business, which have exceeded the testing targets set by the Remuneration Committee at the beginning of the year, and the retirement of the CEO since the IPO, Dave Froker, and recruitment of his successor, Tim Carroll. Tim Carroll joined the Company at the beginning of January 2017. As a consequence of the necessary discipline required as part of such a senior and critical recruitment process, which was conducted on our behalf by Odgers Berndtson, the executive search consultants, the Committee reviewed the remuneration for both the CEO and Finance Director roles to ensure they were competitive, fair and appropriately aligned with shareholders' interests. This took account of the detailed review of the Executive Directors' and other senior management's remuneration, which was carried out for us by Kepler Associates, now part of Mercer Limited, in 2015. The data from this was helpful in setting the fixed and variable components of their remuneration, both relatively and in relation to the wider market for quoted businesses of similar size, value and complexity, a process that began in the preceding financial year as reported in last year's DRR. It remains the case that the Company puts a strong emphasis on variable remuneration and in particular share ownership by all staff including, but by no means limited to, the Executive Directors of the Company.

As a company admitted to AIM, Focusrite Group Plc is not required to prepare a DRR. However, the Board supports the principle of transparency and has therefore prepared this Report in order to provide useful information to shareholders on its executive remuneration arrangements. Accordingly, although not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'), the Company has used these Regulations as guidance for presenting selected disclosures where it considers these to be relevant, helpful and appropriate. Accordingly, this Report sets out information about the remuneration of the Directors of the Company for the year ended 31 August 2017 and, as appropriate, the following year.

Remuneration Committee

The members of the Remuneration Committee are David Bezem (Chairman) and Paul Dean, who are both independent Non-executive Directors. Attendance at meetings of the Remuneration Committee by individual member is detailed in the Corporate Governance Report on page 33.

The Executive Chairman, CEO, General Counsel and external advisers may be invited to attend meetings of the Remuneration Committee but do not take part in the decision-making. The Company Secretary acts as secretary to the committee.

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

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

Remuneration Policy

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

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

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

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

Directors’ Remuneration Report continued

Base salary

Base salaries for the Executive Directors are reviewed annually and determined taking account of individual performance, scope of responsibility, relative pay levels within the Group and reference to external market data as referred to above. This year differed in that Tim Carroll joined the Company part way through the year and therefore his base salary and other remuneration was agreed as part of that recruitment process. Phil Dudderidge’s and Jeremy Wilson’s base salaries for the year ended 31 August 2017 were increased by 2% over their base salaries in the preceding financial year. The Executive Directors’ base salaries are also being increased by 2% in the financial year ending 31 August 2018. The Non-executive Directors received the same inflationary increases as the Executive Directors.

The details of the Executive Directors’ base salaries for the 2017 financial year are set out in the table on page 41.

Performance-related annual bonus

Tim Carroll and Jeremy Wilson were awarded a performance-based discretionary annual bonus for the financial year ended 31 August 2017. Phil Dudderidge does not receive an annual bonus. For both Tim Carroll and Jeremy Wilson the bonus was based on two tests, achieving EBITDA targets, which represented 70% of the maximum bonus, and achieving cash targets at the year end, which represented 30% of the maximum bonus. The tests operated independently of one another. The reason for introducing the year-end cash targets test was to ensure that there was a strong focus on managing working capital efficiently alongside the achievement of profits.

The maximum cash bonus for both Tim Carroll and Jeremy Wilson was set at 100% of annual base salary, prorated in Tim Carroll’s case to the period he was employed by the Company in the financial year. In addition, as part of the importance placed by the Company on share ownership, Tim Carroll and Jeremy Wilson had the opportunity to take a portion of their bonus in shares up to a maximum value of 25% of their base salary. To the extent they elected to do so, the Company made a matching award of shares (the ‘matching shares’). This was subject to the condition that both the shares they elected to receive out of their cash bonus and the matching shares would be held for not less than two years, including if they were no longer employed by the Company, subject only to satisfying any tax payments due on this remuneration.

Owing to the strong performance of the business in the year ended 31 August 2017, Tim Carroll and Jeremy Wilson received the maximum bonus to which they were entitled. The table shows the upper and lower boundaries, the target 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 between the lower boundary and the target as well as between the target and the upper boundary			
		Lower boundary	Target	Upper boundary	Actual
Tim Carroll[1]	EBITDA target	£10.2m	£11.0m	£11.5m	£13.1m
	Cash bonus entitlement	£0	£86,000	£143,333	£143,333[2]
	% salary	0%	60%	100%	100%
Jeremy Wilson[2]	EBITDA target	£10.2m	£11.0m	£11.5m	£13.1m
	Cash bonus entitlement	£0	£103,000	£171,666	£171,666[2]
	% salary	0%	60%	100%	100%

1 Tim Carroll joined the Group on 1 January 2017 so his bonus represents 8/12 of the full annual amount.
2 Tim Carroll and Jeremy Wilson have elected to take an amount equivalent to 10% and 25% respectively of their cash bonus entitlement in the form of shares, matched by a similar additional award from the Company, as set out in the Directors’ emoluments table below.

For the financial year ending 31 August 2018, a similar structure is being adopted as the Remuneration Committee considers that it was successful in achieving its intended objectives in the year. The details of the bonus targets for the 2018 financial year will be set out in next year’s Annual Report.

Other discretionary payments

As part of the remuneration package on which Tim Carroll joined the Company as CEO in January 2017, he received a payment of £45,000 as compensation for the value of awards forfeited by leaving his previous employer in the USA. It was agreed that this would be paid in April 2017 on the basis that he was still employed by the Company at that time. Dave Froker, who left the Company in December 2016, received an ex gratia payment of £10,000 in respect of a portion of the costs he would incur relocating his family back to the USA. He received no performance-related annual bonus in respect of the four months of the 2017 financial year for which he was employed by the Company and no other compensation.

Long-term incentive plans

A bespoke long-term share incentive plan was put in place for Dave Froker when he joined the Group in September 2012. All share awards which had not vested at the time he ceased to be an employee of the Company in December 2016 lapsed. An award of options under the Company's Enterprise Management Incentive Plan ('the EMI Plan') was made to Jeremy Wilson prior to the Company's flotation on AIM when he joined Focusrite in September 2014. This EMI Plan award has three tranches, each in respect of a three-year performance period, running respectively to the end of the 2017, 2018 and 2019 financial years. Accordingly, the first of these has now reached the end of its performance period and 91,295 shares, representing 68.5% of the maximum number of shares under this tranche of the award, have vested. These awards have been satisfied out of those owned by the Employee Benefit Trust (the 'EBT') established prior to the flotation on AIM. Details of these awards are set out in the table below:

Dave Froker	Vesting criteria EBITDA attainment	£9m	£12m	£15m
	Exercised[1]	619,000	–	–
	Lapsed[2]	–	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[3]	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
	Vesting (%)	68.5%	TBC	TBC
	Shares vesting	91,295	TBC	TBC

1 During FY15 the vesting threshold of £9 million EBITDA was exceeded and consequently the Remuneration Committee approved the vesting of the 619,000 options.
2 Dave Froker ceased to be an employee on 31 December 2016, at which point all options that had not vested lapsed.
3 Compound Annual Growth Rate.

Three year share awards made to other senior management under the Company's Performance Share Plan ('PSP') also vested at the end of the 2017 financial year resulting in the grant of 103,611 shares in total which have also been satisfied out of the EBT. New three year share awards over a total of 58,809 shares were made during the 2017 financial year to the other members of the senior management team which will vest at the end of the 2019 financial year.

Following the announcement of results in respect of the 2017 financial year, awards were granted under the PSP to Tim Carroll and to Jeremy Wilson in respect of the three-year performance period to the end of the 2020 financial year. These awards are worth a maximum of 100% of base salary at the time of grant and are based on the achievement of EPS targets. The vesting criteria are set out in the table below:

Vesting criteria	Threshold	Maximum
Three-year EPS CAGR	10%	18%
Proportion of award vesting[1]	20%	100%

1 Between threshold and maximum performance vesting is calculated on a straight line basis.

Directors' Remuneration Report continued

The Group also operates both EMI schemes and unapproved option schemes for the benefit of other employees of the Group. These schemes, which were set up prior to the flotation on AIM, form part of the programme of incentives to promote the successful recruitment, retention and rewarding of all employees and reflect the importance the Company places on wider share ownership. The last of such awards were granted in December 2015 and the majority date from before the flotation on AIM in December 2014. For this reason, a new scheme is being introduced in the 2018 financial year for the benefit of employees other than the CEO, CFO and other members of the senior management team. This scheme will operate in a similar way to a conventional option scheme with grants of awards with an exercise price equivalent to the market price at the time the award is made. The awards will vest in equal tranches after three, four and five years. Based on certain assumptions of share price growth over the period, it is intended that after five years the profit on those share options will be equivalent to approximately 50% of one year's salary at the time of the grant. The aggregate number of shares awarded in the 2018 financial year under this new scheme will be set out in next year's Annual Report.

Dilution

All of the Group's equity-based awards are subject to an overall limit on the number of new ordinary shares that can be issued which will be dilutive. Other than awards to be satisfied by shares held by the EBT at the time of the IPO, these must not, in aggregate, exceed 10% of the Company's issued share capital over any rolling ten-year period post-IPO. The following table illustrates the maximum outstanding share awards and the potential net dilution as at 31 August 2017:

Plan	Maximum number of shares relating to award	% of issued share capital
Jeremy Wilson LTIP	400,000	0.69%
Senior management PSP	292,677	0.50%
Other general employee share option plans	2,120,007	3.65%
Options outstanding at end of period	2,812,684	4.84%
Less: issued shares held in EBT[1]	(2,546,845)	(4.39%)
Potential net dilution	265,836	0.46%

1 Represents the number of shares held by the EBT as at the IPO less the number of shares used by the EBT since then to satisfy options that have vested and been exercised.

Pension contributions

In the year ended 31 August 2017, Tim Carroll and Jeremy Wilson were entitled to pension contributions of 15% of annual base salary, pro-rated in Tim Carroll's case to the period he was employed by the Company. They were permitted to elect to be paid the pension contributions in cash, subject to a deduction in respect of employer's National Insurance contributions.

Benefits

The Company provides life assurance, membership of the Group's healthcare insurance scheme, critical illness insurance and travel insurance to the Executive Directors. These benefits do not form part of their pensionable earnings. Tim Carroll received an additional one-off benefit amounting to £8,000, which was exempt from tax, in respect of the costs of relocating his family from the USA to the UK to take up the post of CEO in succession to Dave Froker.

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 from the IPO in December 2014. Subject to reappointment at the AGM, it is intended to reappoint both Non-executive Directors for a further period of three years. The appointment letters for the Non-executive Directors provide that no compensation is payable on termination. The appointments are terminable by the Company or the Non-executive Directors on six months' notice.

Directors' emoluments table

		Salary/fees £'000	Other taxable benefits £'000	Annual bonus £'000	Pension contribution £'000	Total £'000
Executive Directors						
Tim Carroll[1] (appointed 1 January 2017)	FY16	–	–	–	–	–
	FY17	143	52	157	14	366
Dave Froker (resigned 31 December 2016)	FY16	168	3	47	2	220
	FY17	57	2	–	1	60
Jeremy Wilson[2]	FY16	168	2	38	1	209
	FY17	172	2	215	22	411
Phil Dudderidge	FY16	168	3	–	–	171
	FY17	171	4	–	–	175
Non-executive Directors						
David Bezem[3]	FY16	36	–	–	–	36
	FY17	36	–	–	–	36
Paul Dean[3]	FY16	36	–	–	–	36
	FY17	36	–	–	–	36

1 Tim Carroll's annual base salary was £215,000. He was employed for eight months of the financial year.
Other taxable benefits for Tim Carroll includes £45,000 compensation for the value of awards forfeited by leaving his previous employer in the USA and £5,638 in respect of the costs of leasing a car.
The bonus for Tim Carroll comprises £129,000 bonus paid in cash, £14,333 taken as shares and £14,333 in the form of matching shares.
The pension contribution was taken as additional taxed income net of the appropriate percentage of employer's national insurance which would not otherwise have fallen due. It is also net of the cost of leasing a car referred to above.

2 The bonus for Jeremy Wilson comprises £128,750 bonus paid in cash, £42,917 taken as shares and £42,917 in the form of matching shares.
The pension contribution was taken as additional taxed income net of the appropriate percentage of employer's national insurance which would not otherwise have fallen due.

3 The remuneration for David Bezem and Paul Dean each comprises a basic fee of £31,400 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.

Approval

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

David Bezem
Chairman of the Remuneration Committee
21 November 2017

Strategic Report
Governance
Financial Statements

Statement of Directors' Responsibilities
In respect of the Annual Report and Accounts

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('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, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- 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;
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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.

Independent Auditor's Report to the Members of Focusrite Plc

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Focusrite plc ("the Company") for the year ended 31 August 2017 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Parent Company Balance Sheet, Consolidated and Parent Company Statement of Changes In Equity, Consolidated and Parent Company Cash Flow Statement, and the related notes, including the accounting policies in note 3. 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 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Overview

Materiality: group financial statements as a whole	£475,000 (2016: £354,000) 5% (2016: 5%) of profit before tax	
Coverage	100% (2016: 100%) of group profit before tax	
Risks of material misstatement		**vs 2016**
Recurring risks	Provisions against inventory	◀▶
Parent company risk	Recoverability of investment in subsidiaries	◀▶

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Provisions against inventory (£672,000; 2016: £844,000) Refer to page 33 (Audit Committee Report), page 56 (accounting policy) and page 68 (financial disclosures).	**Subjective estimate** There is a risk that changes in consumer tastes and technology may impact upon the saleability of the products for which there is a provision in place, there is therefore a high level of judgment over the estimated net realisable value of inventory.	Our procedures included: • **Control design:** Evaluating the group's procedures for calculating the inventory provision; • **Tests of details:** Comparing the cost of a sample of inventory items to after date sales to identify items sold at below cost. For items sold at below cost, checking that an appropriate level of provision is held; • **Our sector expertise:** Gaining an understanding of the respective products and their forecast demand through inquiry with the product development director. Critically assessing those forecasts using our sector expertise and considering whether the assumptions applied in the calculation of the provision were consistent with those expectations and forecasts; • **Historical comparisons:** Evaluating historical value of inventory sold at a loss or written off to assess historical forecasting accuracy by the directors; and • **Assessing transparency:** Considering the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the valuation.
Recoverability of investment in subsidiaries (£14.6 million; 2016: £14.6 million) Refer to page 33 (Audit Committee Report), page 80 (accounting policy) and page 82 (financial disclosures).	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 60% (2016: 74%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: • **Tests of detail:** Comparing the carrying amount of 100% of investments of the total investment balance with the relevant subsidiaries' balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. • **Assessing subsidiary audits:** Considering the results of our audit work on the profits and net assets of those subsidiaries.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the group financial statements as a whole was set at £475,000 (2016: 354,000), determined with reference to a benchmark of Group profit before taxation of which it represents 5% (2016: 5%).

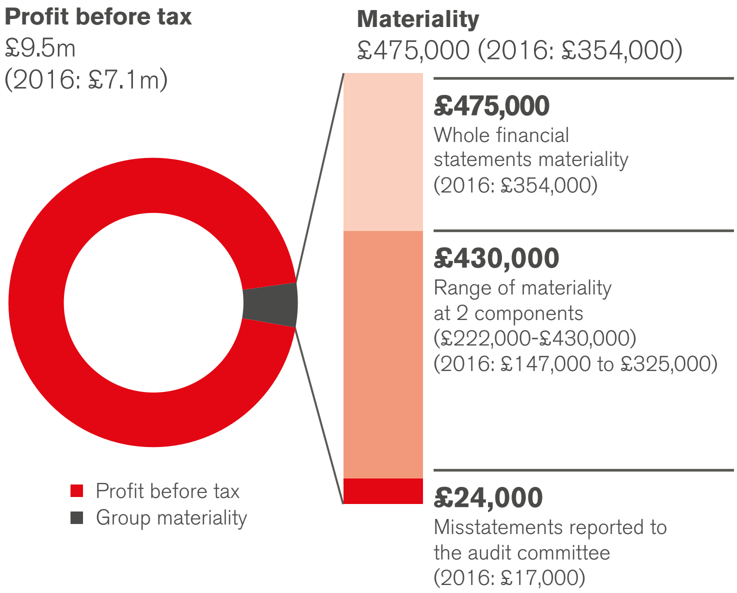
Materiality for the parent company financial statements as a whole was set at £222,000 (2016: £147,000), determined with reference to a benchmark of company total assets, of which it represents 0.9% (2016: 1.0%).

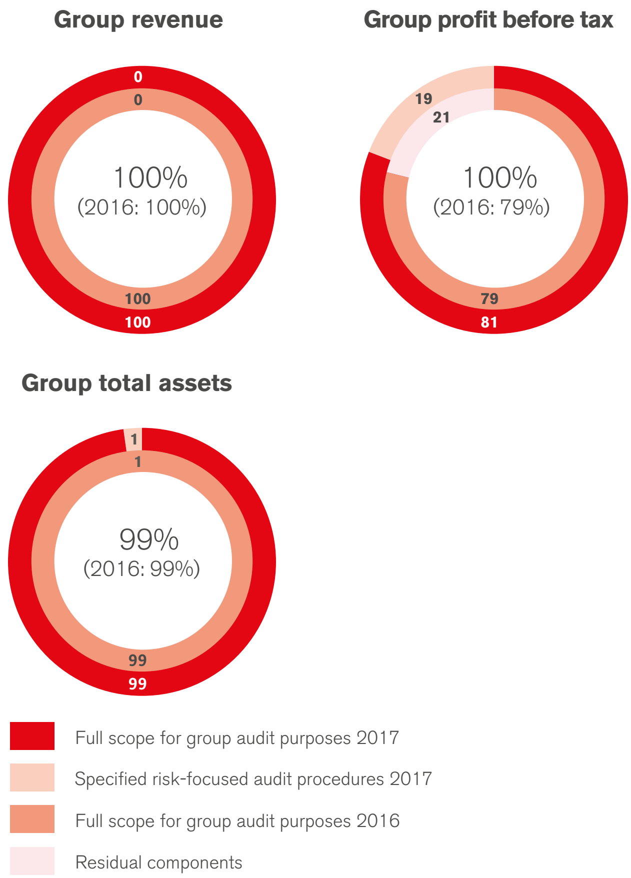
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £24,000 (2016: £17,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's four (2016: four) reporting components, two were subject to audit for group reporting purposes, two (2016: none) were subject to specified risk-focused audit procedures related to costs. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated.

The Group team determined the component materialities, which ranged from £222,000 to £430,000, having regard to the mix of size and risk profile of the Group across the components. All work was performed by the Group team.





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

4. We have nothing to report on going concern
We are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report
The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report
Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception
Under the Companies Act 2006, we are required 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 and the part of the Directors' Remuneration Report which we were engaged to audit 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.

We have nothing to report in these respects.

7. Respective responsibilities
Directors' responsibilities
As explained more fully in their statement set out on page 42, the directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities
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 and the terms of our engagement by the company. 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 the further matters we are required to state to them in accordance with the terms agreed with the company, 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.

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

21 November 2017

Consolidated Income Statement
For the year ended 31 August 2017

	Note	2017 £'000	2016 £'000
Revenue	5	**66,055**	54,301
Cost of sales		**(39,704)**	(33,439)
Gross profit		**26,351**	20,862
Administrative expenses		**(16,881)**	(13,722)
Adjusted EBITDA (non-GAAP measure)		**13,109**	10,249
Depreciation and amortisation		**(3,639)**	(2,572)
Non-underlying items	13	**–**	(537)
Operating profit		**9,470**	7,140
Finance income	9	**86**	325
Finance costs	10	**(44)**	(339)
Profit before tax		**9,512**	7,126
Income tax expense	14	**(959)**	(870)
Profit for the period from continuing operations		**8,553**	6,256
Earnings per share			
From continuing operations			
Basic (pence per share)	16	**15.4**	11.8
Diluted (pence per share)	16	**14.8**	10.7

Consolidated Statement of Comprehensive Income
For the year ended 31 August 2017

	Note	2017 £'000	2016 £'000
Profit for the period (attributable to equity holders of the Company)		**8,553**	6,256
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations		**(8)**	45
Profit/(loss) on forward foreign exchange contracts designated and effective as a hedging instrument		**659**	(1,143)
Tax on hedging instrument	23	**(134)**	229
Total comprehensive income for the period		**9,070**	5,387
Total comprehensive income attributable to:			
Equity holders of the Company		**9,070**	5,387
		9,070	5,387

Notes 1 to 33 form part of the financial statements.

Consolidated Statement of Financial Position
As at 31 August 2017

	Note	**2017 £'000**	2016 £'000
Assets			
Non-current assets			
Goodwill	17	**419**	419
Other intangible assets	18	**4,544**	4,373
Property, plant and equipment	19	**1,369**	1,575
Total non-current assets	6	**6,332**	6,367
Current assets			
Inventories	21	**8,334**	11,361
Trade and other receivables	22	**12,952**	11,224
Cash and cash equivalents	28	**14,174**	5,606
Total current assets		**35,460**	28,191
Total assets		**41,792**	34,558
Equity and liabilities			
Capital and reserves			
Share capital	26	**58**	58
Merger reserve	27	**14,595**	14,595
Merger difference reserve	27	**(13,147)**	(13,147)
Translation reserve	27	**31**	39
Hedging reserve	27	**(389)**	(914)
Treasury reserve	27	**(3)**	(5)
Retained earnings		**31,739**	23,251
Equity attributable to owners of the Company		**32,884**	23,877
Total equity		**32,884**	23,877
Current liabilities			
Trade and other payables	25	**7,720**	8,612
Current tax liabilities		**459**	644
Derivative financial instruments	31	**484**	1,143
Total current liabilities		**8,663**	10,399
Non-current liabilities			
Deferred tax	23	**245**	282
Total liabilities		**8,908**	10,681
Total equity and liabilities		**41,792**	34,558

The financial statements were approved by the Board of Directors and authorised for issue on 21 November 2017. They were signed on its behalf by:

Tim Carroll
Chief Executive Officer

Jeremy Wilson
Chief Financial Officer

The company number of Focusrite Plc is 09312676

The notes on pages 52 to 76 form part of the financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 August 2017

	Share capital £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Retained earnings[1] £'000	Total £'000
Balance at 1 September 2015	58	14,595	(13,147)	(6)	–	(6)	16,984	18,478
Profit for the period	–	–	–	–	–	–	6,256	6,256
Other comprehensive income for the period	–	–	–	45	(914)	–	–	(869)
Total comprehensive income for the period	–	–	–	45	(914)	–	6,256	5,387
Transactions with owners of the Company:								
Share-based payment deferred tax deduction in excess of remuneration expense	–	–	–	–	–	–	333	333
Share-based payment current tax deduction in excess of remuneration expense	–	–	–	–	–	–	363	363
Shares from EBT exercised	–	–	–	–	–	1	171	172
Share-based payments	–	–	–	–	–	–	120	120
Dividends paid	–	–	–	–	–	–	(976)	(976)
Balance at 1 September 2016	58	14,595	(13,147)	39	(914)	(5)	23,251	23,877
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**8,553**	**8,553**
Other comprehensive income for the period	**–**	**–**	**–**	**(8)**	**525**	**–**	**–**	**517**
Total comprehensive income for the period	**–**	**–**	**–**	**(8)**	**525**	**–**	**8,553**	**9,070**
Transactions with owners of the Company:								
Share-based payment deferred tax deduction in excess of remuneration expense	**–**	**–**	**–**	**–**	**–**	**–**	**114**	**114**
Share-based payment current tax deduction in excess of remuneration expense	**–**	**–**	**–**	**–**	**–**	**–**	**558**	**558**
Shares from EBT exercised	**–**	**–**	**–**	**–**	**–**	**2**	**256**	**258**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**145**	**145**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(1,138)**	**(1,138)**
Balance at 31 August 2017	**58**	**14,595**	**(13,147)**	**31**	**(389)**	**(3)**	**31,739**	**32,884**

1 Of the retained earnings totalling £31,739,000 (2016: £23,251,000), £427,111 (2016: £171,317) relates to the gain on exercise of share options from the EBT and is therefore non-distributable.

The notes on pages 52 to 76 form part of the financial statements.

Consolidated Cash Flow Statement
For the year ended 31 August 2017

	Note	2017 £'000	2016 £'000
Operating activities			
Profit for the financial year		**8,553**	6,256
Adjustments for:			
Income tax expense	14	**959**	870
Net interest	9, 10	**(42)**	14
Profit on disposal of property, plant and equipment		**(8)**	–
Amortisation of intangibles	18	**2,950**	2,051
Depreciation of property, plant and equipment	19	**689**	521
Share-based payments charge	29	**145**	120
Operating cash flows before movements in working capital		**13,246**	9,832
Increase in trade and other receivables		**(1,728)**	(3,487)
Decrease/(increase) in inventories		**3,027**	(2,728)
(Decrease)/increase in trade and other payables		**(892)**	206
Operating cash flows before interest and tax paid		**13,653**	3,823
Net interest paid		**(42)**	(111)
Income taxes paid		**(633)**	(165)
Cash generated by operations		**12,978**	3,547
Net foreign exchange movements		**84**	365
Net cash from operating activities		**13,062**	3,912
Investing activities			
Purchases of property, plant and equipment	19	**(493)**	(773)
Purchases of intangible assets	18	**(3,121)**	(2,902)
Net cash used in investing activities		**(3,614)**	(3,675)
Financing activities			
Issue of equity shares		**258**	172
Equity dividends paid	15	**(1,138)**	(976)
Net cash used in financing activities		**(880)**	(804)
Net increase/(decrease) in cash and cash equivalents		**8,568**	(567)
Cash and cash equivalents at beginning of year		**5,606**	6,173
Cash and cash equivalents at end of year	28	**14,174**	5,606

Notes to the Financial Statements
For the year ended 31 August 2017

1 GENERAL INFORMATION
Focusrite Plc (the 'Company'), is a company incorporated in the UK. The consolidated financial statements ('financial statements') as at and for the year ended 31 August 2017 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 2017 are presented in pounds ('GBP' thousands; £'000). This is the functional currency of the Group. The financial statements have been prepared in accordance with IFRSs, 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').

These financial statements were authorised for issue by the Company's Board of Directors on 21 November 2017.

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. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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

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

Of these, only IFRS 16 is expected to have a material impact on the future financial statements of the Group since it would require the substantial majority of the Group's operating lease commitments (c£1.1 million on an undiscounted basis as shown in note 24 of the financial statements) to be brought on to the balance sheet, resulting in the recognition of significant lease assets and liabilities which would be depreciated and amortised separately. IFRS 16 would first apply to the Group for the financial year ending 31 August 2020.

Per IFRS 15, the Group has performed an initial impact assessment. This assessment concludes that it is unlikely that the adoption of IFRS 15 will have a material impact on the financial statements of the Group.

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
The consolidated financial statements include the accounts of the Company and all entities controlled by the Group from the date control commences until the date that control ceases. Control is achieved where the Company:

- Has the power over the investee.
- Is exposed or has rights to a variable return from the involvement with the investee.
- Has the ability to use its power to affect its returns.

As such, the results of subsidiaries acquired during the year are included in the Consolidated Income Statement from the effective date of acquisition.

3 SIGNIFICANT ACCOUNTING POLICIES continued

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 current three-year plan and more detailed 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 27.

Earnings per share

The Group presents basic and diluted 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.

Goodwill

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

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

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

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

Revenue recognition

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

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

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

The Group has assessed the impacts of IFRS 9 and IFRS 15 and concluded that there is no material change to the accounting treatment of the relevant transactions.

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

Revenue is classified as follows:

- ***Sale of goods***

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

Notes to the Financial Statements continued
For the year ended 31 August 2017

3 SIGNIFICANT ACCOUNTING POLICIES continued

- ***Sale of apps***

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

Interest income

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

Non-underlying items

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

Leasing

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

Foreign currencies

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

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

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

- Exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting).
- For the purpose of presenting consolidated financial information, 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'.

3 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

Notes to the Financial Statements continued
For the year ended 31 August 2017

3 SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets

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

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

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

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

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

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

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

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

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

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

Inventories

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

Trade and other receivables

Trade debtors, which generally have 30–90-day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit or loss when there is objective evidence that the Group 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.

3 SIGNIFICANT ACCOUNTING POLICIES continued

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. This excludes those financial assets classified as at fair value through profit or loss ('FVTPL'), which are initially measured at fair value. On derecognition, however, where a specific transaction is entered into with a counterparty that is judged to carry a high credit or liquidity risk, then management may determine that derecognition of the financial asset shall be based on settlement date rather than trade date, with any realised gain or loss taken to profit and loss on date of settlement.

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

Effective interest method

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

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

Classes of financial asset

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not a designated and effective 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 31.

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.

Notes to the Financial Statements continued
For the year ended 31 August 2017

3 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line in the income statement. Fair value is determined in the manner described in note 31.

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.

3 SIGNIFICANT ACCOUNTING POLICIES continued

Derecognition of financial liabilities

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

Derivative financial instruments

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

Hedge accounting

For the year ended 31 August 2016 and subsequent years, the Group adopted hedge accounting for qualifying transactions. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

Cash flow hedges

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

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

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

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

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

The following are the important 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.

Judgements

Judgement is required to determine the level of inventory at the year end that may become obsolete due to changes in consumer habits of technology and therefore the level of provision against it.

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

Judgement is required to determine the level of inventory at the year end that may become obsolete due to changes in consumer habits or technology and therefore the level of provision against it. 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.

Estimates

Revenue recognition

The Group has contractual terms with certain customers that require estimation of the rebate payable at the year end because the amount payable is based on future sales to the end user.

Notes to the Financial Statements continued
For the year ended 31 August 2017

4 JUDGEMENTS AND ESTIMATIONS IN APPLYING THE GROUP'S ACCOUNTING POLICIES continued

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 2017 at £4,066,000 (2016: £4,172,000). These projects continue to progress in a 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.

Allowance for doubtful debts

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

Share option schemes

The Group has established several share option schemes. The fair value of the options issued under these schemes 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 option schemes are set out in note 29.

5 REVENUE

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

	Year ended 31 August	
	2017 £'000	2016 £'000
Continuing operations		
USA	**27,990**	21,382
Europe, Middle East and Africa	**25,153**	22,582
Rest of the World	**12,912**	10,337
Consolidated revenue	**66,055**	54,301

6 BUSINESS SEGMENTS

Information reported to the Board of Directors 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 or Focusrite Pro branded products
Novation	– Sales of Novation or Ampify branded products
Distribution	– Distribution of third-party brands including KRK, Ableton, Stanton, Cerwin-Vega, Cakewalk and sE Electronics

Segment revenues and results

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

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

Central administration costs comprise principally the employment-related costs and other overheads incurred by Focusrite and its USA subsidiary, net of inter-Company commission income. Also included within central administration costs is the charge relating to the share option scheme (note 29) of £145,000 for the year ended 31 August 2017 (2016: £120,000).

	Year ended 31 August	
	2017 £'000	2016 £'000
Revenue from external customers		
Focusrite	**44,552**	37,563
Novation	**18,862**	13,683
Distribution	**2,641**	3,055
Total	**66,055**	54,301
Segment profit		
Focusrite	**20,221**	17,159
Novation	**9,198**	6,743
Distribution	**711**	917
	30,130	24,819
Central distribution costs and administrative expenses before non-underlying items	**(20,660)**	(17,142)
Adjusted operating profit before non-underlying items	**9,470**	7,677
Non-underlying items	**–**	(537)
Operating profit	**9,470**	7,140
Finance income	**86**	325
Finance costs	**(44)**	(339)
Profit before tax	**9,512**	7,126
Tax	**(959)**	(870)
Profit after tax	**8,553**	6,256

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

	2017 £'000	2016 £'000
Non-current assets		
USA	**52**	60
Europe, Middle East and Africa	**5,676**	5,602
Rest of the World	**604**	705
Total non-current assets	**6,332**	6,367

Information about major customers

Included in revenues shown for 2017 is £28.0 million (2016: £21.4 million) attributed to the Group's largest customer. Amounts owed at the end of the year were £6.8 million (2016: £5.2 million).

Notes to the Financial Statements continued
For the year ended 31 August 2017

7 PROFIT FOR THE YEAR

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

	Note	Year ended 31 August 2017 £'000	2016 £'000
Net foreign exchange gains	9, 10	**(84)**	(96)
R&D costs		**1,120**	779
Non-underlying costs	13	**–**	537
Depreciation and impairment of property, plant and equipment	19	**689**	521
Profit on disposal of property, plant and equipment		**(8)**	–
Amortisation of intangibles	18	**2,950**	2,051
Operating lease rental expense	24	**306**	183
Cost of inventories recognised as an expense		**35,493**	27,955
Staff costs	11	**8,731**	7,505
Impairment loss recognised on trade receivables	22	**(3)**	4
Change in fair value of financial instruments		**–**	223
Share-based payments charge to profit and loss	29	**145**	120

8 AUDITOR'S REMUNERATION

	Year ended 31 August 2017 £'000	2016 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts:	**25**	25
Fees payable to the Company's auditor and its associates for other services		
Audit of the accounts of subsidiaries pursuant to legislation	**43**	38
Total audit service	**68**	63
Audit-related assurance services	**10**	2
Tax compliance services	**3**	4
Other assurance services	**5**	30
	86	99

9 FINANCE INCOME

	Year ended 31 August 2017 £'000	2016 £'000
Bank deposit interest	**2**	6
Exchange gain	**84**	319
	86	325

10 FINANCE COSTS

	Year ended 31 August 2017 £'000	2016 £'000
Bank charges	**44**	116
Change in fair value of financial instrument	**–**	223
	44	339

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

11 STAFF COSTS

	Year ended 31 August	
	2017 £'000	2016 £'000
Wages and salaries	**7,725**	6,586
Social security costs	**683**	646
Other pension costs	**323**	273
	8,731	7,505

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

	2017 Number	2016 Number
R&D	**63**	57
Sales and marketing	**53**	45
Operations	**43**	39
Administration and central	**24**	24
	183	165

12 DIRECTORS' REMUNERATION

A detailed analysis of Directors' remuneration, including salaries, bonuses and long-term incentives, and the highest paid Director, is provided in the remuneration table in the DRR, which forms part of these financial statements (page 41).

13 NON-UNDERLYING ITEMS

During the year ended 31 August 2016, the Group incurred one-off litigation costs relating to intellectual property and distribution contracts, totalling £0.5 million, which were charged to the income statement. This is stated net of a receipt of £0.25 million on a legacy dispute, which had previously been written off.

There are no non-underlying items for the year ended 31 August 2017.

14 TAX

	Year ended 31 August	
	2017 £'000	2016 £'000
Corporation tax charges:		
Over provision in prior year	**(13)**	(231)
Current year	**983**	1,000
	970	769
Deferred taxation		
Current year	**(11)**	101
	959	870

Corporation tax is calculated at 19.58% (2016: 20.00%) of the estimated taxable profit for the year. Taxation for the USA subsidiary is calculated at the rates prevailing in the respective jurisdiction.

Notes to the Financial Statements continued
For the year ended 31 August 2017

14 TAX continued

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

	Year ended 31 August	
	2017 £'000	2016 £'000
Current taxation		
Profit before tax on continuing operations	**9,512**	7,126
Tax at the UK corporation tax rate of 19.58% (2016: 20.00%)	**1,862**	1,425
Effects of:		
Expenses not deductible for tax purposes	**20**	480
Income not taxable for tax purposes	**–**	(1)
R&D tax credit	**(773)**	(706)
Overseas tax	**–**	(8)
Prior period adjustment – current tax	**(113)**	(231)
Prior period adjustment – deferred tax	**(18)**	(12)
Effect of change in standard rate of deferred tax	**(19)**	–
Share options expense deductible – current tax	**–**	(25)
Share options expense deductible – deferred tax	**–**	(52)
Current tax charge for period	**959**	870

The Finance Act 2016, which included legislation reducing the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020, was enacted on 15 September 2016. The deferred tax liability at 31 August 2017 has been calculated based on these rates.

15 DIVIDENDS

The following equity dividends have been declared:

	Year to 31 August 2017	Year to 31 August 2016
Dividend per qualifying ordinary share	**2.70p**	1.95p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2017 of 0.75 pence per share.

On 21 November 2017, the Directors recommended a final dividend of 1.95 pence per share (2016: 1.3 pence per share), making a total of 2.7 pence per share for the year (2016: 1.95 pence per share).

16 EARNINGS PER SHARE

Reported EPS

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

Earnings	Year ended 31 August 2017 £'000	2016 £'000
Earnings for the purposes of basic and diluted EPS being net profit for the period	**8,553**	6,256

Number of shares	Year ended 31 August 2017 Number '000	2016 Number '000
Weighted average number of ordinary shares for the purposes of basic EPS calculation	**55,432**	53,207
Effect of dilutive potential ordinary shares:		
EMI Scheme and unapproved share option plan	**2,357**	5,297
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	**57,789**	58,504

EPS	Pence	Pence
Basic EPS	**15.4**	11.8
Diluted EPS	**14.8**	10.7

At 31 August 2017, the total number of ordinary shares issued and fully paid was 58,075,000. This included 2,546,845 (2016: 4,494,504) shares held by the EBT to satisfy options vesting in future years. The operation of this EBT is funded by the Group so the EBT is required to be consolidated, with the result that the weighted average number of ordinary shares for the purpose of the basic EPS calculation is the net of the total number of shares in issue (58,075,000) less the number of shares held by the EBT (2,546,845). It should be noted that the only right relinquished by the Trustees of the EBT is the right to receive dividends. In all other respects, the shares held by the EBT have full voting rights.

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

Adjusted EPS

Earnings	Year ended 31 August 2017 £'000	2016 £'000
Profit for the financial period	**8,553**	6,256
Non-underlying items	**–**	537
Tax on non-underlying items	**–**	(107)
Total underlying profit for adjusted EPS calculation	**8,553**	6,686

Number of shares	Year ended 31 August 2017 Number '000	2016 Number '000
Weighted average number of ordinary shares for the purposes of basic EPS calculation	**55,432**	53,207
Effect of dilutive potential ordinary shares:		
EMI Scheme and unapproved share option plan	**2,357**	5,297
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	**57,789**	58,504

EPS	Pence	Pence
Adjusted basic EPS	**15.4**	12.6
Adjusted diluted EPS	**14.8**	11.4

Notes to the Financial Statements continued
For the year ended 31 August 2017

17 GOODWILL

	Total £'000
Cost	
At 1 September 2015	419
At 31 August 2016	419
At 31 August 2017	**419**

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

Carrying amount	
At 31 August 2015	419
At 31 August 2016	419
At 31 August 2017	**419**

Goodwill arose as a result of a transfer on 31 August 2004 of the assets and liabilities of Novation Digital Music Systems Limited for a consideration of £711,000. Accordingly, the whole of the value of goodwill is attributable to the Novation operating segment and cash CGU.

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

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

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

18 OTHER INTANGIBLE ASSETS

	Intellectual property £'000	Development costs £'000	Licences £'000	Trademark £'000	Computer software £'000	Total £'000
Cost						
At 1 September 2015	72	9,904	211	–	107	10,294
Additions	133	2,716	–	–	53	2,902
At 31 August 2016	205	12,620	211	–	160	13,196
Additions	–	2,721	–	127	273	3,121
Disposals	–	–	(124)	–	(10)	(134)
At 31 August 2017	**205**	**15,341**	**87**	**127**	**423**	**16,183**
Depreciation						
At 1 September 2015	30	6,485	165	–	92	6,772
Charge for the year	42	1,963	32	–	14	2,051
At 31 August 2016	72	8,448	197	–	106	8,823
Charge for the year	72	2,822	9	14	33	2,950
Eliminated on disposal	–	–	(124)	–	(10)	(134)
At 31 August 2017	**144**	**11,270**	**82**	**14**	**129**	**11,639**
Carrying amount						
At 31 August 2017	**61**	**4,071**	**5**	**113**	**294**	**4,544**
At 31 August 2016	133	4,172	14	–	54	4,373
At 31 August 2015	42	3,419	46	–	15	3,522

19 PROPERTY, PLANT AND EQUIPMENT

	Plant, tooling equipment and machinery £'000	Fixtures, fittings and leasehold improvements £'000	Computer equipment £'000	Customer demonstration units £'000	Total £'000
Cost					
At 1 September 2015	2,807	1,031	764	–	4,602
Additions	402	18	177	176	773
At 31 August 2016	3,209	1,049	941	176	5,375
Additions	279	28	154	32	493
Disposals	(905)	(114)	(539)	(23)	(1,581)
At 31 August 2017	**2,583**	**963**	**556**	**185**	**4,287**
Accumulated depreciation and impairment					
At 1 September 2015	2,124	506	649	–	3,279
Charge for the year	275	92	118	36	521
At 31 August 2016	2,399	598	767	36	3,800
Charge for the year	397	92	145	55	689
Eliminated on disposals	(903)	(112)	(538)	(18)	(1,571)
At 31 August 2017	**1,893**	**578**	**374**	**73**	**2,918**
Carrying amount					
At 31 August 2017	**690**	**385**	**182**	**112**	**1,369**
At 31 August 2016	810	451	174	140	1,575
At 31 August 2015	683	525	115	–	1,323

Notes to the Financial Statements continued
For the year ended 31 August 2017

20 SUBSIDIARIES
The Group's 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	Address	Principal activity	Class of shares	**2017 %**	2016 %
Focusrite Audio Engineering Limited	England and Wales	Windsor House, Turnpike Road, High Wycombe, Bucks, HP12 3FX	Manufacture and distribution	Ordinary	**100**	100
Focusrite Novation Inc[1]	USA	840 Apollo St, El Segundo, CA, 90245, USA	Marketing services	Ordinary	**100**	100
Focusrite Novation Asia Limited[1]	Hong Kong	2316, 23/F Hong Kong Plaza, 181–191 Connaught Road West, Shek Tong Tsui, Hong Kong	Marketing services	Ordinary	**100**	100

1 Owned indirectly through FAEL.

21 INVENTORIES

	2017 £'000	2016 £'000
Raw materials	**61**	94
Finished goods	**8,273**	11,267
	8,334	11,361

The stock value includes a provision of £672,000 (2016: £844,000). No inventories have been pledged as security against borrowings (2016: £nil). Stock days recorded against cost of goods sold amounted to 86 days in 2017 (2016: 148 days).

22 TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Amount receivable for the sale of goods	**11,223**	9,643
Allowance for doubtful debts	**(20)**	(40)
	11,203	9,603
Other debtors	**1,141**	1,407
Prepayments	**608**	214
	12,952	11,224

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 2017 was 56 days (2016: 57 days). The days sales outstanding ('DSO') at 31 August 2017 was 60 days (2016: 63 days).

The Group has not charged interest for late payment of invoices in 2016 or 2017.

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 60% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2017 (2016: 53%). 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.

22 TRADE AND OTHER RECEIVABLES continued

Ageing of not impaired receivables

	2017 £'000	2016 £'000
Not overdue	**8,989**	8,835
Overdue between 0-30 days	**2,025**	460
Overdue between 31-60 days	**88**	262
Overdue between 61-90 days	**22**	27
Overdue between 91-120 days	**75**	19
Overdue more than 120 days	**4**	–
	11,203	9,603

Movement in the allowance for doubtful debts

	2017 £'000	2016 £'000
Balance at the beginning of the period	**40**	36
Movement in provision and impairment losses recognised	**(20)**	4
Balance at the end of the period	**20**	40

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

Ageing of impaired trade receivables

	2017 £'000	2016 £'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	**20**	40
	20	40

Trade receivables net of allowance for doubtful debts

	2017 £'000	2016 £'000
Gross value of not impaired receivables	**11,203**	9,603
Gross value of impaired receivables	**20**	40
Allowance for doubtful debts	**(20)**	(40)
	11,203	9,603

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

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23 DEFERRED TAX

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

	Accelerated tax depreciation £'000	Share-based payments £'000	Hedging instrument £'000	Total £'000
Cost				
At 1 September 2015	743	–	–	743
Debit/(credit) to profit or loss	153	(52)	–	101
Credit to equity	–	(333)	(229)	(562)
At 31 August 2016	896	(385)	(229)	282
Debit/(credit) to profit or loss	(40)	(17)	134	77
Credit to equity	–	(114)	–	(114)
At 31 August 2017	**856**	**(516)**	**(95)**	**245**

Deferred tax assets and liabilities are offset and relate to income taxes levied by the same taxation authority. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2017 £'000	2016 £'000
Deferred tax liabilities	**856**	896
Deferred tax assets	**(611)**	(614)
	245	282

24 OPERATING LEASE ARRANGEMENTS

	Minimum lease payments	
	2017 £'000	2016 £'000
Minimum lease payments under operating leases recognised as an expense during the year	**306**	183

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:

	Minimum lease payments	
	2017 £'000	2016 £'000
Within one year	**264**	164
In the second to fifth years inclusive	**737**	650
After five years	**54**	216
	1,055	1,030

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.

25 TRADE AND OTHER PAYABLES

	2017 £'000	2016 £'000
Trade payables	**4,042**	6,265
Accrued expenses	**3,464**	2,104
Other taxation and social security payable	**214**	243
	7,720	8,612

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 37 days (2016: 68 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.

26 SHARE CAPITAL

	2017 Number	2016 Number
Issued and fully paid		
Ordinary shares of £0.001 each	**58,075,000**	58,075,000

	2017 £	2016 £
Issued and fully paid		
Ordinary shares of £0.001 each	**58,075**	58,075
	58,075	58,075

27 OTHER RESERVES

Merger reserve

	2017 £'000	2016 £'000
Balance at 1 September	**14,595**	14,595
Balance at 31 August	**14,595**	14,595

On 4 December 2014, Plc obtained control of 100% of the share capital of FAEL in a share for share exchange, thereby inserting Focusrite Plc ('Plc') as the parent company of the Group. In accordance with the Companies Act, the difference between the cost of the investment and the nominal value of the share capital acquired was put to the merger reserve.

Merger difference reserve

	2017 £'000	2016 £'000
Balance at 1 September	**(13,147)**	(13,147)
Balance at 31 August	**(13,147)**	(13,147)

Under IFRS 3 the equity structure should reflect the structure of the legal parent (Focusrite Plc). Therefore the merger difference reserve represents the difference between the sum of the Plc share capital and merger reserve and the sum of Focusrite Audio Engineering Limited's share capital, share premium and capital redemption reserve.

Treasury share reserve

	2017 £'000	2016 £'000
Balance at 1 September	**(5)**	(6)
Shares exercised from EBT	**2**	1
Balance at 31 August	**(3)**	(5)

The treasury share reserve arose when the Company issued equity share capital which it held in trust. The interests of this trust are consolidated in to the Group's financial statements and the relevant amount treated as a reduction in equity. The shares held in the trust relate to share options granted, upon exercise of the share options this amount reduces.

Translation reserve

	2017 £'000	2016 £'000
Balance at 1 September	**39**	(6)
Exchange differences on translating the net assets of foreign operations	**(8)**	45
Balance at 31 August	**31**	39

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

Notes to the Financial Statements continued
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27 OTHER RESERVES continued
Hedging reserve

	2017 £'000	2016 £'000
Balance at 1 September	**(914)**	–
Loss on forward foreign exchange contracts designated and effective as a hedging instrument	**659**	(1,143)
Tax on hedging instrument	**(134)**	229
Balance at 31 August	**(389)**	(914)

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

28 CASH AND CASH EQUIVALENTS

	2017 £'000	2016 £'000
Cash and bank balances	**14,174**	5,606

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.

29 SHARE-BASED PAYMENTS
Equity-settled share option schemes
1,947,659 options over Focusrite Plc's shares were exercised during the year ended 31 August 2017 (2016: 1,181,498). As at 31 August 2017, the total number of ordinary shares under option in Focusrite Plc was 2,812,684 (2016: 6,385,149) of which 2,546,845 (2016: 4,494,504) can be satisfied by ordinary shares that are held in the EBT.

The remaining number of options would, if exercised, result in the issue of 265,839 (2016: 1,890,645) ordinary shares. The options to be held by the Directors are subject to performance-related vesting conditions.

The weighted average share price at the date of exercise for share options exercised during the year ended 31 August 2017 was £1.71 (2016: £1.86). For the share options outstanding at the end of the year, the weighted average remaining contractual life was 3.2 years (2016: 3.2 years).

	2017		2016	
	Number of options	**Weighted average exercise price £**	Number of options	Weighted average exercise price £
Outstanding at start of period	**6,385,149**	**0.27**	7,155,331	0.13
Granted during the period:				
2015 EMI Scheme: other employees	**–**	**1.71**	574,209	1.71
2016 PSP: senior employees exc. Executive Directors	**–**	**0.00**	139,935	0.00
2017 PSP: senior employees exc. Executive Directors	**70,872**	**0.00**	–	0.00
Exercised during the year:				
2014 EMI Scheme: other employees	**(1,328,659)**	**0.15**	(1,181,496)	0.15
2014 EMI Scheme: D Froker	**(619,000)**	**0.10**	–	0.10
Cancelled during the period:				
2014 EMI Scheme: other employees	**(221,829)**	**0.15**	(302,830)	0.15
2014 EMI Scheme: D Froker	**(385,000)**	**0.10**	–	0.10
2014 EMI Scheme: D Froker	**(893,000)**	**0.10**	–	0.10
2015 EMI Scheme: other employees	**(138,843)**	**1.71**	–	1.71
2015 PSP: senior employees exc. Executive Directors	**(22,074)**	**0.00**	–	0.00
2016 PSP: senior employees exc. Executive Directors	**(22,869)**	**0.00**	–	0.00
2017 PSP: senior employees exc. Executive Directors	**(12,063)**	**0.00**	–	0.00
Outstanding at end of year	**2,812,684**	**0.38**	6,385,149	0.27
Exercisable at end of year	**–**	**0.10**	619,000	0.10

	2017 £'000	2016 £'000
Expense arising from share-based payment transactions	**145**	120

29 SHARE-BASED PAYMENTS continued

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

	Grant date 24 November 2016	Grant date 1 December 2015	Grant date 18 September 2014	Grant date 1 September 2014
Share price at date of grant	£1.80	£1.76	£0.15	£1.74–£2.00
Exercise price	£0.001	£0.15	£0.15	£0.001
Expected volatility	n/a	37.2–40.6%	51.80%	51.80%
Dividend yield	1.45%	1.50%	1.50%	1.50%
Contractual life of option	3 years	3–5 years	3.2 years	3.2 years
Risk free interest rate	n/a	1.46–1.59%	0.56–1.93%	1.93%

30 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 £323,000 for the year ended 31 August 2017 (2016: £273,000). Contributions totalling £16,448 (2016: £20,000) were payable to the fund at the balance sheet date and are included in trade and other payables.

31 FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to maximise future profitable growth and thereby the return on investment for shareholders. 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 Company, comprising issued capital, reserves and retained earnings as disclosed in note 27.

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

	2017 £'000	2016 £'000
Financial assets		
Cash and cash equivalents	**14,174**	5,606
Trade receivables	**11,203**	9,603
	25,377	15,209
Financial liabilities		
Designated cash flow hedge relationships		
Derivative financial liabilities designated and effective as cash flow hedging instruments	**484**	1,143
Amortised cost		
Trade payables	**4,042**	6,265
	4,526	7,408

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.

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31 FINANCIAL INSTRUMENTS continued

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. 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	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
US Dollars	**3,822**	5,875	**10,524**	9,965
Euros	**6**	22	**4,231**	2,227
Pounds Sterling	**4,351**	3,359	**12,371**	4,638
	8,179	9,256	**27,126**	16,830

Foreign currency sensitivity analysis

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

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

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

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

	Euro impact[1]		US Dollar impact[2]	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Profit or loss	**423**	221	**670**	409

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 during the following financial year with the aim that approximately 75% of the foreign exchange exposure is covered. In addition, approximately 50% of the Euro foreign exchange exposure is covered for the year after that. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

31 FINANCIAL INSTRUMENTS continued

The Group started a policy of hedge accounting during the prior year. In FY17, all forward foreign exchange contracts have been hedge accounted. For cash flow hedges the following table sets out the periods when the cash flows are expected to occur and when they are expected to affect profit or loss:

	2017				
	Carrying amount £'000	**Expected cash flow £'000**	**Within 1 year £'000**	**Between 1 and 5 years £'000**	**Over 5 years £'000**
Forward exchange contracts					
Liabilities	**(484)**	**(484)**	**(484)**	**–**	**–**
Total	**(484)**	**(484)**	**(484)**	**–**	**–**

	2016				
	Carrying amount £'000	Expected cash flow £'000	Within 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000
Forward exchange contracts					
Liabilities	(1,143)	(1,143)	(1,143)	–	–
Total	(1,143)	(1,143)	(1,143)	–	–

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.

	Less than 1 month £'000	1–3 months £'000	3 months to 1 year £'000	1–5 years £'000	5+ years £'000	Total £'000
2017						
Non-interest-bearing	**14,174**	**–**	**–**	**–**	**–**	**14,174**
	14,174	**–**	**–**	**–**	**–**	**14,174**
2016						
Non-interest-bearing	5,606	–	–	–	–	5,606
	5,606	–	–	–	–	5,606

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

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

Fair value of financial instruments

Fair value of financial instruments carried at amortised cost

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

Notes to the Financial Statements continued
For the year ended 31 August 2017

31 FINANCIAL INSTRUMENTS continued

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

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

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

Fair value measurements recognised in the statement of financial position

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

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

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

32 CONTINGENT LIABILITIES

The Company and its subsidiaries may, from time to time, be involved in a number of legal proceedings that are incidental to their operations. During the year to 31 August 2016, the Group incurred one-off litigation costs, which are explained in note 13. These legal proceedings have now been resolved. In the opinion of the Directors, the Company and its subsidiaries are not involved currently in any other legal proceedings which, at 31 August 2017 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.

33 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'.

	2017 £'000	2016 £'000
Short-term employee benefits	**1,678**	1,415
Share-based payments	**96**	42
Pension contributions	**204**	150
	1,978	1,607
Aggregate emoluments of the highest paid Director	**411**	207

Transactions involving Directors and key management personnel

During the year, the Company continued a commercial lease agreement in Lincoln Road, High Wycombe. Mr P Dudderidge, a Director and shareholder of the Company, is the landlord of the property in Lincoln Road, High Wycombe. The annual rental is £19,750 (2016: £19,750).

Company Balance Sheet
As at 31 August 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Investment in subsidiaries	6	**14,647**	14,647
Total fixed assets		**14,647**	14,647
Current assets			
Trade and other receivables	7	**1,364**	4,884
Corporate tax recoverable		**36**	48
Cash at bank and in hand		**7,543**	90
Total current assets		**8,943**	5,022
Creditors: amounts falling due within one year			
Creditors	8	**(219)**	(3)
Net current assets		**8,724**	5,019
Total assets less current liabilities		**23,371**	19,666
Net assets		**23,371**	19,666
Capital and reserves			
Share capital	9	**58**	58
Merger reserve	10	**14,595**	14,595
Treasury share reserve	11	**(3)**	(5)
Retained earnings	12	**8,721**	5,018
Total equity and shareholders' funds		**23,371**	19,666

The financial statements were approved by the Board of Directors and authorised for issue on 21 November 2017.
They were signed on its behalf by:

Tim Carroll
Chief Executive Officer

Jeremy Wilson
Chief Financial Officer

The notes on pages 80 to 84 form part of the financial statements.

Company Statement of Changes in Equity
For the year ended 31 August 2017

	Share capital £'000	Merger reserve £'000	Treasury share reserve £'000	Retained earnings £'000	Total £'000
Balance at 31 August 2015	58	14,595	(6)	2,732	17,379
Profit for the period	–	–	–	2,709	2,709
Dividends	–	–	–	(976)	(976)
Credit for equity settled share-based payments	–	–	–	262	262
Share-based payment charge	–	–	–	120	120
Shares from EBT exercised	–	–	1	171	172
Net movement	58	14,595	(5)	5,018	19,666
Balance at 31 August 2016	58	14,595	(5)	5,018	19,666
Profit for the period	**–**	**–**	**–**	**4,440**	**4,440**
Dividends	**–**	**–**	**–**	**(1,138)**	**(1,138)**
Share-based payment charge	**–**	**–**	**–**	**145**	**145**
Shares from EBT exercised	**–**	**–**	**2**	**256**	**258**
Net movement	**58**	**14,595**	**(3)**	**8,721**	**23,371**
Balance at 31 August 2017	**58**	**14,595**	**(3)**	**8,721**	**23,371**

The notes on pages 80 to 84 form part of the financial statements.

Company Cash Flow Statement

	Note	2017 £'000	2016 £'000
Profit/(loss) for the financial year		**(206)**	(195)
Adjustments for:			
Share option charge		**145**	382
Income tax expense		**(36)**	(48)
Operating cash flows before movements in working capital		**(97)**	139
Decrease/(increase) in trade and other receivables		**3,532**	(3,047)
Increase in trade and other payables		**216**	3
Operating cash flows before interest and tax paid		**3,651**	(2,905)
Income taxes received		**36**	48
Net cash from operating activities		**3,687**	(2,857)
Investing activities			
Dividend received		**4,646**	2,904
Net cash from investing activities		**4,646**	2,904
Financing activities			
Issue of equity shares		**258**	172
Equity dividends paid	5	**(1,138)**	(976)
Net cash used in financing activities		**(880)**	(804)
Net (decrease)/increase in cash and cash equivalents		**7,453**	(757)
Cash and cash equivalents at beginning of year		**90**	847
Cash and cash equivalents at end of year		**7,543**	90

Notes to the Company Accounts
For the year ended 31 August 2017

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

The Parent Company financial statements of Focusrite Plc for the year ended 31 August 2017 were authorised for issue by the Board of Directors on 21 November 2017 and the balance sheet was signed on the Board's behalf by Tim Carroll and Jeremy Wilson.

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

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

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 August 2017.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 August 2017.

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 27.

Investments in subsidiaries

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

Cash

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

Income taxes

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

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

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

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

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

Retirement benefit costs

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

Equity-settled share-based payments

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

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

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

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

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

3 DIRECTORS' REMUNERATION

Directors' emoluments

	2017 £'000	2016 £'000
Salaries, bonuses and other employee benefits	**1,047**	656
Social security costs	**144**	76
Pension costs	**37**	3
	1,228	735

During the year retirement benefits were accruing to three Directors (2016: three) in respect of defined contribution pension schemes. The highest paid Director received remuneration (excluding the value of vested share options) of £411,000 (2016: £220,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £1,000 (2016: £2,000). During the year, no share options were exercised by Directors (2016: nil).

Notes to the Company Accounts continued
For the year ended 31 August 2017

3 DIRECTORS' REMUNERATION continued

The Directors' remuneration for the year:

		Salary/fees £'000	Other taxable benefits £'000	Annual bonus £'000	Pension contribution £'000	Total £'000
Executive Directors						
Tim Carroll (appointed 1 January 2017)	FY16	–	–	–	–	–
	FY17	**143**	**52**	**157**	**14**	**366**
Dave Froker (resigned 31 December 2016)	FY16	168	3	47	2	220
	FY17	**57**	**2**	**–**	**1**	**60**
Jeremy Wilson	FY16	168	2	38	1	209
	FY17	**172**	**2**	**215**	**22**	**411**
Phil Dudderidge	FY16	168	3	–	–	171
	FY17	**171**	**4**	**–**	**–**	**175**
Non-executive Directors						
David Bezem	FY16	36	–	–	–	36
	FY17	**36**	**–**	**–**	**–**	**36**
Paul Dean	FY16	36	–	–	–	36
	FY17	**36**	**–**	**–**	**–**	**36**

4 STAFF COSTS

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

	2017 £'000	2016 £'000
Wages and salaries	**1,074**	714
Social security costs	**144**	84
Other pension costs	**38**	99
	1,256	897

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

	2017 Number	2016 Number
Management and administration	**7**	7

5 DIVIDENDS

The following equity dividends have been declared:

	2017	2016
Dividend per qualifying ordinary share	**2.70p**	1.95p

6 INVESTMENTS IN SUBSIDIARIES

	2017 £'000	2016 £'000
At 1 September	**14,647**	14,647
At 31 August	**14,647**	14,647

The investments in subsidiaries comprise:

Name	Country of registration or incorporation	Principal activity	Class of shares	**2017 %**	2016 %
Focusrite Audio Engineering Limited	England and Wales	Manufacture and distribution	Ordinary	**100**	100
Focusrite Novation Inc[1]	USA	Marketing services	Ordinary	**100**	100
Focusrite Novation Asia Limited[1]	Hong Kong	Marketing services	Ordinary	**100**	100

1 Owned indirectly through FAEL.

7 DEBTORS

	2017 £'000	2016 £'000
Other debtors	**72**	10
Amounts owed by Group undertakings	**1,292**	4,874
	1,364	4,884

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

8 CREDITORS

	2017 £'000	2016 £'000
Other creditors	**219**	3

9 SHARE CAPITAL

	2017 Number	2016 Number
Issued and fully paid		
Ordinary shares of £0.01 each	**58,075,000**	58,075,000

	2017 £	2016 £
Issued and fully paid		
Ordinary shares of £0.01 each	**58,075**	58,075

The Company has one class of ordinary shares which carries no right to fixed income.

10 MERGER RESERVE

	2017 £'000	2016 £'000
At 1 September	**14,595**	14,595
Transferred in the period	**–**	–
At 31 August	**14,595**	14,595

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

11 TREASURY RESERVE

	2017 £'000	2016 £'000
At 1 September	**(5)**	(6)
Shares exercised from EBT	**2**	1
At 31 August	**(3)**	(5)

Notes to the Company Accounts continued
For the year ended 31 August 2017

12 RETAINED EARNINGS

	2017 £'000	2016 £'000
At 1 September	**5,018**	2,732
Net profit for the period	**4,440**	2,709
Dividend	**(1,138)**	(976)
Credit for equity settled share-based payments	**–**	262
Share-based payment charge	**145**	120
Shares from EBT exercised	**256**	171
At 31 August	**8,721**	5,018

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 £4,440,000 (2016: £2,709,000).

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