ENRICHING LIVES THROUGH MUSIC

18

Focusrite ANNUAL REPORT 2018

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.

OUR BRANDS. OUR PEOPLE. OUR WHY.

Our 2018 Annual Report sports a new message – 'Enriching Lives Through Music'.

At Focusrite's heart are people: a like-minded, eclectic family of music lovers brought together by a common passion, music and creativity.

We spoke about 'Making Music Easy to Make' beforehand and while we still believe that is an important theme, we also hope that our new, more concentrated message conveys our corporate purpose more clearly; a purpose that shows the power of music to do good in the world.

There are pointless barriers stopping people from realising their own creativity. Not just technological barriers, but geographical, social, economic, political and more. As a team, we aim to remove them, one by one.

www.focusriteplc.com

HIGHLIGHTS

The Group has grown to a new record revenue, profit and cash in FY18. We continue to innovate and lead in our core categories and our growth strategy continues to yield progress.

Financial highlights

- Group revenue grew by 13.7% (constant currency[1]: 15.3%) to £75.1 million (FY17: £66.1 million)
- EBITDA[2] grew by 18.1% to £15.5 million (FY17: £13.1 million)
- Operating profit grew 26.1% to £11.9 million (FY17: £9.5 million)
- Adjusted[3] operating profit grew 22.6% to £11.6 million (FY17: £9.5 million)
- Diluted earnings per share grew 22.3% to 18.1p (FY17: 14.8p)
- Adjusted[3] diluted earnings per share grew 18.9% to 17.6p (FY17: 14.8p)
- Net cash of £22.8 million (FY17: £14.2 million)
- Final dividend of 2.3p recommended, resulting in 3.3p for the year, up 22.2% on prior year

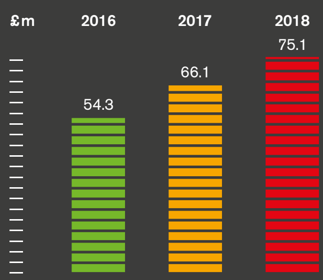
Operational highlights

- Once again, we experienced growth in both major segments (Focusrite and Novation) and in all reported geographic regions.
- In Focusrite, all major ranges (Scarlett, Clarett, Red and RedNet) grew and the overall segment grew by 17.2%.
- In Novation, the primary growth was in synthesisers following the launch of Peak, while the more established ranges such as Launch and Launchkey also grew, although at slower rates. Overall, Novation grew by 6.4%.
- New efforts and investments in localised field personnel, marketing and support has increased net promoter scores ('NPS') and driven widespread growth.
- All major geographic regions grew: North America was up by 10.2%; Europe, Middle East and Africa by 18.1%; and the Rest of the World by 13.3%.
- Five new products were launched over the year.
- The software team continues to progress along its widened strategy of software development for both its own apps and the broader product development within the Group.
- The e-commerce website is delivering products globally as part of the Group's efforts to ensure that customers can access the Group's products wherever they are in the world.

1 Constant currency revenue growth is calculated by taking the sterling value of FY18 revenue, converting to FY17 annual average exchange rates and comparing with the reported revenue for FY17. In addition, all foreign exchange movements disclosed in revenue are excluded from both years.
2 Comprising of earnings adjusted for interest, taxation, depreciation and amortisation (see page 21).
3 Adjusted for non-underlying items (see note 13).

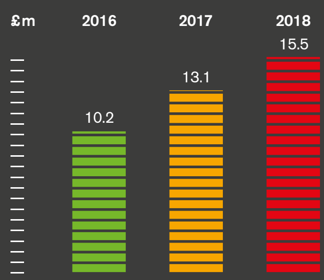
GROUP REVENUE
(Constant currency[2]: +15.3%)

£75.1m **+13.7%**



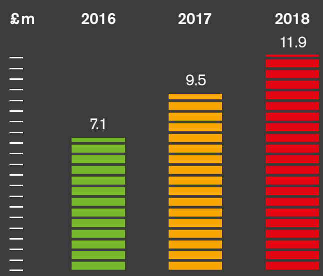
EBITDA[1]

£15.5m **+18.1%**



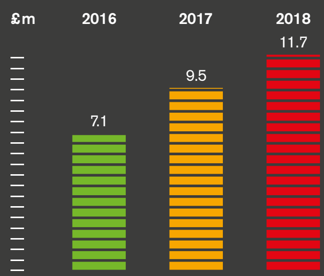
OPERATING PROFIT

£11.9m **+26.1%**



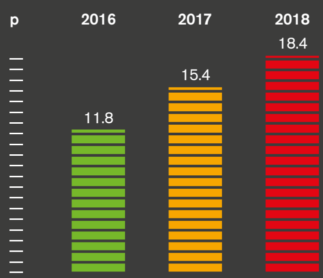
PROFIT BEFORE TAX

£11.7m **+22.7%**



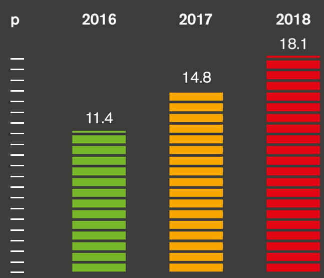
BASIC EARNINGS PER SHARE

18.4p **+19.5%**



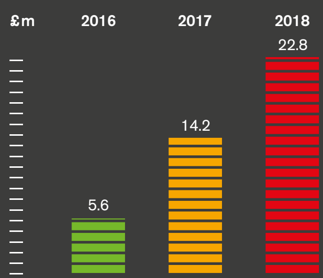
DILUTED EARNINGS PER SHARE

18.1p **+22.3%**



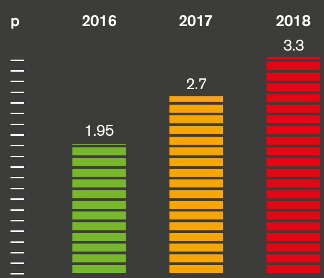
NET CASH

£22.8m **+60.9%**



PROPOSED TOTAL DIVIDEND

3.3p +22.2%



COMPANY OVERVIEW

A WORLDWIDE LEADER IN MUSIC AND AUDIO PRODUCTS

OUR GLOBAL COVERAGE

GLOBAL REVENUE

£75.1m | +13.7%

Europe, Middle East and Africa **39%** North America **44%** Rest of the World **17%**

The Group's products are sold globally through distributors, retailers 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 wholesale distributor with our own demand generation team, and direct business to consumer with our e-commerce store and in-app software purchases. 900,000 physical products were sold last year. Our music creation apps have now been downloaded 9.5 million times (up from 7.5 million as at 31 August 2017), with over 750,000 in-app customer transactions. Our suppliers are chiefly based in China and we use third-party logistics support. We employ around 210 people in the UK, USA, Germany and Hong Kong.

We have three reporting segments being Focusrite, Novation and Distribution. Focusrite and Novation relate to sales of proprietary products. Distribution relates to the sale of products manufactured by other companies.

Focusrite was born out of a request from Beatles producer Sir George Martin, ultimately resulting in what is widely regarded as sonically one of the finest studio consoles ever made. But the recording world was already changing. Software had kicked off the democratisation of music production and Focusrite shifted its focus to home studios, removing the financial barrier to studio-quality recordings. Digidesign, the creator of the world's leading music software 'Pro Tools', called on Focusrite to deliver what became known as 'MBox'; the audio interface that brought Pro Tools to the masses. This was Focusrite's springboard into the world of interfaces, which it now leads globally, with audio interfaces for every creative mind from budding songwriter to commercial producer and beyond. The brand's reputation for quality and reliability has been hard-earned. We now work tirelessly to uphold it, investing in industry-leading quality assurance, customer care and software stability to ensure Focusrite remains a name music makers can trust.

Focusrite® PRO

The Focusrite Pro team was formed in 2017, born out of the desire to serve the needs of commercial operations better. The Pro team is committed to creating a world where a future-proofed environment and improved workflows give audio professionals the creative freedom to get the job done. By removing unnecessary technical steps in their workflow we empower them to enrich the lives of others. Leading the world in high channel count, high-quality sound across an IP network, the RedNet range is transforming the shape of multiple professional audio markets. Working with Focusrite Pro's highly skilled and industry-experienced team, clients from recording and broadcasting studios, to houses of worship and audio for film and television can all realise the full potential and maximum return on investment from their audio systems.

novation

Novation has always been on a mission; not to preserve sound, but to sculpt it. From the introduction of the iconic Bass Station back in 1992, Novation has played its part in shaping the sound of electronic music and even the culture itself. It enables electronic music makers to lose themselves on a music-making journey that need never end. From the ubiquitous Launchpad 8x8 grid behind over a billion YouTube views, to synthesisers behind the signature sounds of a constantly evolving musical landscape, Novation is shaping the music and art of tomorrow.

AMPIFY

Born out of talent from the Novation team and based in the Tileyard Studios creative hub in London, Ampify holds true to our fundamental purpose by creating music-making apps so the lives of a new generation can be enriched on a creative musical journey. With over 9.5 million downloads of its apps so far, Ampify has already removed both the real and apparent barriers of today's music technology. Not confined by ingrained workflows, Ampify has leapt ahead into a new paradigm and is redefining how music will be made tomorrow.

CUSTOMERS

ENRICHING LIVES THROUGH MUSIC

Society is changing. People expect more from the brands they relate to. Nowhere is this more true than in the mind of the creative person, often slow to trust and always hungry for meaning in the world around them. With its rich past and clear purpose, Focusrite is well placed to thrive in this changing world.

NEW MUSIC CREATOR

$200–300m

The new music creator loves music. They talk about it all the time. Inspired by this love for music, they want to start doing it for themselves, but don't know what that looks like. They believe making music will be fun. Something they could really get into. Making it could bring them even closer to the music they love. Excited and impatient, they want fast results and are eager to share what they've made with friends.

OVERVIEW

TIME INVESTED
TECHNICAL KNOW-HOW
MUSICAL KNOW-HOW
PURCHASE FREQUENCY
PURCHASE CONSIDERATION
FINANCIAL COMMITMENT
HUNGER FOR KNOWLEDGE

PASSIONATE MUSIC MAKER

$200m–250m

Considering themselves as artists or music makers, they feel a sense of achievement when they complete a track they can call their own. They know enough to create their music, but are hungry to improve. Unsure of the quality of their output, they're cautious about what they share, and with whom. All too often, the tracks they create remain ideas, never to be refined and polished. New music-making tools excite them, though they consider these new purchases independently, not as part of a wider studio workflow.

OVERVIEW

TIME INVESTED
TECHNICAL KNOW-HOW
MUSICAL KNOW-HOW
PURCHASE FREQUENCY
PURCHASE CONSIDERATION
FINANCIAL COMMITMENT
HUNGER FOR KNOWLEDGE

BRAND ALIGNMENT

AMPIFY
novation
Focusrite
Focusrite PRO

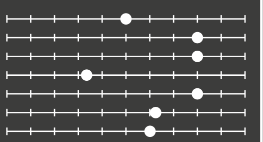
SERIOUS ASPIRING MUSIC PRODUCER

$75m–100m

They aspire to be recognized as a music producer. They feel a sense of achievement when they complete a commercially viable production. Actively networking within groups of like-minded people, they're constantly honing their skills. They dream of one day quitting their day job and earning a living in music production. They're committed to a daily music routine with self-imposed deadlines. Any new purchases must contribute to the refinement of their music production process.

OVERVIEW

TIME INVESTED
TECHNICAL KNOW-HOW
MUSICAL KNOW-HOW
PURCHASE FREQUENCY
PURCHASE CONSIDERATION
FINANCIAL COMMITMENT
HUNGER FOR KNOWLEDGE



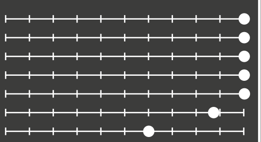
THE MUSIC MASTER

$50m–100m

They produce music for a living. They accept the deadlines and pressures that come with the job, and get a sense of achievement when their hard work receives both critical acclaim and financial success. They're proud to be part of a community that produces music for a living. Having mastered their craft, they understand that they'll always be learning. Gear purchases are either professional or passion-based, but the former must have a positive impact on their workflow.

OVERVIEW

TIME INVESTED
TECHNICAL KNOW-HOW
MUSICAL KNOW-HOW
PURCHASE FREQUENCY
PURCHASE CONSIDERATION
FINANCIAL COMMITMENT
HUNGER FOR KNOWLEDGE

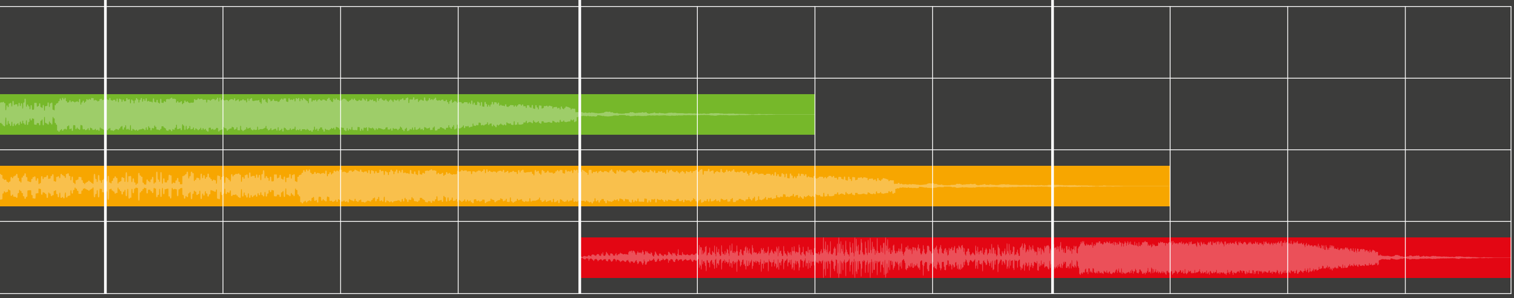


THE FACILITY

$50m–100m

The facility is often made up of multiple decision-makers, all focused on playing their part to ensure the business's success. Every facility's requirements are unique and often complex. From the largest post production houses and sprawling media arts campuses, to live and broadcast stages and beyond. Driven to remain competitive, they're always looking for ways to grow their business.

The technology they invest in must deliver the best possible return. Indeed, some technology investments can make or break the business, so the stakes are high. Common among all facilities is the need to have workflows and technology they can rely on. As audio professionals, they need a sense of confidence in the technology they use so they can focus on getting the job done, happy in the knowledge that their sound is safe and their solution stable.



CHAIRMAN'S STATEMENT

REMOVING BARRIERS TO CREATIVITY

PHILIP DUDDERIDGE
Chairman and Founder

THE LEADING EDGE OF MUSIC TECHNOLOGY INNOVATION

I am incredibly proud to introduce the 2018 Report and Accounts of Focusrite Plc and subsidiaries in what has once again been a record year for the Company.

Focusrite plays a long game. The business is in its 30th year and has become a global leader in recording hardware technology. Under the Focusrite brand, and working with Avid Pro Tools and Ableton Live recording software brands, we have gone from strength to strength and after the acquisition of Novation in 2004 the Group has grown to become a leading brand in the electronic music creation world.

This is the first full year since the appointment of Tim Carroll as Chief Executive Officer, a position he has held since January 2017. I am delighted to report that his appointment is recognised across the firm, suppliers and our customers as a great success. As this report indicates, he is leading a number of initiatives that support our growth strategy.

The Company continues to be highly cash generative, with net cash of £22.8 million at the year end, building an ability to pursue an acquisition strategy that we have aspired to since the IPO in December 2014. To that end we have appointed a Business Development Manager to coordinate and analyse opportunities as they arise and to identify appropriate businesses that might fit a Focusrite family of complementary brands. We have rejected propositions that did not meet our tests of profitability and cash generation as we have clear goals as to the nature and performance potential of any business that might qualify for acquisition.

Focusrite plays a long game. The business is in its 30th year and has become a global leader in recording hardware technology

In addition to Ampify apps for the Apple iOS platform, the London-based software unit is also developing new products to complement Focusrite and Novation hardware on Mac and PC. As a market leader, we continue to evolve and to that end the Group is also researching tools for the future direction of music recording, improving ease of workflow for the professional musician and ease of use for the musician for whom recording is a new skill to be developed.

Our business is predicated on the commitment of over 200 people around the world. In addition to the usual head office activities, the 150 UK employees are focused on product development, customer support, sales and marketing. Our subsidiary, Focusrite Novation Inc. based in Los Angeles, supports the US market with marketing, customer support and retail channel communication. Similarly, other regional representatives in Germany, Hong Kong and Mexico (for Latin America) support their local regions with sales management, marketing and customer support.

I would like to take this opportunity to acknowledge all our employees for their commitment and skills, each of whom makes an essential contribution to our success. Permanent employees are participants in share option schemes. This has proved rewarding to employees who are motivated to see the Company prosper for the benefit of all shareholders, themselves included.

This year, we welcomed Naomi Climer to the Board. Naomi has a huge amount of highly relevant technical and industry experience and we are delighted that she has joined us as a Non-executive Director. The Group aspires to high standards of corporate governance and I would like to take this opportunity to thank all of our Non-executives for their wise guidance, counsel and acknowledge the variety of different skills and broad experience that they bring to the Board.

Finally, I would also like to acknowledge our excellent commercial partners. We have three principal vendors that manufacture our products to the highest standards of quality and reliability; our logistics partners that reliably handle physical distribution from factory to local distribution warehouses and onwards to our customers; and our third-party distributors who market our products in their own national territories.

We look forward to the coming years with enthusiasm for our industry, our customers, our employees, our partners around the world, and with an appreciation of our shareholders who invest in our vision of constant innovation and growth, as we continue 'Enriching Lives Through Music'.

Philip Dudderidge
Chairman and Founder

CHIEF EXECUTIVE'S STATEMENT

CONTINUED INNOVATION

A YEAR OF CONTINUED INNOVATION AND FOCUS ON OUR GROWTH STRATEGY HAS ACHIEVED STRONG RESULTS

TIM CARROLL
Chief Executive Officer

INTRODUCTION: INNOVATION AT OUR CORE

I am very pleased to update our shareholders on our record year of performance, with all key metrics showing growth. The Group has had another year of operational and financial success that extends across our portfolio as well as on a regional basis, with all reported regions showing growth.

This year has seen the launch of five new products, a host of upgrades to our existing portfolio, and investments in many new systems, people and resources to continue to drive our growth strategy.

Our employee footprint, growing this year to 210, continues to expand in our High Wycombe headquarters as well as our offices in London, Los Angeles and Hong Kong, with further employees in Germany and Mexico. We are fortunate to have so many employees globally that have a real passion for music and audio; many being musicians, audio engineers, or DJs themselves using our products in real-world environments every week. It continues to be a great pleasure and privilege to help guide and lead them, and I thank them for their hard work and dedication.

OUR OPERATIONS

The Group's products are 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 select areas, a hybrid approach in North America utilising a wholesale distributor with our own demand generation team, and direct business to consumer with our own e-commerce store and in-app software purchases.

PHYSICAL PRODUCTS SOLD

900,000+

DOWNLOADS

2,000,000+

We sold approximately 900,000 physical products to end-users last year, and our music creation apps were downloaded over 2 million times with over 750,000 in-app customer transactions. Our manufacturing partners are located in South China and we use third-party logistics support.

OUR MARKET

The global audio production market remains a growth sector for technology companies like Focusrite. Our products and solutions are key components for many personal and professional audio recording customers and musicians, allowing them to focus on the creative process. Alongside that, we recognise the opportunity to continue to make audio recording technology easier to use and more accessible to a larger addressable market.

While we lead the market in many product categories, we continuously seek ways to grow our core business while also exploiting opportunities to expand into adjacent product categories that would make commercial and strategic sense for the business. Focusrite is pursuing these opportunities with organic development as well as by acquisition.

Sales of our second-generation Scarlett USB audio interface range remained strong with 15% growth, increasing in overall market share from what was already a very high position.

RedNet is well poised to help any professional or facility scale their production capability; a vital component for success as we see sweeping increases in original content production, live sound events and multi-format on-air shows.

To that end, and to ensure we focus all of our resources and energy with precision, we have refined our customer personas into five core categories. We have identified 'The New Creator', a customer who might have little or no music knowledge; the 'Passionate Maker', someone who may or may not play a traditional instrument but wants to make 'good' music; the 'Serious Aspiring Producer', for whom music is more than just a hobby; and the 'Master' and 'Facility' personas – highly skilled musicians, audio engineers, or business entities focused on audio production.

OPERATING REVIEW OF ANOTHER RECORD YEAR

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 13.7% to £75.1 million and gross margin grew from 39.9% to 42.2%, resulting in an operating profit of £11.9 million, representing year-on-year growth of 26.1%

This positive performance has been driven by a number of factors. We have witnessed a wider market acceptance and growth of share in many of our core products. New product introductions over the course of the year resonated well with customers and provided incremental lift. Likewise, customer and sales channel satisfaction feedback remains strong on existing products illustrated by our top net promoter scores ('NPS') for individual products.

Additionally, we have begun to see positive results from many of our IT-based initiatives that we funded over the year: enhanced websites, social media demand generation, and localised online experiences in markets such as Japan, Mexico and Germany.

We continue to invest in talented and passionate people across the globe to support our business in sales, marketing, customer support and product development. We now have two full-time employees in Latin America and have increased our UK, German, Hong Kong and US hires to support the business.

Throughout this year we have witnessed several events, namely ongoing Brexit negotiations and the imposition of US tariffs, that require scrutiny to ensure the business is well prepared to mitigate any possible associated effects. The Group has spent considerable time weighing options and in some instances, such as for the US tariffs, are already acting to protect the profitability of the business. We believe we are well prepared for these events and further comment is included in the section on Principal Risks and Uncertainties.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

WE ARE FOCUSED ON THREE CORE GOALS: GROWING OUR CUSTOMER BASE; INCREASING THE LIFETIME VALUE OF OUR CUSTOMERS; AND EXPANDING INTO NEW MARKET SEGMENTS.

SEGMENTAL REVIEW

Focusrite

Within Focusrite, our Scarlett, Clarett and RedNet ranges all grew, leading to total segment revenue growth of 17.2%. In each category we increased market share and experienced growth beyond the industry norms.

Sales of our second-generation Scarlett USB audio interface range remained strong with 15% growth and grew in overall market share from what was already a high market share. This product line remains the number one selling audio interface product in the world and has earned the reputation as a best-in-class, premium solution at affordable pricing. The build quality, highly-skilled Mac and Windows driver development and well thought out suite of recording software tools make this the perfect solution for the new creator and aspiring producer.

Focusrite was honoured to have won our fourth Queen's Award this year for innovation for our Scarlett Gen 2 line.

The Clarett range continues to set new price/performance standards in our mid-range interface offerings. Created for both the aspiring and professional recordist, Clarett has disrupted the market with a price to performance mix that is unparalleled in the industry. Refreshing the line with a new USB range this year, we have widened our opportunity base and have seen pleasing growth from this part of our portfolio.

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, installed sound and broadcast markets. Major broadcasters such as NBC, and Hollywood post production facilities such as Formosa Group, have started implementing RedNet into their production workflows to reap numerous benefits in efficiency, costs and productivity. RedNet is well poised to help any professional or facility scale their production capability; a vital component for success as we see sweeping increases in original content production, live sound events and on multi-format distribution on-air shows.

Novation

The Novation product line is all about the creation and production of electronic music. Electronic music and its many genres has democratised music making in a powerful way, vastly widening the net of potential music makers. Our Launchpad, Launchkey, and synthesiser product categories all experienced growth, with overall growth in this business segment of 6.4%.

Launchpad continues to be a powerful and widely accepted creation and performance tool for electronic music. We have seen a continued growth of customers purchasing Launchpad that are just starting their journey into electronic music making. This, coupled with larger penetration from online distribution channels such as Amazon, has driven demand for Launchpad and made Novation an integral part of many electronic musician's workflows.

Our Launchkey family of keyboard controllers also enjoyed year-on-year growth. With an intuitive feature-set and extensive, integrated control features with top music-making software such as Ableton Live, Launchkey delivers a set of differentiated features that appeals to many music makers and performers.

Our family of professional synthesisers complete the Novation family of products. Synthesisers have been core to the Novation brand since inception and have developed a reputation as cutting-edge instruments that add a unique pallet of sounds and colour to an artist's production. Our new flagship synthesiser, Peak, has seen widespread adoption and won numerous accolades from the industry as a true next-generation synthesiser; building on the legacy of the Novation brand and its many famous, earlier synthesiser products.

Ampify develops powerful yet brilliantly simple music creation tools for new creators. Requiring no more than an iOS device, our apps allow anyone to create amazing music tracks in a wide variety of styles. Our apps consistently rank in the top ten for music creation tools on Apple's app store and are currently included on products displayed in Apple stores worldwide. We are investing substantially in Ampify, as we aim to grow the Company's own software capability and 'leverage' software to further our ability to enable creative workflows for users at all levels.

We are extremely proud that our apps have now been downloaded over 9.5 million times and this is an indication of the strength not only of our software products but the size of the market opportunity.

Distribution

We are happy to report that revenue from this segment grew by 8.4% over the prior year. These products, such as KRK monitors and sE Electronics microphones, are a small overall proportion of Group revenue but remain important to us as they offer add-on products within the music-making industry and provide us with invaluable market feedback, insight and knowledge.

GEOGRAPHIC OVERVIEW

I am pleased to report that our success this year was global and sales in all our major regions grew. North America finished with a 10.2% rise in revenue when compared with last year. Europe, Middle East and Africa experienced 18.1% growth. Rest of World finished the year with 13.3% year-on-year growth.

North America

The US market, which accounts for approximately 41% of total Group revenue, grew by 11%. This growth was realised in all product categories. The US had a very strong first half with the holiday season showing robust sales for our more retail-oriented products such as Scarlett and Launchpad. The second half also experienced year-on-

The Group has had another year of operational and financial success that extends across our portfolio as well as on a regional basis, with all reported regions showing growth.

year growth but, as predicted, at a slower rate than the first half. We continue to invest in our US demand generation and customer support team, and have successfully moved into a new Los Angeles location to accommodate our growth.

Canada, which accounts for approximately 2% of Group revenue was flat year-on-year. We are increasing our investment into this region this coming year by utilising our demand generation teams in the US and expect to see solid growth out of the region in future.

Europe, Middle East and Africa ('EMEA')
EMEA, which represents approximately 40% of Group revenue, had a successful year with strong growth performance in all major product categories. Including the UK and mainland Europe, the region is comprised of direct resellers, distributors and our own e-store. We have offices in the UK and a team in Germany to support our European business.

Rest of the World
Within the Rest of the World region, Asia-Pacific had a good year with 19% growth. We continue to invest in people for the region and our Hong Kong office is now fully functional and integrated with our Company systems, including local and 'follow the sun' customer support.

This year was an investment year for Latin America as we made our first full-time hires for Mexico and Brazil, as well as new IT infrastructure to support localised content and transactions. These new hires came on board late in the financial year, but early signs are positive, as is feedback from our new localised customer experience. We view Latin America as an area with significant growth potential and will continue to assign resources over the course of this year.

GROWTH DRIVERS

Innovation is clearly a key focus for us and has been a key driver of growth. We continue to spend approximately 6% of revenue on R&D so as to provide a constant stream of new and relevant products for our various customer channels.

During the year we launched five new hardware products and numerous software/firmware updates to expand and enhance our product offerings. These new products are across different price segments and target different customer markets, giving us further penetration and reach. Feedback from the consumer, retailer and distribution channels continues to be positive and acceptance so far has been very pleasing.

We regularly update and enhance our offerings to improve the creative workflow, maintain world-class customer service and make our solutions easier to install and use, generating industry-leading NPS and overall customer experience statistics.

Another key part of our drive towards growth is our e-commerce store with special emphasis on markets where we see an opportunity to augment local distribution with localised content, language support and swift delivery to end-users. Currently our e-commerce business is about 1% of Group revenue. However, the e-store is also a powerful marketing tool and, in many countries, helps support the local reseller channel as well with its reseller locator features.

We continue to refine and improve the 'out-of-the-box' experience for all our customers, beginners and professionals alike. We believe that a great first experience with our products is paramount to our overall success.

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. To achieve this, we will continue to innovate, disrupt, grow our audience and help all our customers, from beginners to professionals, remove barriers from the creative process of music creation and audio recording.

There is much change in the trading environment, providing risk and some opportunity: changes in technology and new customer requirements can emerge quickly, macroeconomic and political factors affect our end customers and distributors alike and competitive pressures remain strong. We manage these factors proactively.

Last year, we had a record period pre-Christmas driven by a burst of demand for the Group's more consumer-oriented products such as Launchpad, resulting in a weighting in favour of the first half. As anticipated, trading in the first few months of this financial year has been broadly similar to the results achieved in the same period last year. The Board expects the current year to follow the Group's more usual seasonal pattern and, at this early stage, believes that Focusrite is well placed to deliver further growth for shareholders.

Tim Carroll
Chief Executive Officer

OUR STRATEGY

FACILITATING GROWTH

A RESILIENT STRATEGY FOR CONTINUED GROWTH

INITIATIVES

OUR STRATEGY IN ACTION

GROW CORE CUSTOMER BASE

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.

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 R&D is consistently around 6% 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.

INCREASE LIFETIME VALUE OF OUR CUSTOMERS

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

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 enabled audio facilities across the globe to scale and deploy audio networks in ways unimaginable just a few years ago.

EXPAND INTO NEW MARKETS

Focusrite plans for and achieves growth through investment in under-represented geographic 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.

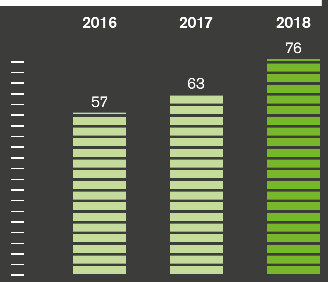
We estimate Focusrite's share of its current addressable market is approximately 20% across the combined markets for musical instruments and professional audio products. We believe that the strength of our brands and success in our core portfolios are a great foundation to enter into new segments, both 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 economic value chain of audio and music production ecosystem.

KEY PERFORMANCE INDICATORS

OBJECTIVES

R&D HEADCOUNT

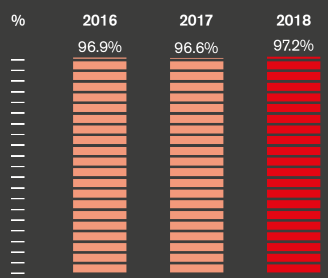
76



- Continued innovation in our core markets.
- Hardware and software solutions focused on removing barriers to creativity and allowing everyone from beginners to professionals to create the best quality audio possible.
- Across the spectrum of users, we strive to remove technical barriers and allow everyone to focus on the art of making great audio.
- Disruptive technologies that make our customers' creative endeavours easier to achieve.
- Consistently researching new technology that could enable new and enhanced workflows to better our customers' journey of creating fantastic audio.

MAKE EASY

97.2%

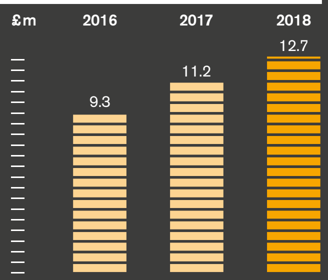


- Cross-selling solutions across our brands.
- Add-on software and content to complement the creative process.
- Focus on a connected experience across our entire portfolio.
- Participation in more of the audio recording ecosystem.

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%.

REST OF THE WORLD REVENUE

£12.7m



- Leverage current portfolio to enter new markets.
- Careful consideration of acquisitions.
- Hire employees in high-growth developing areas.
- Localised experience for customers including language, routes to purchase and events.

STRATEGY IN ACTION

INNOVATE

ENABLING CREATIVE SUCCESS

ORBITAL ON PEAK

For British dance music, there aren't many more influential acts than Orbital. As the late-'80s rave scene became a cultural phenomenon in cities all over the UK, brothers Phil and Paul Hartnoll were at the forefront. From their earliest releases to their 2018 single 'Tiny Foldable Cities', Orbital's love affair with synthesisers is obvious. Novation synths have been with Orbital throughout their career and, today, Paul Hartnoll uses Novation Peak among his huge collection of synthesisers amassed over the decades.

"Playing with Peak's distortion and gain stages is a world of discovery in itself."

PAUL HARTNOLL
Orbital

STRATEGY IN ACTION

DISRUPT

EXPANDING CREATIVE POTENTIAL

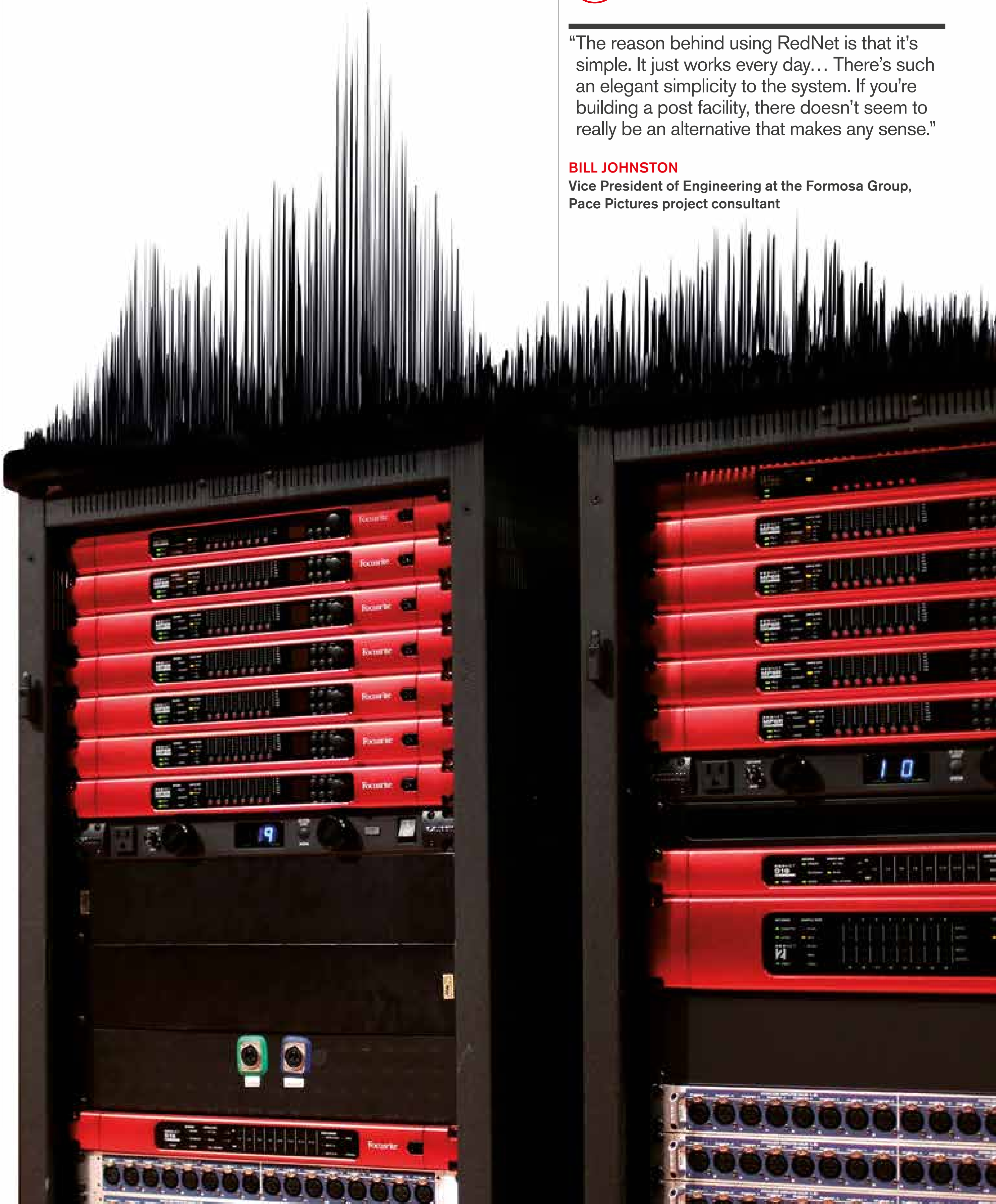
FOCUSRITE REDNET COMPONENTS EMPLOYED AT HOLLYWOOD POST PRODUCTION HOUSE PACE PICTURES

Pace Pictures has invested heavily in equipment from Focusrite Pro's Red and RedNet range of Dante™-networked audio converters and interfaces, building out its sound editorial and mixing facilities, including a Dolby Atmos stage, on a Dante audio-over-IP network backbone.

The company has completely refitted the existing floor plan and adopted an innovative on-demand business model that allows clients like Universal, Sony, Walt Disney Studios and Netflix to scale services and space up and down according to changing production needs.

"The reason behind using RedNet is that it's simple. It just works every day… There's such an elegant simplicity to the system. If you're building a post facility, there doesn't seem to really be an alternative that makes any sense."

BILL JOHNSTON
Vice President of Engineering at the Formosa Group, Pace Pictures project consultant



STRATEGY IN ACTION

EXPAND

DELIVERING CREATIVE GROWTH

LATIN AMERICA INITIATIVES

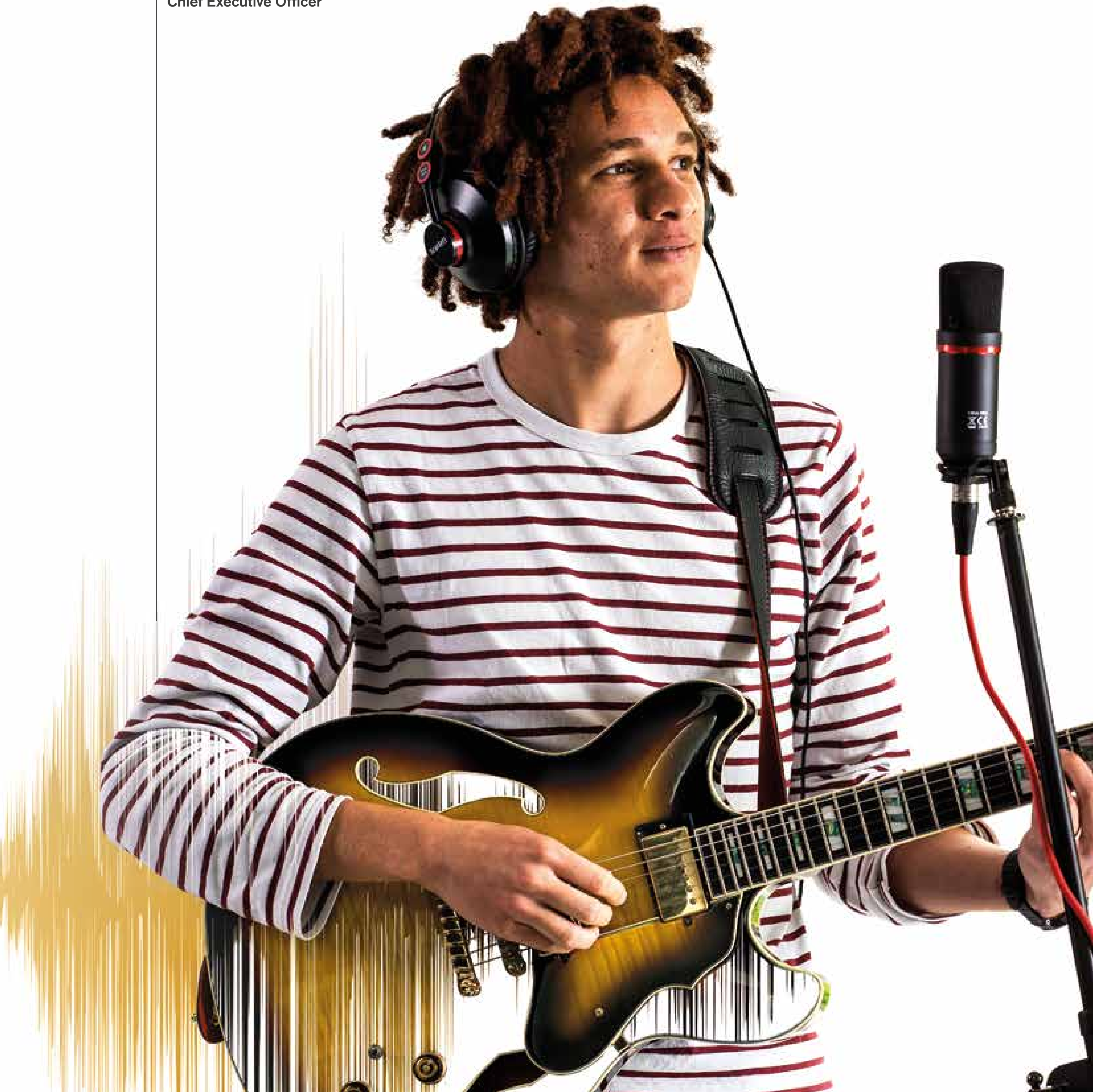
Latin America is a region historically represented by an independent contractor and where Focusrite relied entirely on the local distribution network to handle local support, marketing in local languages, and regional trade events.

As we began to execute our strategy, we concluded that Latin America was a region of substantial growth potential, but which would require a larger investment to succeed. After thorough review, our approach to expand our potential in Latin America was anchored on the following:

- Hire full-time employees in both Mexico and Brazil.
- Localise our website, marketing collateral and e-commerce stores; first for Spanish and later for Portuguese.
- Partner with a well-known e-commerce entity in Latin America for fulfilment that could handle local currency, import duties, and preferred payment methods.

"We view Latin America as an area with significant growth potential and will continue to assign resources over the course of this year."

TIM CARROLL
Chief Executive Officer



FINANCIAL REVIEW

ANOTHER GOOD YEAR

THE GROUP HAS HAD ANOTHER GOOD YEAR WITH GROWTH IN REVENUE, PROFITS, CASH AND THEREFORE, DIVIDEND

JEREMY WILSON
Chief Financial Officer

The Group has generated growth of 13.7% in revenue, growth of 18.1% in EBITDA and growth of 18.9% in adjusted diluted earnings per share ('EPS').

The Group has regularly reported longer-term growth. Since FY09, the overall revenue growth is 729%, or if you prefer, 26.4% compound; all of which has been organic.

INCOME STATEMENT

Revenue

Revenue grew 13.7% (15.3% at constant exchange rates) from £66.1 million to £75.1 million.

The Focusrite segment comprises the products used in the recording and broadcasting of music. The primary ranges are Scarlett, Clarett, Red and RedNet. All ranges grew in revenue. Scarlett, which is approximately three-quarters of the revenue in this segment, increased by 15%. As a segment, Focusrite increased by 17.2%, from £44.6 million to £52.2 million, as the Group launched further products in the Clarett and Red ranges in addition to further Scarlett second-generation growth in market share.

The Novation segment is directed towards the creation of music and consists of the Novation and Ampify brands. About half of this segment relates to the Launchpad range although the star product this year was the new synthesiser (Peak). Peak was launched in 2017 and helped our sales of synthesisers

INCOME STATEMENT

	2018 £m Adjusted	2018 £m Non-underlying	2018 £m Reported	2017 £m Adjusted	2017 £m Non-underlying	2017 £m Reported
Revenue	**75.1**	**–**	**75.1**	66.1	–	66.1
Cost of sales	**(43.4)**	**–**	**(43.4)**	(39.7)	–	(39.7)
Gross profit	**31.7**	**–**	**31.7**	26.4	–	26.4
Administrative expenses	**(20.1)**	**0.3**	**(19.8)**	(16.9)	–	(16.9)
Operating profit	**11.6**	**0.3**	**11.9**	9.5	–	9.5
Net finance income	**(0.2)**	**–**	**(0.2)**	(0.0)	–	(0.0)
Profit before tax	**11.4**	**0.3**	**11.7**	9.5	–	9.5
Income tax expense	**(1.2)**	**(0.0)**	**(1.2)**	(0.9)	–	(0.9)
Profit for the period	**10.2**	**0.3**	**10.5**	8.6	–	8.6

	2018 £m Adjusted	2018 £m Non-underlying	2018 £m Reported	2017 £m Adjusted	2017 £m Non-underlying	2017 £m Reported
Operating profit	**11.6**	**0.3**	**11.9**	9.5	–	9.5
Add – amortisation of intangible assets	**3.1**	**(0.3)**	**2.8**	2.9	–	2.9
Add – depreciation of tangible assets	**0.8**	**–**	**0.8**	0.7	–	0.7
EBITDA	**15.5**	**–**	**15.5**	13.1	–	13.1

to grow by 46%, while the bigger ranges such as Launchpad and Launchkey grew more slowly. The segment revenue was £20.1 million, up 6.4% on £18.9 million last year.

Finally, in the UK, the Group distributes products such as studio monitors and microphones manufactured by other organisations. Revenue was £2.9 million, up 8.4% from £2.6 million in 2017.

All the major regions grew. North America is 43% of the Group and grew at 10.2% (constant currency: 17%) to £32.7 million. North America is biased towards the Focusrite brands versus Novation (Focusrite is 76% of the total revenue). The growth was across all brands although Pro was the strongest, growing at 24%.

Europe represents 40% of Group revenue. Europe grew 18.1% (constant currency: 11%) to £29.7 million. Within Europe, UK was weaker, while EMEA grew more strongly. For the brands, Focusrite was strong.

The Rest of the World ('ROW') comprises mainly Asia and South America and is the remaining 17% of Group revenue. This has been a key area of investment as the Group has opened a sales and marketing office in Hong Kong and now employed a full-time regional sales manager in Mexico. ROW grew by 13.3% (constant currency: 21%) to £12.7 million. Within this region the faster growth was within Focusrite.

Exchange rates were more stable this year. In FY17, GBP weakened, which helped the result: reported revenue growth was 21.6% and constant exchange rate growth was 13%. In FY18, foreign exchange rates represented a minor headwind. In particular, the US Dollar weakened from an average of $1.27 = £1 to $1.35 = £1. Therefore, constant exchange rate revenue growth (15.3%) was stronger than reported growth (13.7%).

Furthermore the Board are aware of the possible results of the Brexit discussions and the effect that the resultant agreement will have on the Euro/GBP exchange rate. This effect would be mitigated partially by the Group's hedging arrangements: the Group aims to hedge 75% of net Euro flows in the coming financial year, and 50% in the following financial year.

Segment profit

Segment profit is disclosed in note 6 to the accounts, 'Business Segments'. For each reportable segment, Focusrite, Novation and Distribution, the revenue is compared with the directly attributable costs to create a segment profit.

The segment profit for Focusrite was £25.1 million (2017: £20.2 million). This increased by 24.2% over the prior year, driven primarily by revenue growth and higher gross margin. The segment profit for Novation was £10.1 million (2017: £9.2 million). This increased by 9.4% over the prior year. Finally, the segment profit for Distribution was £0.8 million (2017: £0.7 million).

Gross profit

While revenue grew by 13.7%, gross profit grew by 20.2% to £31.7 million. This was a function of the higher revenue and a higher gross margin. Gross margin was 42.2% (FY17: 39.9%). The significant increase in gross margin was due to the stronger Euro and closer management of customer discounts.

Administrative expenses

Administrative expenses consist of sales, marketing, operations, the uncapitalised element of R&D and central functions such as legal, finance and the Group Board. These expenses were £19.7 million, up from £16.9 million last year. Again, the major part of the growth was in sales and marketing, including the Focusrite Pro sales team, further investment in the Hong Kong office, further investment in e-commerce and marketing expenditure, especially on-line marketing.

EBITDA

EBITDA is used within the Group for two particular reasons. Firstly, it is a widely-used measure of underlying trading performance, enhancing comparability between industries. Secondly, it forms the basis of much of the incentivisation of senior management within the Group. EBITDA increased by 18.1% to £15.5 million (FY17: £13.1 million).

FINANCIAL REVIEW CONTINUED

EPS

	2018 p	2017 p	Growth %
Basic	**18.4**	15.4	19.5%
Diluted	**18.1**	14.8	22.3%
Adjusted basic	**18.0**	15.4	16.9%
Adjusted diluted	**17.6**	14.8	18.9%

BALANCE SHEET

	2018 £m	2017 £m
Non-current assets	**7.3**	6.3
Current assets		
Inventories	**11.4**	8.3
Trade and other receivables	**13.4**	13.0
Cash	**22.8**	14.2
Current liabilities	**(11.1)**	(8.7)
Non-current liabilities	**(0.4)**	(0.2)
Net assets	**43.4**	32.9

CASH FLOW

	2018 £m	2017 £m
Free cash flow[1]	**10.0**	9.4
Add – non-underlying cash outflows	**0.0**	0.1
Underlying free cash flow	**10.0**	9.5

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

Depreciation and amortisation

Depreciation is charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives, normally ranging between 2 and 5 years.

Amortisation is mainly charged on capitalised development costs, writing off the development cost over the life of the resultant product. It is intended that the costs are capitalised cautiously and amortised quickly, with all development costs related to an individual product written off over a period up to three years. In the year, the development costs capitalised were £3.0 million (FY17: £2.7 million) and the equivalent amortisation was £2.4 million (FY17: £2.8 million).

Non-underlying item

The Group has considered the amortisation of research and development intangible assets on a project-by-project basis rather than applying a standard principle across all. This change of estimation of the start date of amortisation has resulted in a single adjustment to reduce the amortisation previously charged by £0.3m and has been shown as a non-underlying item in FY18. There were no non-underlying items in FY17.

Foreign exchange and hedging

The exchange rates have been more consistent in the last financial year.

Exchange rates	2018	2017
Average		
USD:GBP	**1.35**	1.27
EUR:GBP	**1.13**	1.16
Year end		
USD:GBP	**1.30**	1.29
EUR:GBP	**1.12**	1.09

The average US Dollar rate has weakened from $1.27 to $1.35. The US Dollar accounts for approximately 60% of Group revenue so this reduces the revenue growth. However, the Group also buys product in US Dollars and has some US Dollar operating costs so there is a natural hedge. Therefore, the US Dollar weakening reduced revenue but had little effect on gross profit.

The Euro comprises approximately a quarter of revenue but little cost. The Group enters into forward contracts to convert Euro to GBP. In FY17, approximately three-quarters of Euro flows were hedged at €1.28, thereby creating a blended exchange rate of approximately €1.26. In FY18, the equivalent hedging contracts were at €1.12, being very close to the transactional rate of €1.13 and so creating a blended exchange rate of €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.

The major part of the balance within financing costs was the cumulative foreign exchange loss on the translation of cash held in US Dollars.

REVENUE

£75.1m

+13.7%

DILUTED EPS

17.6p

+18.9%

NET CASH

£22.8m

+60.9%

Corporation tax

Corporation tax as a proportion of profit before tax was 10.3% (FY17: 10.1%). The major part of the Group's profits are taxed in UK, where the headline rate is 19%. The effective tax rate is lower than this headline rate, due largely to enhanced tax relief on R&D costs.

Earnings per share ('EPS')

The basic EPS for the year was 18.4 pence, up 19.5% from 15.4 pence in FY17. This rise was driven largely by the rise in profit, but also included the impact of a non-underlying item in FY18. The more comparable measure, excluding non-underlying items and including the dilutive effect of share options, is adjusted diluted EPS. This was 17.6 pence, up 18.9% from 14.8 pence in FY17.

BALANCE SHEET

Non-current assets

The non-current assets comprise mainly capitalised development costs; property, plant and equipment; and software. Approximately 70% of development costs are capitalised and they are amortised over three years. This policy is unchanged from last year.

Working capital

Working capital was stable at 18.2% of revenue (FY17: 19.1%). Experience over the four years since the IPO suggests that this is an appropriate level. If the working capital is closer to 25% of revenue, the cash generation is reduced and there is likely to be too much stock. If the working capital falls closer to 15% of revenue, it is likely that some stock may be running low.

The improved business practices around stock have been maintained. Stock was increased from £8.3 million to £11.4 million. The majority of this increase was to support the increase in demand.

Customers continue to pay essentially on time with only 5% of customer debts overdue at the year end. Finally, suppliers are paid on time.

CASH FLOW

The total cash balance year end was £22.8 million, up from £19.7 million at the half year and £14.2 million at 31 August 2017. There was no debt in either year. The movement in working capital was a small outflow of £0.4 million (FY17: inflow of £0.4 million). Given that revenue increased by £9.1 million, the movement in working capital was very low. If working capital is approximately 20% of revenue, then barring any extenuating circumstances, it would be reasonable for the movement in working capital to be an outflow of 20% of the increase in revenue, so the movement in working capital this year is a positive result. Free cash flow was again strong, at £10.0 million (FY17: £9.4 million), which represented 13.3% of revenue (FY17: 14.3%). Since IPO, the average free cash flow as a percentage of revenue has been 9.9%. Finally, the Group has a committed five-year £10 million revolving credit facility with HSBC, expiring in December 2020.

DIVIDEND

The Board is proposing a final dividend of 2.3 pence per share (FY17 final dividend: 1.95 pence), which would result in a total of 3.3 pence per share for the year (FY17: 2.7 pence). This represents a dividend cover of 5.3 times adjusted earnings (FY17: 5.5 times) and moves the Group closer to its stated target of 5 times.

SUMMARY

The Group has had another strong year with growth across revenue, profits, cash and dividend. Revenue has grown by 13.7%, EBITDA by 18.1%, adjusted operating profit by 22.6% and adjusted diluted EPS by 18.9%. In addition, the free cash flow has been strong and the cash balance has been increased from £14.2 million to £22.8 million. The strategy is clear and we press on.

Jeremy Wilson
Chief Financial Officer
20 November 2018

PRINCIPAL RISKS AND UNCERTAINTIES

RISK CONSCIOUS

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 the retail environment with products being sold to consumer end-user musicians. Such operations are influenced by global and national economic factors.	The Group sells products at all levels of the market in c.160 territories worldwide via two distinct product categories and is working to reduce reliance on any single product or territory.
MACRO-ECONOMIC CHANGES AFFECTING THE EASE AND COST OF MOVING STOCK BETWEEN COUNTRIES	The impact of the decision to exit the European Union remains uncertain. There has already been foreign exchange volatility. It is probable that the UK will not be part of the customs union and the Group anticipates the imposition of some additional duties and minor disruption to the logistics network. In September 2018 the USA implemented tariffs of 10% (potentially rising to 25% in January 2019) on the importing of most products manufactured in China. The Group has product manufactured in China, so selling product in the US will become more expensive.	The Group is positioning itself to be able to react to the uncertainties faced by the business. The Group has previously increased selling prices in the UK to correct the imbalance caused by the significant foreign exchange rate changes, and will continue to monitor other possible effects of Brexit and act accordingly as they become known. The Group has increased the minimum advertised price to cover the additional tariffs. This provides a possible upside from the higher price charged but an uncertainty regarding the effect of the higher price on consumer demand.
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.	R&D remains one of the Group's largest investments. The Group has a bespoke project system that facilitates the operation of 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 Group continuously seeks efficiencies and minimises costs where possible.
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 has supply agreements with four major Chinese manufacturers. The Group works with its resellers and distributors to ensure they are holding sufficient stock levels should there be disruption to the supply chain. Relationships are long-lasting and strong. Members of the operations department within Focusrite meet each supplier three to four times per year to review performance and costs.

RISK AREA	DESCRIPTION	MITIGATION
KEY RESELLERS AND DISTRIBUTORS	In certain countries, including the USA, 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, the Group also communicates 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
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 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 attract, retrain and motivate such individuals.	The Group is a leading company in the UK music industry and so attracts high-quality technical personnel. The Group also attracts graduates from music technology, electronics and engineering courses at renowned universities. The Group invests in developing its employees and incentivises them through 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 established a programme for protecting its intellectual property and pursues infringements. 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.
INFORMATION SECURITY	Information security and cyberthreats 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 including cybersecurity (firewalls, anti-virus, mobile device management) and the implementation of backup and disaster recovery processes. The Group has moved core enterprise resource planning systems to the cloud with robust service level agreements in place to ensure data availability and security. The Group implemented a customer relationship management system to ensure GDPR compliance. There is an improving business continuity framework and a dedicated internal IT support team aided by external support providers.

CORPORATE SOCIAL RESPONSIBILITY

COMMITTED TO ACTING RESPONSIBLY

We have a duty to maintain the trust of our end-users, 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 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 in which our staff are involved.

IMPACT ON SOCIETY

Focusrite carefully considers its social impact at both the local and global level. 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 employs up to ten third-year undergraduate interns, providing them with a year of intense work experience on full pay. 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. Visits occur once every three months, checking on compliance issues, manufacturing control and general relationship management.

Embracing diversity is one of the keys to our future success. As a music technology industry leader, we have a responsibility to promote diversity. Most notable is the current bias towards men, both in our own organisation and the wider audio industry. To address this bias, we have created a 'Women in Audio' Committee, focused on driving initiatives such as using gender-balanced imagery across all communications, recruitment initiatives that address a more gender-balanced community, as well as supporting non-profit groups committed to the same cause, supporting them financially and with the commitment of time from our employees.

Our philanthropic activities focus on registered charities without political or religious affiliation, with a common purpose to enrich lives through music. We divide our attention between supporting global initiatives, local community initiatives and supporting our employees in their own charitable endeavours by, for example, matching employee fundraising.

It is Focusrite's vision to create a world for everyone and anyone to enjoy making music.

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; the second being the environmental impact of Focusrite's products.

In terms of lowering the environmental impact of the corporation there are a number of policies that have been introduced. To help lower the carbon footprint of our employees, Focusrite continues to support the government 'cycle to work' scheme, with 15% of UK-based staff participating. Employees are also encouraged to carpool routinely.

In terms of waste, Focusrite is registered for Waste Electrical and Electronic Equipment and 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, replacing these with rechargeable batteries, as well as switching to biodegradable bubble wrap and recyclable jiffy bags.

Focusrite continues to conduct and promote video conferencing for international meetings, resulting in a reduction in the number of international flights undertaken by employees.

The packaging for Focusrite products is developed with a continued commitment to minimise environmental impact. As an example, Focusrite is substituting the use of expanded polyethylene foam with moulded recycled pulp paper. We also strive to reduce the overall size of our packaged products and improve the efficiency of logistics, ultimately decreasing the CO_2 footprint of our shipping requirements, end to end.

All Focusrite products which rely on mains power comply with all current efficiency directives.

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.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

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. The initiatives of our vendors include reducing energy and water consumption and the reduction of waste through recycling, solar power and rain water collection, among others. We continue to work with our vendors to improve in all these areas. 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. 2018 saw the creation of an official sustainability working group within this organisation.

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 Executive Directors or Operations Board members 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) five 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.

Increasingly, we're working hard to find ways to bolster our team's passion for music and its power to do good in this world, with events to help employees engage with music in new and exciting ways.

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. This assessment process has been enhanced over the last year.

The Group has a comprehensive documented Health and Safety Policy in place which is regularly reviewed by the Compliance Committee.

The Group has implemented a Whistleblowing Policy. All employees are clear that they are able to contact the Chairman, Chief Executive Officer or any 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 products for end-users 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 bidirectional line of communication with swift response rates has helped to grow Focusrite's social media channels. With paid advertising on social media kept relatively low, investments are made instead in the generation of relevant inspirational content that the community shares organically. Social media channels include Facebook, Twitter, Instagram, YouTube and LinkedIn.

Both the Focusrite and Novation brands have worldwide recognition as being class-leading. With over 30 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.

ACCESSIBILITY

It is Focusrite's vision to create a world for everyone and anyone to enjoy making music. An accessibility steering group with representatives from across the business was created in 2017 to ensure that we are focused on the 'everybody' and 'anybody' element of this vision. Ensuring that accessibility considerations are a fundamental part of our product design process and considered across all customer touchpoints.

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

20 November 2018

BOARD OF DIRECTORS

03.1989 APPOINTED

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.

01.2017 APPOINTED

TIMOTHY CARROLL
CHIEF EXECUTIVE OFFICER

Tim was appointed Chief Executive Officer of Focusrite in January 2017. Previously, he was Vice President 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.

09.2014 APPOINTED

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) Ltd and Electrocomponents Plc. He qualified as a Chartered Accountant at KPMG in 1992.

12.2014 APPOINTED

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. David qualified as a Chartered Accountant with Arthur Andersen & Co. in 1984. Until October 2018 he was also a Non-executive Director and Chairman of the Remuneration Committee of Harvey Nash Group plc.

12.2014 APPOINTED

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.

05.2018 APPOINTED

NAOMI CLIMER CBE

INDEPENDENT NON-EXECUTIVE DIRECTOR

Naomi joined the Board of Focusrite in May 2018 bringing with her experience from a career in technology, media, engineering and science. Until March 2015, she was the President of Sony's Media Cloud Services based in Los Angeles. Prior to this, she was Vice President of Sony's B2B organisation across Europe covering diverse markets including media, broadcast, cinema, sports, security and healthcare. She currently holds a number of prestigious positions including: Trustee at the Royal Academy of Engineering; Non-executive Director of Sony UK Technology Centre; Chair of Council at the International Broadcasting Convention, Co-Chair of the Institute for the Future of Work; and she is also a member of the UK government's Science and Technology Awards Committee.

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 nearly 100 years. It is this team that has generated the strong growth over the last decade and it signals significant strength and depth within the Group.

FROM LEFT TO RIGHT
Tim Dingley, Jeremy Wilson, Phil Dudderidge, Damian Hawley, Tim Carroll, Simon Holt, Giles Orford

CORPORATE GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION

I am pleased to introduce this Corporate Governance Report. Focusrite has continued to grow during the year and, as we have expanded, so has the Board.

The appointment in May 2018 of Naomi Climer brings complementary and relevant business experience from a number of related markets and an impressive skill set in technology, engineering and media, and we are delighted to welcome her to the Board.

During the year, your Board has paid particular attention to ensuring that our strategy of innovation and expansion continues to underpin our growth and we remain committed to making music easier for professionals and amateurs alike. Our entrepreneurial and talented team, many of whom are musicians, has continued to provide the bedrock of future success through their skill and commitment.

The Directors recognise the value of strong and effective corporate governance and the Company has therefore complied, as far as it is appropriate to do so, with the Corporate Governance Code for Small and Mid-sized Quoted Companies published by the Quoted Companies Alliance in 2013 (the 'QCA Code'), in respect of the accounting year ended 31 August 2018. In the accounting year ended 31 August 2019 the Directors intend to apply the 2018 QCA Code, before transitioning to comply with the provisions of the UK Corporate Governance Code.

The Directors have structured this report around the main principles of the Code in order to provide greater clarity of the governance framework adopted by the Group.

The purpose of this statement is to describe what the Board does and how it facilitates effective, entrepreneurial and prudent management with the aim of delivering the long-term success of the Group.

I look forward to welcoming you to our Annual General Meeting ('AGM') on Friday 21 December 2018.

Philip Dudderidge
Executive Chairman

LEADERSHIP

The role of the Board and division of responsibilities

The Board comprises six Directors of whom three are Executives and three are Non-executives. This reflects a blend of different experience and backgrounds. The Board considers the three Non-executive Directors to be independent. Biographical details of all the Directors at the date of this report are set out on pages 30 and 31.

The Board relies on the executive management to run the business and monitor management activities and holds them accountable against measurable targets. The Board also approves the long-term corporate and strategic plans following a thorough review of market trends, business drivers and key risks. 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. The Operations Board comprises the three Executive Directors and seven members of senior management.

The Non-executive Directors provide independent challenge and review, bringing wide experience, specific expertise and a fresh, objective perspective to the Board's discussions. The Board has determined that all the Non-executive Directors are independent in character and judgement in compliance with the Code. The Board has not to date appointed one of the Non-executive Directors as the Senior Independent Director, however all of the Non-executive Directors would be available to discuss shareholders' concerns in addition to the normal channels of the Chairman, Chief Executive Officer and Chief Financial Officer.

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.

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

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

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Number	Attended	Number	Attended	Number	Attended	Number	Attended
Tim Carroll	11	11	–	–	–	–	–	–
Jeremy Wilson	11	11	–	–	–	–	–	–
Phil Dudderidge	11	11	–	–	–	–	4	4
Naomi Climer (appointed 29.05.18)	3	3	1	1	1	1	1	1
David Bezem	11	11	3	3	3	3	4	4
Paul Dean	11	11	3	3	3	3	4	4

Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are separate. The Chairman manages the Board, leads Board meetings and has responsibility for the Board's overall effectiveness, safeguarding governance and succession planning. The Chief Executive Officer 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, internal risk management controls and organisational structure. 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.

To enable the Board and its Committees to discharge their responsibilities, the Directors receive appropriate and timely information. Directors receiving briefing papers 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.

Board activity

The Board ensures that good governance practices are embedded throughout the Company as this is seen as an integral part of running a successful business. Board agendas are carefully planned to ensure that there is sufficient focus on key strategic priorities and monitoring activities. During the financial year ended 31 August 2018, the Board regularly reviewed the performance of the business to satisfy itself that management was on track to deliver the strategic plan. The Board also concentrated on formulating a proactive Brexit strategy as well as considering the trading challenges posed by the import tariffs recently announced in the USA. The Board continued to engage with shareholders on governance, remuneration and trading during the year.

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 contributions can be included in the wider Board discussion.

Internal control and risk management

The Board is responsible for the Group's systems of internal controls and, together with the Audit Committee, for 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.

EFFECTIVENESS

The Non-executive Directors play an important governance role in the detailed work they carry out on behalf of the Board. 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.

The General Counsel and Company Secretary support the Committee Chairs in making sure that members are equipped for informed decision-making and that they are able to allocate sufficient time to the discharge their respective Committee responsibilities.

The Board has satisfied itself that at least one member of the Audit Committee, Paul Dean, has recent and relevant financial experience and is confident that the collective experience of its members enables it to be effective. The Audit Committee also has access to the wider financial expertise of the business as well as the external auditor and can seek further professional advice at the Company's expense if required.

CORPORATE GOVERNANCE REPORT CONTINUED

Board evaluation

During 2017, the Nomination Committee undertook a formal evaluation of the Board in accordance with the provisions of the Code. The Company Secretary, on behalf of the Chair of the Nomination Committee, circulated a comprehensive questionnaire to members of the Board covering all issues relating to the effective running of the Board. The responses were consolidated and anonymised, and common themes identified in order for the Board to determine key actions and next steps for improving Board effectiveness.

The main recommendation following the review was to start the process of recruiting a third Non-executive Director. On 29 May 2018, the Company announced the appointment of Ms Naomi Climer as an independent Non-executive Director of the Company with immediate effect. Ms Climer's appointment followed a rigorous and independent selection process conducted in accordance with the Code. The Nomination Committee lead the process, developed a job specification, and appointed Odgers Berndtson as an independent search and recruitment agency. Odgers assisted the Committee with the evaluation of Ms Climer against the job specification and determined that she was well qualified to perform the role. Ms Climer's appointment was approved by the full Board following interviews with all Directors.

Following Ms Climer's appointment, the Board is of the view that its composition as constituted is appropriate given the size and scale of the business. This will be kept under review.

Training and 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, 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.

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 three independent Directors and Phil Dudderidge. The Committee is chaired by David Bezem.

The Nomination Committee's terms of reference require it to meet formally at least once a year and at such other times as the Chair of the Committee shall require. As noted above, the Committee's principal activity during the year was to oversee the appointment and subsequent induction of Naomi Climer.

Re-election of Directors

The Company's Articles of Association 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, the Company's practice is that all Directors should be subject to annual election by shareholders.

ACCOUNTABILITY

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities, within agreed terms of reference, with regard to corporate governance, financial reporting, 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 reviews of going concern, judgements and significant accounting policies. The Committee's work also includes the appointment of the external auditor, the approval of their audit plan and fees, reviewing and monitoring the extent of the non-audit services undertaken by the external auditor. Additionally, the Audit Committee reviews the effectiveness of the Group's internal controls and risk management systems.

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 three independent Directors under the leadership of Paul Dean. The Audit Committee's terms of reference require it to meet formally at least twice a year and otherwise as required.

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, the Audit Committee has agreed a formal policy for the provision of audit and non-audit services, ensuring that there is appropriate high-level authorisation before the auditor is engaged in providing a material non-audit service.

The Audit Committee reviews annually the overall performance and the independence of the external auditor 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, taxation services and financial due diligence work.

A summary of the Audit Committee's key activities during the year under review may be found on pages 38 to 39.

REMUNERATION

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 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 three independent Directors and David Bezem chairs the Committee. The Remuneration Committee's terms of reference require it to meet at least once a year and at such other times as the Chair of the Committee shall require.

A summary of the Remuneration Committee's key activities during the year under review may be found on pages 42 to 46.

RELATIONS WITH SHAREHOLDERS

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.

AUDIT COMMITTEE REPORT

DEAR SHAREHOLDER,

On behalf of the Board, I am pleased to present the Audit Committee report for the year ending 31 August 2018.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes monitoring the integrity of the financial statements (including annual and interim accounts and results announcements), reviewing internal control and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by the external auditor, advising on the appointment of the external auditor and meeting with the external auditor outside the Committee schedule to ensure there is full opportunity for discussion.

MEMBERS OF THE AUDIT COMMITTEE

The Committee consists of three independent Non-executive Directors: Paul Dean (as Chair), David Bezem and Naomi Climer. Phil Dudderidge, Tim Carroll and Jeremy Wilson may attend Committee meetings by invitation if required. The Committee met three times during the year.

The Board is satisfied that I, as Chair of the Committee, have recent and relevant financial experience. I am a chartered management accountant and I have served as Chief Financial Officer in a number of listed companies. I am currently Chair of the Audit Committees of Porvair Plc, Polypipe Group Plc and Wincanton Plc. A representative from Prism Cosec Limited acts as Secretary to the Committee. I report the Committee's deliberations at the next Board meeting and the minutes of each meeting are made available to all members of the Board.

DUTIES

The main duties of the Audit Committee are set out in its terms of reference, which are available on the Company's website (www.focusriteplc.com) and are available on request from the Company Secretary.

The main items of business considered by the Audit Committee during the year included:

- appointment of the external auditor;
- agreement and approval of the external audit plan and fees;
- monitoring the extent of the non-audit services undertaken by the external auditor;
- review of the effectiveness of internal controls and risk management systems;
- reviews of going concern, key judgements and significant accounting policies;
- review and approval of the interim results and dividend;
- review of the auditor's findings from the annual audit including consideration of the external audit report and management representation letter;
- review of the annual financial statements and Annual Report;
- meeting with the external auditor without management present;
- assessment of the need for an internal audit function and review of the internal audit reports and programme;
- review of the IT position of the Group with particular regard to GDPR and cybersecurity.

ROLE OF THE EXTERNAL AUDITOR

The Audit Committee monitors the relationship with the external auditor, KPMG LLP, to ensure that auditor independence and objectivity are maintained. As part of its review, the Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in note 8 of the Group's financial statements.

The Audit Committee also assesses the external auditor's independence and performance. KPMG LLP has complied with the partner rotation requirement set out in Ethical Standards for Auditors. The most recent rotation took place this year with Michael Froom becoming our audit partner. Having reviewed the external auditor's independence and performance, the Audit Committee recommends that KPMG LLP be reappointed as the Company's external auditor at the next AGM.

SIGNIFICANT FINANCIAL REPORTING RISK, JUDGEMENT AND ESTIMATES

The significant risk reviewed by the Committee in respect of the year under review was as follows:

Provisions against inventory

The Committee reviewed the carrying amount of the Group's finished goods inventory and management's assessment and recognition of the appropriate level of provisioning against slow-moving and obsolete items.

The significant judgement reviewed by the Committee in respect of the year under review was as follows:

Revenue recognition

The Committee reviewed the circumstances around the imposition of import tariffs on goods entering the USA from September 2018. The Management decided to increase the Minimum Advertised Price at which goods are sold to consumers in USA to cover the increased import tariff. The Committee were satisfied that, as the tariffs had been implemented post the financial year end and the decision to increase Minimum Advertised Prices had also been taken after the financial year end, the financial effect of the changes was a non-adjusting post-balance sheet event.

The significant estimates reviewed by the Committee in respect of the year under review were as follows:

Revenue recognition

The Committee, recognising that, on occasion, credit notes are issued in a period following the sale of product, considered the estimation of the required credit note reserve. The credit note reserve needed to cover items such as warranty claims, retrospective rebates or other post-sale claims that resellers might have on the Group. The Committee members were satisfied that Management had reviewed the calculations thoroughly and accepted the estimate of the credit note reserve.

Recoverability of internally-generated intangible asset

The Committee accepted that, under IAS 38, it was necessary to capitalise product development costs if certain conditions were met. The Committee considered the capitalisation of cost and the period over which the costs were amortised and concluded that both were acceptable. In addition, the Committee examined the amortisation commencement policy and decided that the start of the amortisation should be specific to each project, rather than applying a general policy. When calculated, this highlighted that a reduction in the accumulated amortisation charge was appropriate, and the adjustment has been made within non-underlying items, as disclosed in note 13.

Allowance for doubtful debts

The Committee questioned Management on the processes by which customers were given credit. Management also confirmed that credit insurance is held to reduce the risk of a significant financial cost should one of the customers fail to pay. Management calculated a provision for doubtful debts taking into account the payment performance of the customers, the insurance cover and the ageing profile of the debtors. The Committee were satisfied that the provision was appropriate.

Litigation and claims

The Committee considered updates given by the Executive members of the Group Board on litigation and claims. There had been one possible claim in the prior year, in respect of which the Group had reached an agreement. Additionally, there had been a new claim from a different party. The Committee were satisfied that the management team, whilst disputing the claim vigorously, had provided sensibly.

AUDIT PROCESS

The external auditor prepares an audit plan for its review of the full-year financial statements. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Audit Committee. Following its review, the external auditor presented its findings to the Audit Committee for discussion. No major areas of concern were highlighted by the external auditor during the year. However, areas of significant risk and other matters of audit relevance are regularly communicated. The Committee also formally reviews the effectiveness of the external audit process.

INTERNAL AUDIT

At present, the Group does not have a dedicated internal audit function and the Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management procedures without one. However, central finance staff undertook a number of reviews during the year of the US operation, and a review of the Netsuite system implemented in September 2017 and used for the recording of financial transactions and from which the financial reporting is produced. In addition, during the year, the Committee commissioned an internal audit review by Saffery Champness LLP. The review tested the systems and internal controls within the main transactional processes including sales, stock purchases, expenses, salary payments and bank reconciliations. There were some recommendations made and these have been incorporated in full.

RISK MANAGEMENT AND INTERNAL CONTROLS

As described on page 35 of the Corporate Governance Report, the Group has established a framework of risk management and internal control systems, policies and procedures. The Audit Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. During the year, the Committee has reviewed the framework and the Committee is satisfied that the internal control systems in place are currently operating effectively.

WHISTLEBLOWING, FRAUD AND THE UK BRIBERY ACT

The Group has in place a Whistleblowing Policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Whistleblowing is a standing item on the Audit Committee's agenda, and regular updates are provided. During the year, no incidents were reported to the Committee.

The Group also has a procedure in place for detecting fraud, and systems and controls to prevent a breach of anti-bribery legislation. The Group Finance Manual sets out the procedures to which employees must adhere and is aimed at reducing the risk of fraud occurring. The Group is committed to a zero-tolerance position with regard to bribery. During the year, no incidents were reported to the Committee.

Paul Dean
Audit Committee Chairman
20 November 2018

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 AUGUST 2018

The Directors present their report for the year ended 31 August 2018 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 29 which is incorporated into this report by reference together with the Corporate Governance Report on pages 34 to 37. 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 45 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 53. During the year the Directors approved the payment of an interim dividend of 1.0 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 2.3 pence should be paid. This dividend recommendation shall be put to the shareholders to vote on at the AGM to be held on 21 December 2018.

DIRECTORS

During the year, Naomi Climer joined the Board as an independent Non-executive Director. As noted in the Corporate Governance Report, at the AGM to be held on 21 December 2018 all Directors will be subject to annual election by shareholders. Directors' biographical details are set out on pages 30 to 31.

The Executive Directors have service contracts in place with a six-month notice period. Paul Dean and David Bezem were appointed Non-executive Directors of the Group for an initial period of three years from the IPO in December 2014. Their appointments were extended for a further period of three years from the date of their re-election at the AGM held on 10 January 2018. Naomi Climer was appointed a Non-executive Director on 25 May 2018 for an initial period of three years. Details of each Director's contractual arrangements, including notice periods, are included as part of the Directors' Remuneration Report on pages 42 to 46 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
J Wilson
D Bezem
P Dean
N Climer (appointed 25 May 2018)

DIRECTORS' INTERESTS

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 employment contracts between each Executive Director and the Group. The Group has purchased and maintained throughout the year Directors' and officers' liability insurance in respect of all Group companies.

The number of ordinary shares of the Company in which the Directors were beneficially interested at 31 August 2018 is set out below:

	0.1p ordinary shares as at 31 August 2018	**Outstanding options over shares as at 31 August 2018**	0.1p ordinary shares as at 31 August 2017
Philip Dudderidge	**22,249,000**	**Nil**	30,249,000
Tim Carroll	**4,750**	**70,176**	Nil
Jeremy Wilson	**137,266**	**322,731**	31,746
David Bezem	**7,937**	**Nil**	7,937
Paul Dean	**7,937**	**Nil**	7,937
Naomi Climer	**Nil**	**Nil**	Nil

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, was 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: 58,111,639 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 TRANSFER OF SHARES

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

MAJOR INTERESTS IN SHARES

As at 31 August 2018, 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 2018	% voting rights as at 31 August 2018
Philip Dudderidge and family	**22,249,000**	38.29%
Canaccord Genuity Group Inc	**6,947,241**	11.95%
Charles Stanley & Co Limited	**6,205,085**	10.07%
Schroder Investment Management Limited	**4,570,000**	7.86%
Liontrust Investment Partners LLP	**3,306,268**	5.69%
SG Securities	**2,225,000**	3.83%

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 31 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. The R&D costs expensed in the period were £1,524,000 (2017: £1,120,000).

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 29. 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 they are aware, there is no relevant audit information of which the Company's auditor is unaware and they have taken all the reasonable steps that they ought to have taken as a Director to make themselves 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 20 November 2018.

Signed on behalf of the Board.

Jeremy Wilson
Chief Financial Officer
20 November 2018

Focusrite Plc
Windsor House
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 2018. The Group has had another strong year with both profits and cash generation exceeding budget and the targets set by the Remuneration Committee.

This is reflected in the annual bonus awards which have been made as set out below. The Committee believes that the structure of the remuneration arrangements has worked well in aligning executives' and shareholders' interests and is not making any significant changes to these in the 2019 financial year. No significant changes are being made to the quantum of the Executive Directors' remuneration in the 2019 financial year either. However, it is intended to carry out a benchmarking review in early 2019 as the last such review was conducted in 2015 in order to guide the Remuneration Committee in its future decision making.

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) (Amendment) Regulations 2013 (the 'Regulations'), the Company has used these Regulations as guidance for presenting selected disclosures. Accordingly, this Report sets out information about the remuneration of the Directors of the Company for the year ended 31 August 2018 and, as appropriate, the following year.

REMUNERATION COMMITTEE

The members of the Remuneration Committee are David Bezem (Chairman), Paul Dean and Naomi Climer, who are the independent Non-executive Directors. Attendance at meetings of the Remuneration Committee by individual member is detailed in the Corporate Governance Report on page 35.

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.

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. Phil Dudderidge's, Tim Carroll's and Jeremy Wilson's base salaries for the year ended 31 August 2018 were increased by 2% over their base salaries in the preceding financial year. Their base salaries are also being increased by 2% for the financial year ending 31 August 2019.

The details of the Executive Directors' base salaries for the 2018 financial year are set out in the table on page 46.

PERFORMANCE-RELATED ANNUAL BONUS

Tim Carroll and Jeremy Wilson were awarded a performance based discretionary annual bonus for the financial year ended 31 August 2018. Phil Dudderidge does not receive an annual bonus. For both Tim Carroll and Jeremy Wilson the bonus was based on two performance criteria, 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 performance criteria operated independently of one another.

The maximum cash bonus for both Tim Carroll and Jeremy Wilson was set at 100% of annual base salary. In addition, as part of the importance placed by the Company on share ownership, Tim Carroll and Jeremy Wilson had the opportunity to elect to 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 2018, Tim Carroll and Jeremy Wilson were awarded the maximum cash bonus to which they were entitled. The table shows the upper and lower performance boundaries, the targets and the actual bonuses achieved before taking account of elections to receive a portion in shares:

		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			
	Performance criterion	Lower boundary	Target	Upper boundary	Actual
Tim Carroll	EBITDA	£13.1m	£14.3m	£15.1m	£15.5m
	Cash bonus entitlement	£0	£92,106	£153,510	£153,510
	% salary	0%	42%	70%	70%
	Year-end cash balance	£14.2m	£19.0m	£22.2m	£22.8m
	Cash bonus entitlement	£0	£39,474	£65,790	£65,790
	% salary	0%	18%	30%	30%
	Total cash bonus	**£0**	**£131,580**	**£219,300**	**£219,300**[1]
Jeremy Wilson	EBITDA	£13.1m	£14.3m	£15.1m	£15.5m
	Cash bonus entitlement	£0	£73,584	£122,640	£122,640
	% salary	0%	42%	70%	70%
	Year-end cash balance	£14.2m	£19.0m	£22.2m	£22.8m
	Cash bonus entitlement	£0	£31,536	£52,560	£52,560
	% salary	0%	18%	30%	30%
	Total cash bonus	**£0**	**£105,120**	**£175,200**	**£175,200**[1]

1 Tim Carroll and Jeremy Wilson have elected to take an amount equivalent to 15% 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 2019, a similar structure is being adopted other than the proportion of the bonus opportunity represented by the year-end cash target is being reduced to 20% and a strategic target representing 10% is being introduced for both Tim Carroll and Jeremy Wilson. The details of the bonus targets for the 2019 financial year will be set out in next year's Annual Report to the extent they are not commercially sensitive.

DIRECTORS' REMUNERATION REPORT CONTINUED

LONG-TERM INCENTIVE PLANS

Awards vesting following the end of the 2018 financial year

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 second of these tranches has now reached the end of its performance period and 80,345 shares, representing 60.3% 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:

Vesting criteria	Three years to	31 August 2017	31 August 2018	31 August 2019
	EPS CAGR[1]	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 133,334
	Exercise price	14.6p	14.6p	14.6p
	Vesting (%)	68.5%	60.3%	TBC
	Shares vesting	91,295	80,345	TBC

1 Compound Annual Growth Rate.

Three-year share awards made to other senior management, known as the Operations Board, under the Company's Performance Share Plan ('PSP') in 2015 have also reached the end of their performance period and are due to vest on 22 November 2018 resulting in the grant of 57,513 shares in total. These will also be satisfied out of the EBT.

Awards made during the 2018 financial year

Awards under the PSP were made to Tim Carroll and Jeremy Wilson following the announcement of results for the 2017 financial year. Details of these awards are set out in the table below:

Vesting criteria		
Performance period		To FY20
Three-year EPS CAGR[1]		10% to 18% or greater
Proportion of award vesting		20% to 100%
Exercise price		0.1p
Tim Carroll	Number of options granted	70,176
Jeremy Wilson	Number of options granted	56,064

1 Compound Annual Growth Rate.

Awards to be made in the 2019 financial year

Following the announcement of results in respect of the 2018 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 2021 financial year. These awards are worth a maximum of 100% of base salary at the time of grant and the vesting criteria are unchanged from those set for the awards made last year.

Long-term incentives for other employees

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 was introduced in the 2018 financial year for the benefit of employees other than the CEO, CFO and the members of the Operations Board. This scheme operates 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 options awarded in the 2018 financial year under this new scheme was 634,330.

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, potential net dilution and actual dilution as at 31 August 2018:

Plan	Maximum number of shares relating to award	% of issued share capital
Jeremy Wilson LTIP	266,667	0.46%
Group Board PSP	126,240	0.22%
Senior management PSP	147,987	0.25%
Other general employee share option plans	1,428,220	2.45%
Options outstanding at end of period	1,969,114	3.38%
Less: issued shares held in EBT[1]	(1,159,021)	(1.99%)
Potential net dilution	810,093	1.39%
Actual dilution[2]	36,639	0.07%
Total actual and potential net dilution	846,732	1.46%

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.
2 Actual dilution in respect of FY17 bonus shares issued to Tim Carroll and Jeremy Wilson.

PENSION CONTRIBUTIONS

In the year ended 31 August 2018, Tim Carroll and Jeremy Wilson were entitled to pension contributions of 15% of annual base salary. 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. In the 2017 financial year, 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

Paul Dean and David Bezem were appointed Non-executive Directors of the Company for an initial period of three years from the IPO in December 2014. Their appointments were extended for a further period of three years from the date of their re-election at the AGM held on 10 January 2018. Naomi Climer was appointed a Non-executive Director on 25 May 2018 for an initial 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' REMUNERATION REPORT CONTINUED

DIRECTORS' EMOLUMENTS TABLE (AUDITED)

		Salary/fees £'000	Other taxable benefits £'000	Annual bonus £'000	Pension contribution £'000	Total £'000
Executive Directors						
Tim Carroll[1]	FY17	143	52	157	14	366
(appointed 1 January 2017)	**FY18**	**219**	**8**	**252**	**24**	**503**
Dave Froker	FY17	57	2	–	1	60
(resigned 31 December 2016)	**FY18**	**–**	**–**	**–**	**–**	**–**
Jeremy Wilson[2]	FY17	172	2	215	22	411
	FY18	**175**	**2**	**219**	23	419
Phil Dudderidge	FY17	171	4	–	–	175
	FY18	**174**	**4**	**–**	**–**	**178**
Non-executive Directors						
David Bezem[3]	FY17	36	–	–	–	36
	FY18	**38**	**–**	**–**	**–**	**38**
Paul Dean[3]	FY17	36	–	–	–	36
	FY18	**38**	**–**	**–**	**–**	**38**
Naomi Climer[4]	FY17	–	–	–	–	–
(appointed 25 May 2018)	**FY18**	**9**	**–**	**–**	**–**	**9**

1 In FY17, Tim Carroll's annual base salary was £215,000. He was employed for eight months of the 2017 financial year.
In FY18, other taxable benefits for Tim Carroll includes £4,858 in respect of the costs of leasing a car. In FY17, 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 £186,405 paid in cash (FY17: £129,000), £32,895 taken as shares (FY17: £14,333) and £32,895 in the form of matching shares (FY17: £14,333).
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, and Tim Carroll elected to use £4,858 (FY17: £5,638) of this in respect of the costs of leasing a car.

2 The bonus for Jeremy Wilson comprises £131,400 paid in cash (FY17: £128,750), £43,800 taken as shares (FY17: £42,917) and £43,800 in the form of matching shares (FY17: £42,917).
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 comprised a basic fee of £35,000 (£32,100 until 25 May 2018) 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.

4 Naomi Climer's basic fee for her role as Non-executive Director of the Group was £35,000. She was a Director for three months of the financial year.

APPROVAL

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

David Bezem
Chairman of the Remuneration Committee
20 November 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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. Under 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 they 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;
- 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;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- 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

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of Focusrite Plc ("the Company") for the year ended 31 August 2018 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 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 2018 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 (IFRSs as adopted by the EU);
- 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.

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.

Overview

Materiality: group financial statements as a whole		£560,000 (2017: £475,000) 4.8% (2017: 5%) of profit before tax
Coverage		100% (2017:100%) of group profit before tax
Risks of material misstatement		**vs 2017**
Recurring risks	Provision against inventory	◀▶
	Parent company investment impairment risk	◀▶

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 (unchanged from 2017)

	The risk	Our response
PROVISIONS AGAINST INVENTORY (£670,000; 2017: £672,000) *Refer to page 38 Audit Committee Report), page 61 (accounting policy) and page 72 (financial disclosures).*	**Subjective estimate:** There is a risk that changes in consumer tastes and technology may impact upon the saleability of products. Management estimates a provision based on assumptions.	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 assess if they are sold at greater than cost value. Where they are sold at lower than cost value considering the provisions allocated against them and similar products; – **Critical assessment:** Gaining an understanding of the respective products and their likely demand through inquiry with the Engineering director. Identify slow moving lines, excess or obsolete items based on corroborative enquiries and detailed review and assess the provisions against these lines to write them down to net realisable value; – **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; 2017: £14.6 million) *Refer to page 84 (accounting policy) and page 86 (financial disclosures).*	**Low risk, high value:** The carrying amount of the parent company's investments in subsidiaries represents 47% (2017: 60%) of the parent 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 in 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOCUSRITE PLC CONTINUED

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 £560,000 (2017: £475,000), determined with reference to a benchmark of Group profit before taxation of which it represents 4.8% (2017: 5%).

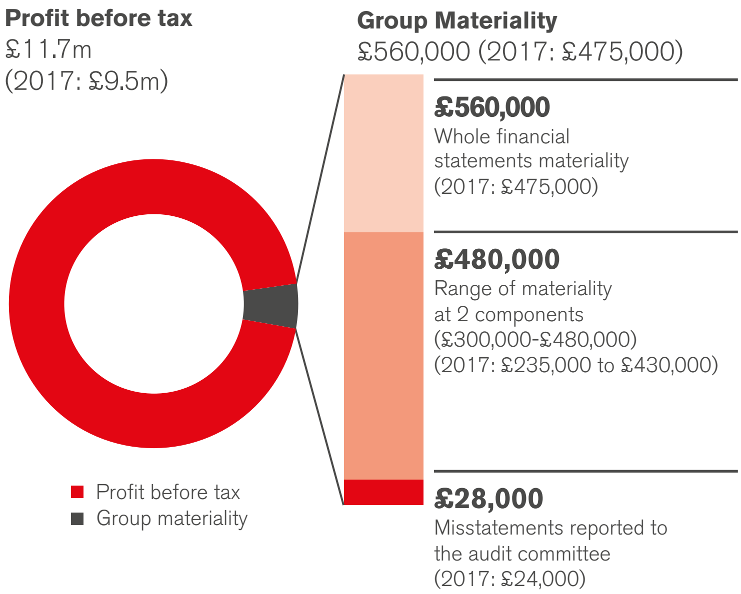
Materiality for the parent company financial statements as a whole was set at £300,000 (2017: £235,000), determined with reference to a benchmark of company total assets, of which it represents 1.0% (2017: 0.9%).

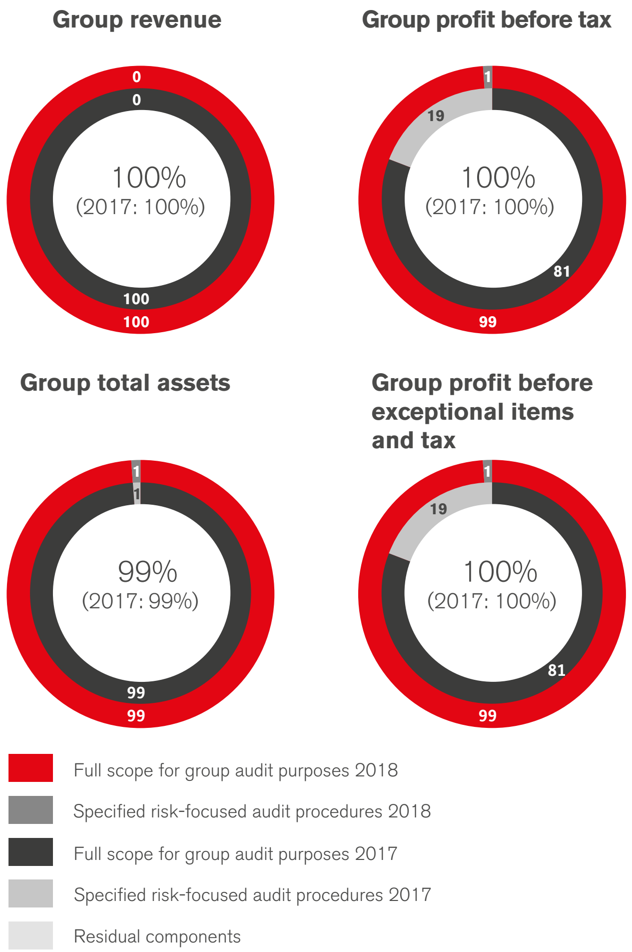
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £28,000 (2017: £24,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's four (2017: four) reporting components, two were subject to audit for group reporting purposes, two (2017: two) 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 were included in the full scope of our group reporting work in order to provide further coverage over the group's results.

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

The Group team determined the component materialities, which ranged from £300,000 to £480,000, having regard to the mix of size and risk profile of the Group across the components. All work was performed by the Group team.





4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the 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 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 47, 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. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

20 November 2018

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 £'000	2017 £'000
Revenue	5	**75,121**	66,055
Cost of sales		**(43,447)**	(39,704)
Gross profit		**31,674**	26,351
Administrative expenses		**(19,732)**	(16,881)
EBITDA (non-GAAP measure)		**15,485**	13,109
Depreciation and amortisation		**(3,872)**	(3,639)
Non-underlying items	13	**329**	–
Operating profit		**11,942**	9,470
Finance income	9	**4**	86
Finance costs	10	**(274)**	(44)
Profit before tax		**11,672**	9,512
Income tax expense	14	**(1,199)**	(959)
Profit for the period from continuing operations		**10,473**	8,553
Earnings per share			
From continuing operations			
Basic (pence per share)	16	**18.4**	15.4
Diluted (pence per share)	16	**18.1**	14.8

The accompanying notes on pages 57 to 81 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 £'000	2017 £'000
Profit for the period (attributable to equity holders of the Company)		**10,473**	8,553
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations		**19**	(8)
Profit/(loss) on forward foreign exchange contracts designated and effective as a hedging instrument		**541**	659
Tax on hedging instrument	23	**(106)**	(134)
Total comprehensive income for the period		**10,927**	9,070
Total comprehensive income attributable to:			
Equity holders of the Company		**10,927**	9,070
		10,927	9,070

The accompanying notes on pages 57 to 81 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Goodwill	17	**419**	419
Other intangible assets	18	**5,620**	4,544
Property, plant and equipment	19	**1,275**	1,369
Total non-current assets	6	**7,314**	6,332
Current assets			
Inventories	21	**11,391**	8,334
Trade and other receivables	22	**13,310**	12,952
Cash and cash equivalents	28	**22,811**	14,174
Derivative financial instruments	31	**100**	–
Total current assets		**47,612**	35,460
Total assets		**54,926**	41,792
Equity and liabilities			
Capital and reserves			
Share capital	26	**58**	58
Share premium		**115**	–
Merger reserve	27	**14,595**	14,595
Merger difference reserve	27	**(13,147)**	(13,147)
Translation reserve	27	**50**	31
Hedging reserve	27	**46**	(389)
Treasury reserve	27	**(1)**	(3)
Retained earnings		**41,731**	31,739
Equity attributable to owners of the Company		**43,447**	32,884
Total equity		**43,447**	32,884
Current liabilities			
Trade and other payables	25	**10,709**	7,720
Current tax liabilities		**427**	459
Derivative financial instruments	31	**–**	484
Total current liabilities		**11,136**	8,663
Non-current liabilities			
Deferred tax	23	**300**	245
Derivative financial instruments	31	**43**	–
Total liabilities		**11,479**	8,908
Total equity and liabilities		**54,926**	41,792

The financial statements were approved by the Board of Directors and authorised for issue on 20 November 2018. 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 accompanying notes on pages 57 to 81 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Hedging reserve £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
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 1 September 2017	58	–	14,595	(13,147)	31	(389)	(3)	31,739	32,884
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,473**	**10,473**
Other comprehensive income for the period	**–**	**–**	**–**	**–**	**19**	**435**	**–**	**–**	**454**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**19**	**435**	**–**	**10,473**	**10,927**
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**95**	**95**
Share-based payment current tax deduction in excess of remuneration expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**698**	**698**
New shares issued	**–**	**115**	**–**	**–**	**–**	**–**	**–**	**–**	**115**
Shares from EBT exercised	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**189**	**191**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**216**	**216**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,679)**	**(1,679)**
Balance at 31 August 2018	**58**	**115**	**14,595**	**(13,147)**	**50**	**46**	**(1)**	**41,731**	**43,447**

The accompanying notes on pages 57 to 81 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 £'000	2017 £'000
Operating activities			
Profit for the financial year		**10,473**	8,553
Adjustments for:			
Income tax expense	14	**1,199**	959
Net interest	9, 10	**270**	(42)
Profit on disposal of property, plant and equipment		**(14)**	(8)
Amortisation of intangibles	18	**2,804**	2,950
Depreciation of property, plant and equipment	19	**740**	689
Share-based payments charge	29	**216**	145
Operating cash flows before movements in working capital		**15,688**	13,246
Increase in trade and other receivables		**(358)**	(1,728)
(Increase)/decrease in inventories		**(3,057)**	3,027
Increase/(decrease) in trade and other payables		**2,989**	(892)
Operating cash flows before interest and tax paid		**15,262**	13,653
Net interest paid		**(36)**	(42)
Income taxes paid		**(478)**	(633)
Cash generated by operations		**14,748**	12,978
Net foreign exchange movements		**(226)**	84
Net cash from operating activities		**14,522**	13,062
Investing activities			
Purchases of property, plant and equipment	19	**(651)**	(493)
Purchases of intangible assets	18	**(3,880)**	(3,121)
Proceeds from disposal of property, plant and equipment		**19**	–
Net cash used in investing activities		**(4,512)**	(3,614)
Financing activities			
Issue of equity shares		**306**	258
Equity dividends paid	15	**(1,679)**	(1,138)
Net cash used in financing activities		**(1,373)**	(880)
Net increase in cash and cash equivalents		**8,637**	8,568
Cash and cash equivalents at beginning of year		**14,174**	5,606
Cash and cash equivalents at end of year	28	**22,811**	14,174

The accompanying notes on pages 57 to 81 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2018

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 2018 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 2018 are presented in Pounds ('GBP' thousands; £'000). This is the functional currency of the Company. The financial statements have been prepared in accordance with IFRS, International Accounting Standards ('IAS') and interpretations currently endorsed by the International Accounting Standards Board ('IASB') and its committees as adopted by the EU and as required to be adopted by UK companies.

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

These financial statements were authorised for issue by the Company's Board of Directors on 20 November 2018.

2 ADOPTION OF NEW AND REVISED STANDARDS
In the current year, the Group has applied the Annual improvements to IFRS 2013-2015 cycle, which is 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 2014-2016 cycle
- Annual improvements to IFRS 2015-2017 cycle
- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*
- Amendments to IFRS 2 *Share-Based Payments*
- IFRIC 23 *Uncertainty over Income Tax Treatments*

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 (circa £1.5 million on an undiscounted basis as shown in note 24) 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 impact assessment, in particular on the impact of changes to agent/principal relationships and variable consideration. 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. IFRS 15 would first apply to the Group for the financial year ending 31 August 2019.

Per IFRS 9, the Group has performed an impact assessment. This assessment concludes that it is unlikely that the adoption of IFRS 9 will have a material impact on the financial statements of the Group. IFRS 9 would first apply to the Group for the financial year ending 31 August 2019.

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.

With the exception of IFRS 16 as noted above, application of these standards and interpretations is not expected to have a material effect on the financial statements in the future.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 AUGUST 2018

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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; and
- 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.

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 29.

Earnings per share ('EPS')

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.

Nature of goods and services

Sale of goods

The Group has three routes to market for the sale of goods, covering all segments and geographical markets. Sales to distributors are made under contractual incoterms which mean that control is transferred when goods are shipped. The incoterms used for sales to resellers and sales to end-users mean that control is transferred when goods are delivered.

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).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 AUGUST 2018

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Equity-settled share-based payments continued

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 Retained Earnings.

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.

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

Development expenditure	2 to 3 years
Purchased intellectual property	2 years
Licences	2 to 5 years
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 a product design);
– the asset is technologically feasible;
– the Group intends to complete the asset and use or sell it;
– adequate technical, financial and other resources are available to complete the asset and use or sell it;
– it is probable and demonstrable that the asset created will generate future economic benefits; and
– the costs of developing this asset can be measured reliably. Costs include payroll costs plus project-specific subcontractor and materials costs.

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 30–60 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 AUGUST 2018

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 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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 AUGUST 2018

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 31.

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

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 risks and rewards of ownership are transferred and that the recognition of revenue upon despatch or delivery, depending on the relevant contractual terms, is appropriate.

In the USA, it is normal for a manufacturer or distributor to set a Minimum Advertised Price (MAP) at which resellers may advertise the manufacturer's products for sale.

If the MAP is reduced by the manufacturer or distributor, it is then normal for the reseller to claim back the lost gross profit from the manufacturer or distributor in relation to stock held by the reseller at the time of the change of MAP. There can also be a reciprocal arrangement for MAP increases.

Management have considered this involvement in the setting of advertised prices in the USA, together with customer payment arrangements, in their assessment of whether they recognise revenue to that customer on despatch. On balance, it is considered by management that the customer does have the primary risks and rewards of ownership, including credit and inventory risk, and hence revenue is recognised on sale to the distributor.

In September 2018, the Group made the decision to increase the MAP of products affected by duty increases announced during that month. A financial consequence of this is expected to be that the Group will receive a credit during the first half of FY19 from the US distributor for the extra profit earned on the stock held by that distributor at the time of the MAP change. In the judgement of the Directors, this constitutes a non-adjusting event after the reporting period.

Estimates

The Directors believe that the following items are critical due to the degree of estimation required, and that they have the risk of material change which could impact upon the financial statements of future periods.

Revenue recognition

There are certain cases where the Group would issue a credit note after the year end in respect of goods sold prior to the year end. One example is a retrospective rebate issued to a reseller if the reseller buys more than a targeted value of stock from the Group. A second example is in respect of a warranty claim made by a consumer for a non-working product. A third example could be in the case where the Group announces a change in MAP in the US with the consequential financial adjustment as explained in the section on judgements above.

The Group estimates the post-year-end financial impact of all of these adjustments and ensures that a sufficient credit note reserve exists to be confident that revenue recognised in the reported financial year will not be reversed in the following financial year. As an indication of the range of estimation in this area, the credit note provision at year end is £888,000 (2017: £712,000).

Inventory provisions

Estimation 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. The provision is based upon the ageing of stock, together with allowances for slow-moving, excess, or obsolete items. The provision at the year end was £670,000 (2017: £672,000), and the amount written off to the income statement in the year was £99,000 (2017: £293,000). There are a number of estimates made in arriving at the stock provision. There are no individual estimates that are sufficiently sensitive to require disclosure.

Capitalisation and recoverability of internally-generated intangible asset

Management considered both the capitalisation and the recoverability of its internally-generated intangible asset for development costs which is included in the balance sheet at 31 August 2018 at £4,641,000 (2017: £4,071,000). The amount capitalised in the year was £2,995,000 (2017: £2,721,000). Management applied estimates in their assessment of amounts capitalised in accordance with IAS 38 *Intangible Assets*, in particular around measuring reliably the expenditure incurred on projects during their development. These projects continue to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the projects.

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.

Management has also reconsidered the dates for the commencement of amortisation for individual development projects rather than applying a more generic estimate. As a result the accumulated amortisation has been recalculated, resulting in a reduction of the accumulated amortisation. The adjustment has been shown in FY18 as a non-underlying item.

5 REVENUE

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

	Year ended 31 August	
	2018 £'000	2017 £'000
Continuing operations		
North America	**32,720**	29,702
Europe, Middle East and Africa	**29,706**	25,153
Rest of the World	**12,695**	11,200
Consolidated revenue	**75,121**	66,055

In previous financial statements the Group has disclosed revenue earned in Canada within the Rest of the World region. In the year ended 31 August 2018 this revenue was reclassified to the USA region, and the region was renamed North America. The table below sets out the regional analysis of revenue under the previous classification:

	Year ended 31 August	
	2018 £'000	2017 £'000
Continuing operations		
USA	**31,184**	27,990
Europe, Middle East and Africa	**29,706**	25,153
Rest of the World	**14,231**	12,912
Consolidated revenue	**75,121**	66,055

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 AUGUST 2018

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. While the results of Focusrite and Focusrite Pro are reported separately to the Board, they are aggregated together for the purposes of segmental reporting. Similarly, the results of Novation and Ampify also meet the aggregation criteria set out in IFRS 8 segmental reporting. 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 US 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 £216,000 for the year ended 31 August 2018 (2017: £145,000).

	Year ended 31 August	
	2018 £'000	2017 £'000
Revenue from external customers		
Focusrite	**52,193**	44,552
Novation	**20,066**	18,862
Distribution	**2,862**	2,641
Total	**75,121**	66,055
Segment profit		
Focusrite	**25,107**	20,221
Novation	**10,063**	9,198
Distribution	**795**	711
	35,965	30,130
Central distribution costs and administrative expenses	**(24,352)**	(20,660)
Non-underlying items	**329**	–
Operating profit	**11,942**	9,470
Finance income	**4**	86
Finance costs	**(274)**	(44)
Profit before tax	**11,672**	9,512
Tax	**(1,199)**	(959)
Profit after tax	**10,473**	8,553

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

	2018 £'000	2017 £'000
Non-current assets		
North America	**81**	52
Europe, Middle East and Africa	**6,705**	5,676
Rest of the World	**528**	604
Total non-current assets	**7,314**	6,332

Information about major customers

Included in revenues shown for 2018 is £31.2 million (2017: £28.0 million) attributed to the Group's largest customer, which is located in the USA. Amounts owed at the year end were £6.3 million (2017: £6.8 million).

7 PROFIT FOR THE YEAR

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

	Note	Year ended 31 August 2018 £'000	2017 £'000
Net foreign exchange losses/(gains)	9, 10	**234**	(84)
Research and development costs		**1,524**	1,120
Depreciation and impairment of property, plant and equipment	19	**740**	689
Profit on disposal of property, plant and equipment		**(14)**	(8)
Amortisation of intangibles	18	**2,804**	2,950
Operating lease rental expense	24	**384**	306
Cost of inventories recognised as an expense		**39,093**	35,493
Staff costs (excluding share-based payments)	11	**8,969**	6,478
Impairment loss recognised on trade receivables	22	**29**	(20)
Share-based payments charged to profit and loss	29	**216**	145

8 AUDITOR'S REMUNERATION

	Year ended 31 August 2018 £'000	2017 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**20**	25
Fees payable to the Company's auditor and its associates for other services	**–**	–
Audit of the accounts of subsidiaries pursuant to legislation	**57**	43
Total audit service	**77**	68
Audit-related assurance services	**9**	10
Tax compliance services	**–**	3
Other assurance services	**1**	5
	87	86

9 FINANCE INCOME

	Year ended 31 August 2018 £'000	2017 £'000
Bank deposit interest	**4**	2
Exchange gain	**–**	84
	4	86

10 FINANCE COSTS

	Year ended 31 August 2018 £'000	2017 £'000
Bank charges	**40**	44
Exchange losses	**234**	–
	274	44

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 AUGUST 2018

11 STAFF COSTS

	Year ended 31 August 2018 £'000	2017 £'000
Wages and salaries	**10,155**	7,725
Social security costs	**917**	683
Other pension costs	**411**	323
Share-based payments	**216**	145
	11,699	8,876
Less amounts capitalised within development costs	**(2,514)**	(2,253)
	9,185	6,623

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

	2018 Number	2017 Number
Research and development	**76**	63
Sales and marketing	**62**	53
Operations	**46**	43
Administration and central	**25**	24
	209	183

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 46), and in note 3 of the Company financial statements (page 86).

13 NON-UNDERLYING ITEMS
During the year ended 31 August 2018, the Directors considered the date from which amortisation of development costs should start and decided that it was more appropriate that the amortisation start date be assessed for each product developed rather than applying a single, albeit more prudent, rule for all. As a result, there has been an adjustment to the Income Statement to reduce the amortisation charged to date by £329,000 and this has been shown as a non-underlying item in the Income Statement.

14 TAX

	Year ended 31 August 2018 £'000	2017 £'000
Corporation tax charges:		
Under/(over) provision in prior year	**(160)**	(13)
Current year	**1,315**	895
	1,155	882
Deferred taxation		
Current year	**44**	77
	1,199	959

Corporation tax is calculated at 19% (2017: 19.58%) of the estimated taxable profit for the year. Taxation for the US subsidiary is calculated at the rates prevailing in the respective jurisdiction.

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

	Year ended 31 August	
	2018 £'000	2017 £'000
Current taxation		
Profit before tax on continuing operations	**11,672**	9,512
Tax at the UK corporation tax rate of 19% (2017: 19.58%)	**2,218**	1,862
Effects of:		
Expenses not deductible for tax purposes	**48**	20
R&D tax credit	**(872)**	(773)
Prior period adjustment – current tax	**(160)**	(113)
Prior period adjustment – deferred tax	**–**	(18)
Effect of change in standard rate of deferred tax	**14**	(19)
Overseas tax	**(49)**	–
Current tax charge for period	**1,199**	959

Tax credited directly to equity

In addition to the amount charged to the income statement and other comprehensive income, the following amounts of tax have been recognised in equity:

	2018 £'000	2017 £'000
Share-based payment deferred tax deduction in excess of remuneration expense	**95**	114
Share-based payment current tax deduction in excess of remuneration expense	**698**	558
	793	672

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 25 October 2015. Further reduction to 18% (effective from 1 April 2020) was substantively enacted on 25 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 August 2018 has been calculated based on these rates.

15 DIVIDENDS

The following equity dividends have been declared:

	Year to 31 August 2018	Year to 31 August 2017
Dividend per qualifying ordinary share	**3.30p**	2.70p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2018 of 1.00 pence per share.

On 20 November 2018, the Directors recommended a final dividend of 2.30 pence per share (2017: 1.95 pence per share), making a total of 3.30 pence per share for the year (2017: 2.70 pence per share).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 AUGUST 2018

16 EARNINGS PER SHARE ('EPS')

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

Earnings	Year ended 31 August 2018 £'000	2017 £'000
Earnings for the purposes of basic and diluted EPS, being net profit for the period	**10,473**	8,553
Non-underlying items	**(329)**	–
Tax on non-underlying items	**63**	–
Total underlying profit for adjusted EPS calculation	**10,207**	8,553

Number of shares	Year ended 31 August 2018 Number '000	2017 Number '000
Weighted average number of ordinary shares for the purposes of basic EPS calculation	**56,825**	55,432
Effect of dilutive potential ordinary shares:		
EMI Scheme and unapproved share option plan	**1,151**	2,357
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	**57,976**	57,789

EPS	Pence	Pence
Basic EPS	**18.4**	15.4
Diluted EPS	**18.1**	14.8
Adjusted basic EPS	**18.0**	15.4
Adjusted diluted EPS	**17.6**	14.8

At 31 August 2018, the total number of ordinary shares issued and fully paid was 58,111,639. This included 1,159,021 (2017: 2,546,845) 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 weighted average number of shares in issue (58,103,307) less the number of shares held by the EBT (1,278,311). 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.

17 GOODWILL

	Total £'000
Cost	
At 1 September 2016	419
At 31 August 2017	419
At 31 August 2018	**419**

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

Carrying amount	
At 31 August 2016	419
At 31 August 2017	419
At 31 August 2018	**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 CGU. As it is not material it is not tested for impairment annually.

18 OTHER INTANGIBLE ASSETS

	Intellectual property £'000	Development costs £'000	Licences £'000	Trademark £'000	Computer software £'000	Total £'000
Cost						
At 1 September 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
Additions	**290**	**2,995**	**2**	**159**	**434**	**3,880**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**
At 31 August 2018	**495**	**18,336**	**89**	**286**	**857**	**20,063**
Amortisation						
At 1 September 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
Charge for the year	**64**	**2,425**	**6**	**100**	**209**	**2,804**
Eliminated on disposal	**–**	**–**	**–**	**–**	**0**	**–**
At 31 August 2018	**208**	**13,695**	**88**	**114**	**338**	**14,443**
Carrying amount						
At 31 August 2018	**287**	**4,641**	**1**	**172**	**519**	**5,620**
At 31 August 2017	61	4,071	5	113	294	4,544
At 31 August 2016	133	4,172	14	–	54	4,373

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 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
Additions	**308**	**109**	**229**	**5**	**651**
Disposals	**(14)**	**(47)**	**(51)**	**(36)**	**(148)**
At 31 August 2018	**2,877**	**1,025**	**734**	**154**	**4,790**
Accumulated depreciation and impairment					
At 1 September 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
Charge for the year	**398**	**89**	**175**	**78**	**740**
Eliminated on disposals	**(14)**	**(47)**	**(51)**	**(31)**	**(143)**
At 31 August 2018	**2,277**	**620**	**498**	**120**	**3,515**
Carrying amount					
At 31 August 2018	**600**	**405**	**236**	**34**	**1,275**
At 31 August 2017	690	385	182	112	1,369
At 31 August 2016	810	451	174	140	1,575

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 AUGUST 2018

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	**2018 %**	2017 %
Focusrite Audio Engineering Limited ('FAEL')	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

	2018 £'000	2017 £'000
Raw materials	**314**	61
Finished goods	**11,077**	8,273
	11,391	8,334

The stock value includes a provision of £670,000 (2017: £672,000). No inventories have been pledged as security against borrowings (2017: £nil). Stock days recorded against cost of goods sold amounted to 106 days in 2018 (2017: 86 days). The write-down of inventories to net realisable value amounted to £99,000 (2017: £293,000). The reversal of write-downs amounted to £nil (2017: £nil). The write-down and reversal are included in cost of sales.

22 TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Amount receivable for the sale of goods	**10,607**	11,223
Allowance for doubtful debts	**(49)**	(20)
	10,558	11,203
Other debtors	**1,225**	1,141
Prepayments	**1,527**	608
	13,310	12,952

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 2018 was 41 days (2017: 56 days). The days sales outstanding ('DSO') at 31 August 2018 was 51 days (2017: 60 days).

The Group has not charged interest for late payment of invoices in 2017 or 2018.

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 59% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2018 (2017: 60%). No other single customer accounted for more than 10% of the total balance of trade receivables net of allowances for doubtful debts during the period under review.

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

Ageing of not impaired receivables

	2018 £'000	2017 £'000
Not overdue	**10,062**	8,989
Overdue between 0–30 days	**264**	2,025
Overdue between 31–60 days	**196**	88
Overdue between 61–90 days	**25**	22
Overdue more than 90 days	**11**	79
	10,558	11,203

Movement in the allowance for doubtful debts

	2018 £'000	2017 £'000
Balance at the beginning of the period	**20**	40
Movement in provision and impairment losses recognised	**29**	(20)
Balance at the end of the period	**49**	20

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

	2018 £'000	2017 £'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	**49**	20
	49	20

Trade receivables net of allowance for doubtful debts

	2018 £'000	2017 £'000
Gross value of not impaired receivables	**10,558**	11,203
Gross value of impaired receivables	**49**	20
Allowance for doubtful debts	**(49)**	(20)
	10,558	11,203

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 AUGUST 2018

23 DEFERRED TAX

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

	Capitalised development costs £'000	Share-based payments £'000	Hedging instrument £'000	Total £'000
Cost				
At 1 September 2016	896	(385)	(229)	282
Debit/(credit) to profit or loss	(40)	(17)	–	(57)
Debit/(credit) to other comprehensive income	–	–	134	134
Credit to equity	–	(114)	–	(114)
At 31 August 2017	856	(516)	(95)	245
Debit/(credit) to profit or loss	**32**	**12**	**–**	**44**
Debit/(credit) to other comprehensive income	**–**	**–**	**106**	**106**
Credit to equity	**–**	**(95)**	**–**	**(95)**
At 31 August 2018	**888**	**(599)**	**11**	**300**

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:

	2018 £'000	2017 £'000
Deferred tax liabilities	**899**	856
Deferred tax assets	**(599)**	(611)
	300	245

24 OPERATING LEASE ARRANGEMENTS

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	
	2018 £'000	2017 £'000
Within one year	**382**	264
In the second to fifth years inclusive	**1,084**	737
After five years	**–**	54
	1,466	1,055

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

	2018 £'000	2017 £'000
Trade payables	**6,441**	4,042
Accrued expenses	**3,994**	3,464
Other taxation and social security payable	**274**	214
	10,709	7,720

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 47 days (2017: 37 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

	2018 Number	2017 Number
Issued and fully paid		
Ordinary shares of £0.001 each	**58,111,639**	58,075,000

	2018 £	2017 £
Issued and fully paid		
Ordinary shares of £0.001 each	**58,112**	58,075
	58,112	58,075

27 OTHER RESERVES

Share premium reserve

	2018 £'000	2017 £'000
Balance at 1 September	**–**	–
Issue of new shares	**115**	–
Balance at 31 August	**115**	–

Merger reserve

	2018 £'000	2017 £'000
Balance at 1 September	**14,595**	14,595
Balance at 31 August	**14,595**	14,595

On 4 December 2014, Focusrite Plc obtained control of 100% of the share capital of FAEL in a share for share exchange, thereby inserting Focusrite 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

	2018 £'000	2017 £'000
Balance at 1 September	**(13,147)**	(13,147)
Balance at 31 August	**(13,147)**	(13,147)

EBT reserve

	2018 £'000	2017 £'000
Balance at 1 September	**(3)**	(5)
Shares exercised from EBT	**2**	2
Balance at 31 August	**(1)**	(3)

The EBT reserve arose when the Company issued equity share capital which it held in trust. The interests of this trust are consolidated into 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 is reduced.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 AUGUST 2018

27 OTHER RESERVES CONTINUED
Translation reserve

	2018 £'000	2017 £'000
Balance at 1 September	**31**	39
Exchange differences on translating the net assets of foreign operations	**19**	(8)
Balance at 31 August	**50**	31

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

Hedging reserve

	2018 £'000	2017 £'000
Balance at 1 September	**(389)**	(914)
Loss on forward foreign exchange contracts designated and effective as a hedging instrument	**541**	659
Tax on hedging instrument	**(106)**	(134)
Balance at 31 August	**46**	(389)

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

	2018 £'000	2017 £'000
Cash and bank balances	**22,811**	14,174

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
1,387,824 options over Focusrite Plc's shares were exercised during the year ended 31 August 2018 (2017: 1,947,659). As at 31 August 2018, the total number of ordinary shares under option in Focusrite Plc was 1,969,114 (2017: 2,812,684) of which 1,159,021 (2017: 2,546,845) 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 810,093 (2017: 265,839) ordinary shares. The options 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 2018 was £2.87 (2017: £1.71). For the share options outstanding at the year end, the weighted average remaining contractual life was 4.8 years (2017: 3.2 years).

	2018 Number of options	2018 Weighted average exercise price £	2017 Number of options	2017 Weighted average exercise price £
Outstanding at start of period	**2,812,684**	**0.38**	6,385,149	0.27
Granted during the period:				
2017 PSP: senior employees exc. Executive Directors	**–**	**0.00**	70,872	0.00
2018 PSP: senior employees exc. Executive Directors	**29,305**	**0.00**	–	0.00
2018 PSP: Executive Directors	**126,240**	**0.00**	–	0.00
2018 LTIP	**634,330**	**3.94**	–	3.94
Exercised during the year:				
2014 EMI Scheme: other employees	**(1,210,638)**	**0.15**	(1,328,659)	0.15
2014 EMI Scheme: D Froker	**–**	**0.10**	(619,000)	0.10
2014 EMI Scheme: J Wilson	**(91,295)**	**0.15**	–	0.15
2015 PSP: senior employees exc. Executive Directors	**(85,891)**	**0.00**	–	0.00
Cancelled during the period:				
2014 EMI Scheme: other employees	**(38,240)**	**0.15**	(221,829)	0.15
2014 EMI Scheme: D Froker	**–**	**0.10**	(385,000)	0.10
2014 EMI Scheme: D Froker	**–**	**0.10**	(893,000)	0.10
2014 EMI Scheme: J Wilson	**(42,038)**	**0.15**	–	0.15
2015 EMI Scheme: other employees	**(59,112)**	**1.71**	(138,843)	1.71
2015 PSP: senior employees exc. Executive Directors	**(13,191)**	**0.00**	(22,074)	0.00
2016 PSP: senior employees exc. Executive Directors	**(47,726)**	**0.00**	(22,869)	0.00
2017 PSP: senior employees exc. Executive Directors	**(21,076)**	**0.00**	(12,063)	0.00
2018 PSP: senior employees exc. Executive Directors	**(6,111)**	**0.00**	–	0.00
2018 LTIP	**(18,127)**	**3.94**	–	3.94
Outstanding at end of year	**1,969,114**	**1.62**	2,812,684	0.38
Exercisable at end of year	**30,567**	**0.06**	–	–

	2018 £'000	2017 £'000
Expense arising from share-based payment transactions	**216**	145

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

Grant date	Share price at date of grant	Exercise price	Expected volatility	Dividend yield	Contractual life of option	Risk-free interest rate
1 September 2014	£1.74–£2.00	£0.001	51.8%	1.50%	3.2 years	1.93%
18 September 2014	£0.15	£0.15	51.8%	1.50%	3.2 years	0.56–1.93%
1 December 2015	£1.76	£1.76	37.2–40.6%	1.50%	10 years	1.46–1.59%
24 November 2016	£1.80	£0.001	n/a	1.45%	3 years	n/a
22 November 2017	£3.18	£0.001	n/a	1.00%	3 years	n/a
12 March 2018	£3.94	£3.94	31.0%	0.99%	10 years	1.24–1.34%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 AUGUST 2018

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 £411,000 for the year ended 31 August 2018 (2017: £323,000). Contributions totalling £35,549 (2017: £16,448) 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 notes 26–27.

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

	2018 £'000	2017 £'000
Financial assets		
Amortised cost		
Cash and cash equivalents	**22,811**	14,174
Trade and other receivables	**11,542**	11,203
Designated cash flow hedge relationships		
Derivative financial assets designated and effective as cash flow hedging instruments	**57**	–
	34,410	25,377
Financial liabilities		
Designated cash flow hedge relationships		
Derivative financial liabilities designated and effective as cash flow hedging instruments	**–**	484
Amortised cost		
Trade and other payables	**6,441**	4,042
	6,441	4,526

Financial risk management objectives
The Group's finance function is responsible for all aspects of corporate treasury. It coordinates 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 provide guidance to the finance function in addressing all risks, including foreign exchange risk, credit risk and the appropriate use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

Market risk
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. 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	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
US Dollars	**6,240**	3,822	**11,182**	10,524
Euros	**6**	6	**6,170**	4,231
Pounds Sterling	**195**	4,351	**17,058**	12,371
	6,441	8,179	**34,410**	27,126

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. The table indicates the increase in profit and equity resulting from a 10% strengthening of the foreign currency, and the corresponding decrease in profit and equity resulting from a 10% weakening of the foreign currency.

	Euro impact[1]		US Dollar impact[2]	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Profit or loss	**616**	423	**494**	670

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.

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 Euro 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.

For the current and prior year, 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:

	2018				
	Carrying amount £'000	**Expected cash flow £'000**	**Within 1 year £'000**	**Between 1 and 5 years £'000**	**Over 5 years £'000**
Forward exchange contracts					
Assets	**57**	**57**	**100**	**(43)**	**–**
Total	**57**	**57**	**100**	**(43)**	

	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)	–	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 AUGUST 2018

31 FINANCIAL INSTRUMENTS CONTINUED

Interest 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 to 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2018						
Non-interest-bearing	**22,811**	**–**	**–**	**–**	**–**	**22,811**
	22,811	**–**	**–**	**–**	**–**	**22,811**
2017						
Non-interest-bearing	14.174	–	–	–	–	14,174
	14,174	–	–	–	–	14,174

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

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

Fair value of financial instruments

Fair value of financial instruments carried at amortised cost

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

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

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

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

Fair value measurements recognised in the statement of financial position

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

In the opinion of the Directors, the Company and its subsidiaries are not involved currently in any legal proceedings which, at 31 August 2018 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 while employed as an operational director is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2018 £'000	2017 £'000
Short-term employee benefits	**2,326**	1,678
Share-based payments	**106**	96
Pension contributions	**62**	204
Termination benefits	**64**	–
	2,558	1,978

Aggregate emoluments of the highest paid Director	**503**	411

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 (2017: £19,750).

COMPANY BALANCE SHEET
AS AT 31 AUGUST 2018

	Note	2018 £'000	2017 £'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	**2,424**	1,364
Corporate tax recoverable		**–**	36
Cash at bank and in hand		**13,810**	7,543
Total current assets		**16,234**	8,943
Creditors: amounts falling due within one year			
Creditors	8	**(704)**	(219)
Net current assets		**15,530**	8,724
Total assets less current liabilities		**30,177**	23,371
Net assets		**30,177**	23,371
Capital and reserves			
Share capital	9	**58**	58
Share premium		**115**	–
Merger reserve	10	**14,595**	14,595
EBT reserve	11	**(1)**	(3)
Retained earnings	12	**15,410**	8,721
Total equity and shareholders' funds		**30,177**	23,371

The financial statements were approved by the Board of Directors and authorised for issue on 20 November 2018. They were signed on its behalf by:

Tim Carroll
Chief Executive Officer

Jeremy Wilson
Chief Financial Officer

The accompanying notes on pages 84 to 87 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
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
Balance at 31 August 2017	58	–	14,595	(3)	8,721	23,371
Profit for the period	**–**	**–**	**–**	**–**	**7,963**	**7,963**
Dividends	**–**	**–**	**–**	**–**	**(1,679)**	**(1,679)**
Share-based payment charge	**–**	**–**	**–**	**–**	**216**	**216**
Shares from EBT exercised	**–**	**–**	**–**	**2**	**189**	**191**
New shares issued	**–**	**115**	**–**	**–**	**–**	**115**
Balance at 31 August 2018	**58**	**115**	**14,595**	**(1)**	**15,410**	**30,177**

The accompanying notes on pages 84 to 87 form part of these financial statements.

NOTES TO THE COMPANY ACCOUNTS
FOR THE YEAR ENDED 31 AUGUST 2018

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 2018 were authorised for issue by the Board of Directors on 20 November 2018 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 2018.

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 International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with the Companies' Act, 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly-owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

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 2018.

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

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

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

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

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

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

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

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

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

Retirement benefit costs

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

Equity-settled share-based payments

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

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

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

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

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

3 DIRECTORS' REMUNERATION

Directors' emoluments

	2018 £'000	2017 £'000
Salaries, bonuses and other employee benefits	**1,138**	1,047
Social security costs	**142**	144
Pension costs	**47**	37
	1,327	1,228

During the year retirement benefits were accruing to three Directors (2017: three) in respect of defined contribution pension schemes. The highest paid Director received remuneration (excluding the value of vested share options) of £503,000 (2017: £411,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £nil (2017: £1,000). During the year, 91,295 share options were exercised by Directors (2017: 619,000), resulting in a gain of £277,000 (2017: £1,030,000).

NOTES TO THE COMPANY ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 AUGUST 2018

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	FY17	143	52	157	14	366
(appointed 1 January 2017)	**FY18**	**219**	**8**	**252**	**24**	**503**
Dave Froker	FY17	57	2	–	1	60
(resigned 31 December 2016)	**FY18**	**–**	**–**	**–**	**–**	**–**
Jeremy Wilson	FY17	172	2	215	22	411
	FY18	**175**	**2**	**219**	**23**	**419**
Phil Dudderidge	FY17	171	4	–	–	175
	FY18	**174**	**4**	**–**	**–**	**178**
Non-executive Directors						
David Bezem	FY17	36	–	–	–	36
	FY18	**38**	**–**	**–**	**–**	**38**
Paul Dean	FY17	36	–	–	–	36
	FY18	**38**	**–**	**–**	**–**	**38**
Naomi Climer	FY17	–	–	–	–	–
(appointed 25 May 2018)	**FY18**	**9**	**–**	**–**	**–**	**9**

4 STAFF COSTS

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

	2018 £'000	2017 £'000
Wages and salaries	**1,181**	1,074
Social security costs	**147**	144
Other pension costs	**48**	38
	1,376	1,256

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

	2018 Number	2017 Number
Management and administration	**7**	7

5 DIVIDENDS

The following equity dividends have been declared:

	2018	2017
Dividend per qualifying ordinary share	**3.30p**	2.70p

6 INVESTMENTS IN SUBSIDIARIES

	2018 £'000	2017 £'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	**2018 %**	2017 %
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 TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Other debtors	**121**	72
Amounts owed by Group undertakings	**2,303**	1,292
	2,424	1,364

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

8 CREDITORS

	2018 £'000	2017 £'000
Other creditors	**704**	219

9 SHARE CAPITAL

	2018 Number	2017 Number
Issued and fully paid:		
Ordinary shares of £0.01 each	**58,111,639**	58,075,000

	2018 £	2017 £
Issued and fully paid:		
Ordinary shares of £0.01 each	**58,112**	58,075

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

10 MERGER RESERVE

	2018 £'000	2017 £'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 EBT RESERVE

	2018 £'000	2017 £'000
At 1 September	**(3)**	(5)
Shares exercised from EBT	**2**	2
At 31 August	**(1)**	(3)

12 RETAINED EARNINGS

	2018 £'000	2017 £'000
At 1 September	**8,721**	5,018
Net profit for the period	**7,963**	4,440
Dividend	**(1,679)**	(1,138)
Share-based payment charge	**216**	145
Shares from EBT exercised	**189**	256
At 31 August	**15,410**	8,721

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 £7,963,000 (2017: £4,440,000).

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