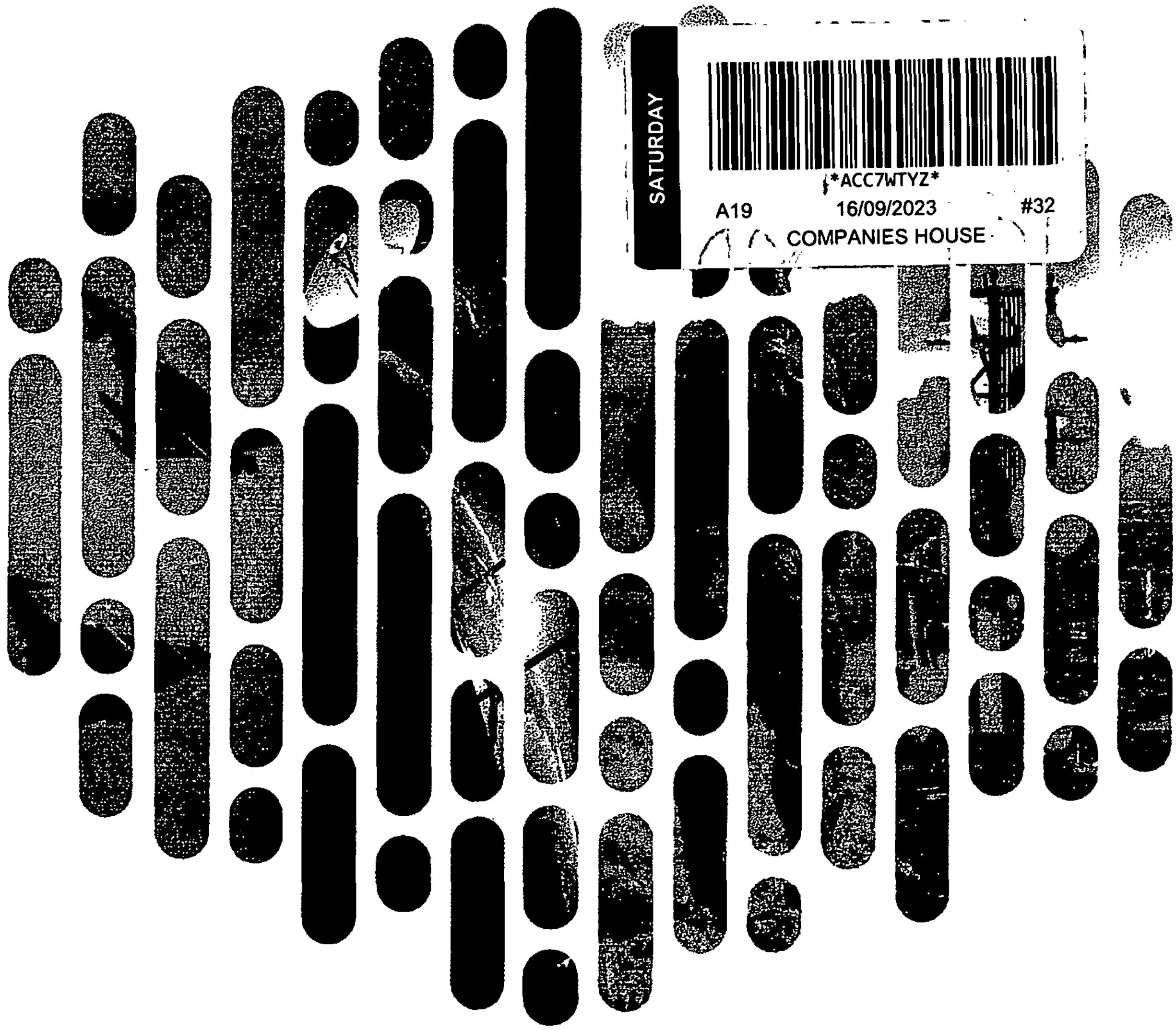
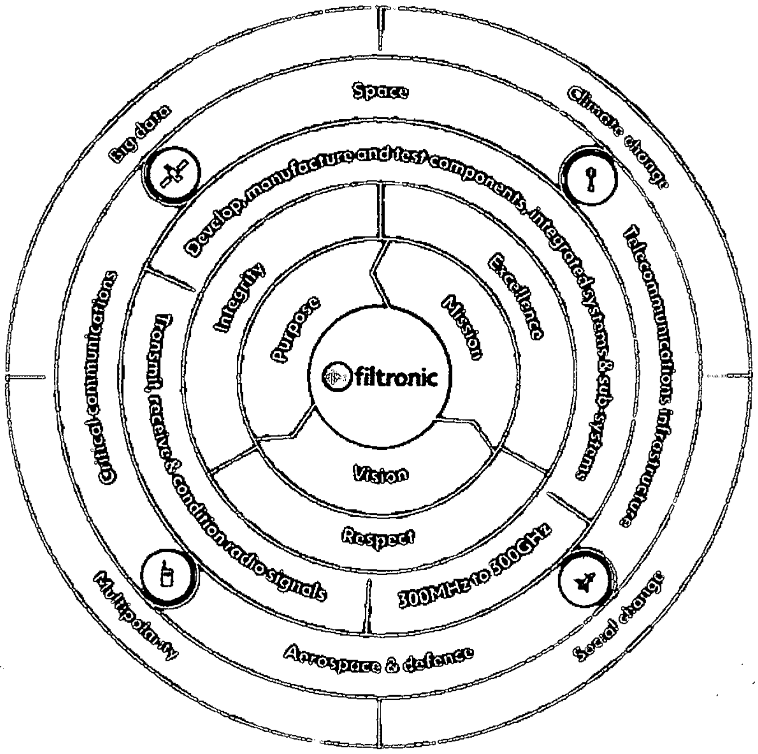
filtronic
Innovation in RF technology



Annual Report and Accounts 2023

Filtronic plc – Stock code: FTC

Our strategy:



Our values:

Integrity

Act with integrity; being honest, always keeping our promises.

Respect

Be respectful to all; it is the foundation of our culture.

Excellence

Strive for excellence; it is what our customers and colleagues expect and what we endeavour to deliver.

Our purpose

To be the trusted provider of innovative RF solutions.

Our vision

Enabling the future of RF, Microwave and mmWave communication.

Our mission

Creating value for our customers through technology leadership.

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"The markets we serve offer strong growth prospects and we remain confident, given the opportunities that are being generated, that we can execute against our strategic plans and build a business for all our stakeholders to be proud of."

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"There is an increasing demand for our high-performance products and unique RF design capabilities, and based on our investments in FY2023, I believe we are building the IP portfolio, resources, and expertise necessary to scale the business."

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"Filtronic have been at the forefront of RF technology for over 45 years, and we create value for our clients by enabling the future of RF, microwave and mmWave communications."

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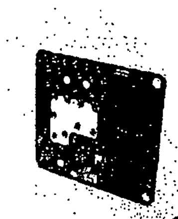
"Notwithstanding a heavy focus on top-line growth, another successive year of profit generation enabled further investment to achieve key strategic objectives."

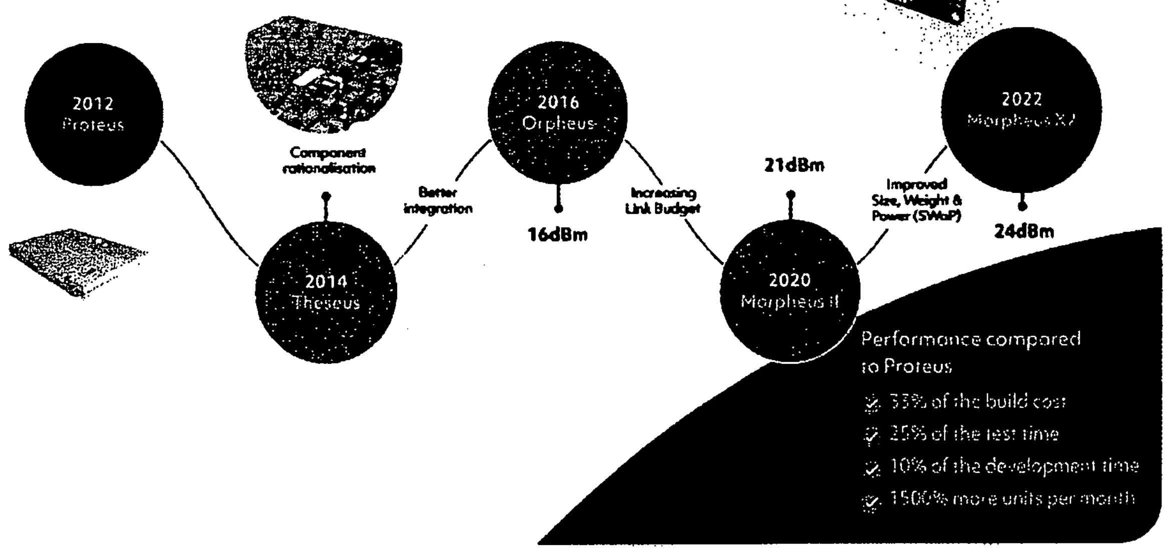
History of Innovation

1970	1980	1990	2000	2010	2020
1977 Company founded by Professor David Rhodes at Leeds University.	**1989** Filtronic components receive a Queens award for technology. Wireless infrastructure business established.	**1992** Filtronic Comtek established to focus on 2G – global systems for (GSM).	**2002** Triton chipset, transmit and receive multi-function MMICs developed for mobile backhaul.	**2011** Development of mmWave capabilities, including Theseus, Orpheus and Morpheus II.	**2020** Launched Morpheus II, market leading transceiver product and Tower Top Amplifier range.
1979 First employees recruited.		**1994** Filtronic Comtek plc listed on the UK stock exchange.	**2003** Company reorganises into three divisions: Wireless Infrastructure, Handset Products and Integrated Products.	**2013** Headquarters relocate to NETPark science park in Sedgefield, County Durham.	**2021** Awarded Queens Award for Enterprise: International Trade.
		1999 Acquisition of Fujitsu Silicon plant in Newton Aycliffe to produce GaAs (Gallium arsenide) wafers.		**2015** Company listing moves to the AIM stock market.	**2022** Launched Hades E-band Active Diplexer and extended range of Cerus high-power amplifiers.
				2017 Launch of contract manufacturing services, principally for aerospace and defence.	**2023** Launched Morpheus X2, Taurus and Hades X2

Evolution of E-band transceivers

A journey of high-performance and innovation.





Operational Highlights

Financial highlights

Revenue

£16.3m ▼ (5%)

Adjusted EBITDA*

£1.3m ▼ (55%)

Adjusted operating profit**

£0.2m ▼ (85%)

Cash at bank

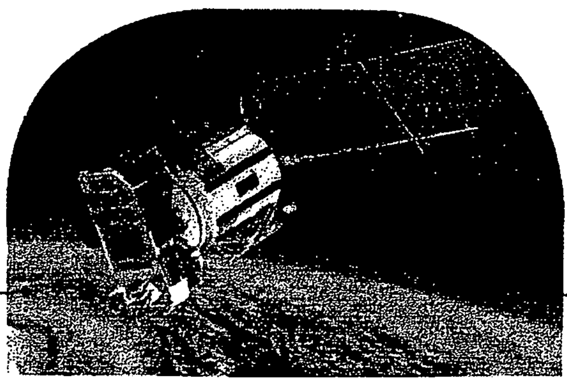
£2.6m ▼ (35%)

Net cash (net of all lease obligations except right of use property lease)

£1.6m ▼ (49%)

* Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation and exceptional items.

** Adjusted operating profit is operating profit before exceptional items.



Operational highlights

- Another year of profitable trading despite the headwinds from the global semiconductor shortages, [illegible] uncertainty and a challenging economic environment
- First contract win [illegible] the [illegible] sector, valued at £2.[illegible]m, [illegible]
- Launched the Mordion [illegible] and secured orders [illegible] valued at £[illegible]m, that more than doubles the [illegible] range of [illegible] radio [illegible].
- Two new defence contract wins with the MoD through the DSTL framework.
- £2m Series of recent contract wins totalling over £2.0m across a diverse range of new telecommunication and private network customers, demonstrating the execution of our objective to broaden the customer base
- Further developed the opportunity pipeline, having improved our direct and indirect sales channels increasing customer engagement, as well as strengthening the engineering team to facilitate revenue growth.
- Achieved IASME Governance Gold standard for our cyber security, positioning us well to win more sensitive work
- Eight new products launched during the year, spanning high-power versions of standard telecom products, new filter designs for defence and quantum computing and a range of solid state power amplifiers for space and ground station applications

Chairman's statement

Dear fellow shareholder

I am pleased to report that good progress has been made in the year ended 31 May 2023, particularly with our market engagement, product development and improvement of operational capability.

We were optimistic about growing revenue in H2 FY2023 but shortages in the semiconductor supply chain prevented us from realising this important goal. Despite this, we delivered another successive year of profit generation with adjusted earnings before interest, taxation, depreciation, amortisation and exceptional items ("Adjusted EBITDA") of £1.3m (2022: £2.8m). This led to a strengthened balance sheet, which, coupled with a stronger order book and improved opportunity pipeline, provides a solid base from which to continue developing the business to deliver long-term shareholder value.

The Markets

The markets we operate in increasingly offer the potential for strong growth. The recent sizeable contract win, awarded by a leading player in the low earth orbit space market demonstrates the world-class capability of our business and validates our confidence in successfully penetrating this emerging and high growth sector. The market is currently led by a handful of well-known global players, where our technology is highly relevant to their chosen solutions, but there are numerous other disruptors with different mission objectives, serving a broad range of end customers and markets.

We continue to see exciting opportunities being developed in aerospace and defence particularly given the current geo-political landscape. Governments of western countries acknowledge they have underfunded defence spending in recent years but have reiterated a commitment to remedy this. The skills required to develop technology solutions utilising radio frequency ("RF") are in short supply and the major defence primes recognise that resourcing their key programmes will be a significant challenge. This creates opportunities for Filtronic to support and mitigate the skills gap that has developed.

In the telecommunications market, we note recent announcements by both Nokia and Ericsson following a slowdown in consumer spending impacting their telecoms sales. However, 5G networks are actively being rolled out around the world and the long-awaited licencing of E-band spectrum in India has been released for backhaul products. This is a market that has a high dependence on wireless technology given the well-established road and building infrastructure, making it difficult to offer cabled solutions. Given the scale of rollouts, pricing can be highly competitive as the original equipment manufacturers ("OEMs") compete for market share. As E-band spectrum bandwidth starts to fill, the focus will move to other frequency bands such as W-band and D-band. The telecommunications market has historically led technology waves so these technological developments will be a key focus of our own technology roadmaps.

Our relevance to new and prospective customers and the unique selling point we offer is our ability to design, develop and manufacture a turn-key solution to a high-quality standard. We ramp production quickly and in sufficiently large volumes bringing an ethos that fundamentally differentiates us from our competitors who do not have the heritage of rapid turnaround and large-scale manufacture.

Investing in the right areas of the business, to deliver this sustainable financial growth is a constant balancing act. To be successful in our chosen markets we need to be agile, recognising that we may need to adapt strategy in response to the fast-paced nature of the communications technology. The desire of our prospective customers in terrestrial and space communication to get, or stay, ahead of their competitors means we must be responsive in order to thrive. Therefore, building and developing the engineering organisation is critical as we seek to develop our technology roadmaps, undertake customer developments and service the opportunity pipeline. Rapid execution of product development with high quality products and solutions will remain a key focus for the Group.

Financial performance summary

Group sales decreased in the year by 5% to £16.3m (FY2022: £17.1m).

The reduction in sales and a weaker sales mix, with a higher concentration of revenue from price sensitive telecommunications infrastructure, led to an Adjusted operating profit of £0.2m (2022: £1.6m) and operating profit of £0.2m (2022: £2.0m).

The Group closed the year with £2.6m of cash at bank (2022: £4.0m) in addition to the availability of undrawn working capital debt facilities in the UK (£3.0m with Barclays) and the USA ($4.0m with Wells Fargo).

The Group's net cash position, including all debt except right of use property leases, was £1.6m at the end of the financial year (2022: £3.1m). Net cash including right of use property leases was £0.3m (2022: £2.2m).

Dividend

As with previous years, the Board continues to believe shareholders are better served by cash being retained in the business to fund future business development. Consequently, no dividend is proposed for the year (2022: £nil).

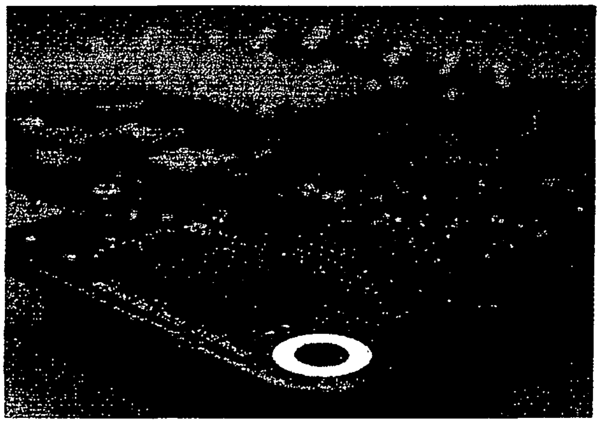
Environmental, Social and Governance ("ESG")

We are committed to building a sustainable business for the future, delivering consistent financial returns and long-term value for all our stakeholders. We formalised our ESG strategy in the year, which has been developed with an emphasis on supporting the wider corporate strategy. Key elements include building an organisation fit for the future by supporting STEM skills, continuing with our established graduate programme, augmented with a new apprenticeship initiative. We will also minimise our impact on the environment with lower energy consumption and waste. Full details of the ESG strategy and objectives can be found on the Filtronic website at https://filtronic.com/investors/esg-strategy/'.

Outlook

The markets we serve offer strong growth prospects and we remain confident, given the opportunities that are being generated, that we can execute against our strategic plans and build a business for all our stakeholders to be proud of. Key milestones have been met against our core objectives in the year, with stronger commercial engagement, innovative product solutions, well-aligned technology roadmaps and robust business systems, and we therefore look forward to FY2024 with enthusiasm and excitement.

Whilst the macro-economic environment remains uncertain, we are well equipped to navigate through it with a stronger business. We will further strengthen our sales and engineering organisations in the year to capitalise on near term market opportunities.

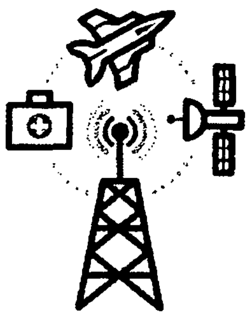


Pictured: Morpheus X2 - High power E-band transceiver

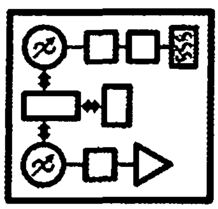
I would like to finish by thanking all our stakeholders for the ongoing support, and our talented employees who have continued to respond positively with exceptional commitment. It is with their dedication, hard work and skill that we will continue to drive the performance of the business.

Jonathan Neale
Chairman
31 July 2023

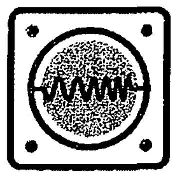
What we specialise in:



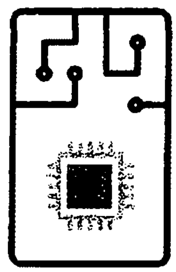
Mission critical communications



Customised RF Sub-systems



300MHz to 300GHz design, manufacture & test



Hybrid manufacturing services

Chief Executive's review

I am pleased to present our full year results for FY2023, and with it a reflection on the last 12 months, during which we have made significant progress against the primary objective of creating sustainable growth in our strategic markets of aerospace and defence, space and terrestrial telecommunications infrastructure. Despite the faltering global economy, the trading environment for Filtronic throughout the last financial year has generally been favourable. It was only the availability of critical semiconductor products in Q3 and Q4 that limited our ability to maximise revenues prior to the financial year end. Notwithstanding the challenges imposed by the breakdown in the global semiconductor supply chain, we ended the year with revenues of £16.3m (FY2022: £17.1m), broadly in line with market expectations.

Confident of the potential for Filtronic technology in our chosen strategic markets we have continued to invest in our long-term future by strengthening our business development and engineering teams throughout the year. This increased investment is reflected in our Adjusted EBITDA of £1.3m (2022: £2.8m) and cash at bank of £2.6m (2022: £4.0m). The initial return on this investment is evidenced by the release of several new high-power telecommunication infrastructure and space products, for which we have already been successful in achieving initial customer order commitment. We end the year with a healthy number of new product developments in the engineering pipeline, and a well-defined technology roadmap aligned with customer and market requirements.

Over the last 12 months I have seen first-hand the strength of relationships with Filtronic's strategic accounts, who are amongst the market leaders in each of our addressable markets. I have been delighted with the development of our technology roadmaps and the progress made in strategic programmes that will yield products for the next generation of telecommunication backhaul communications and electronic warfare ("EW") solutions. I have also been pleased with the progress made in opening exciting new applications such as our breakthrough into the low earth orbit ("LEO") space market.

Radio frequency ("RF") design is a complex and fast developing engineering discipline. With our global reputation, combined with over 45 years of innovative IP development, we continue to see a growing number of prospective customers wanting to engage our services in the design and manufacture of next generation RF products. Our ability to undertake rapid cutting-edge RF design, and subsequently scale the manufacturing of mmWave products, enables customers to drive performance and accelerate time to market. This combination of technical competence and agility is a significant competitive advantage for customers in the telecommunication and LEO space markets.

A strong balance sheet has enabled us to continue to build on investments made at our Sedgefield manufacturing site. The addition of state-of-the-art equipment for rapid process and product development has significantly enhanced our ability to efficiently bring new products to market in line with customers' expectations. The ability to develop engineering prototypes and create new manufacturing processes without the need to disrupt the volume manufacturing lines has greatly improved delivery of engineering programmes and eased the transition from prototype to mass production.

Talented people remain at the heart of our ability to deliver leading edge products and future business growth. We have made significant efforts this year to find and recruit the key skills required to realise our growth ambitions. To further penetrate our strategic markets, we strengthened our business development team with the addition of seasoned industry experts with a strong track-record of sales delivery. We have also been successful in hiring high-calibre RF engineers for our new design office in Manchester and this team is now specifically engaged in addressing opportunities in the emerging space and telecommunication infrastructure market.

Customers and Markets

Our stated mission at Filtronic is to drive the future of RF, microwave and mmWave communications and we have aligned the business to focus efforts on four strategic vertical markets that we believe have good growth potential and a strong alignment with our RF capabilities. We have been careful to select applications

Pictured: Taurus - High performance E-band solid state power amplifier where we could add significant value, drive sustainable margins, reuse existing IP, and leverage the investments in our existing hybrid manufacturing capability. We are also mindful to avoid commodity markets and consumer applications with low barriers to entry that offer little in the way of RF technology development.

Our selected strategic growth markets are aerospace & defence particularly EW and battlefield communications, terrestrial telecoms for 5G backhaul, and gateway connectivity for LEO space communications. All of the strategic markets have continued to invest in the development of RF technology over the year, with a consistent drive towards higher power, lower latency, and improved bandwidth applications where Filtronic can apply know-how and product development expertise.

The aerospace market has long been a steady revenue contributor to our business and this year we have expanded our footprint in the Active Electronically Scanned Array ("AESA") radar market by capturing several related filter design opportunities that position us well for strategic radar programmes that will come in the next five years. We have continued to make inroads into the UK defence market with several successful engagements with Defence Science Technology Laboratories ("DSTL") following successful delivery of our first battlefield communications product in FY2022. We were successful in winning an additional two DSTL programmes in FY2023 and both of these programmes align us closer with UK MoD's strategic requirements.

5G telecommunication infrastructure deployment continues around the world, and critical to true 5G performance is the quality and reliability of high frequency backhaul communications. Filtronic's E-band transceivers are designed to deliver cost-effective, multi-gigabit connectivity for mobile backhaul networks, in geographies where the E-band frequency has been licenced and individual countries make the E-band frequency available for use. India licenced E-band frequencies in 2022 as part of its long awaited 5G roll-out and Filtronic took benefit of stock orders from our lead customer to cover what is expected to be a sustained period of demand for backhaul products. Recent concerns associated with the solvency of the licenced telecom operators in India, together with surplus inventory from the stalled 5G roll-out in Russia will inevitably result in some order book demand to be rescheduled. However, the long-term potential in India remains significant. Recent orders for high-power high-frequency trading modules, private network E-band modules and custom power amplifier solutions suggest that there are several interesting adjacent market opportunities for Filtronic's core telecommunication technology.

The LEO space market is growing rapidly as the costs associated with the launch and deployment of satellite technology continues to fall. Well-funded, global corporations and ambitious regional start-up companies are racing to build constellations of satellites that will accelerate the delivery of broadband services across the globe. Ultimately these LEO networks will converge with the established terrestrial telecommunication networks to provide high-speed, low-latency ubiquitous broadband connectivity. Filtronic's reputation as a supplier of compact, highly integrated, and extremely reliable telecommunication backhaul solutions has positioned us well to respond to the aggressive timelines demanded by the leading players in the LEO space market. The ability to design and build scalable solid state power amplifiers ("SSPAs") at multiple frequency bands enabled Filtronic to win initial production orders for the deployment of the first LEO space E-band backhaul communication links during the year. We will look to build on this initial market success by strengthening customer relationships and focusing on the delivery of our technology roadmap over the next 24 months.

Achievements

There have been several notable achievements over the last year which set the potential for sustainable growth and future revenues, some of which are as follows:

- Our first development of an E-band SSPA module for the market leader in LEO space communications.
- Secured production orders and enabled the launch of the Morpheus X2 E-band transceiver that more than doubles the transmission range of current 5G backhaul radio links.
- Taking advantage of new semiconductor process IP we launched a series of prototype chip developments in CY2023 with promising results
- We secured our second and third DSTL programmes in FY2023 and continued to build our relationship as a supplier of turnkey RF solutions to the UK MoD
- Focusing on our filter design expertise we secured orders in EW, air and shipborne radar, battlefield communications and emerging quantum computing applications.
- Secured three separate programmes for custom high-performance E-band transceivers in private network applications associated with private data communications and high-frequency trading platforms.

Outlook

We operate in a period of economic and geopolitical uncertainty, but one in which our technology is in demand, and the expertise we offer is in short supply. Our strategic markets are well positioned for growth and our lead customers continue to invest in next generation RF solutions. The disruption to semiconductor supply chains that impacted our business in FY2023 are improving, and we feel that we now have the resources and skills necessary to look forward with optimism to the new trading period.

Filtronic's core markets represent industry verticals that have a robust outlook and align well with the needs of the post-pandemic world. Public safety, mobile communications, a sovereign defence capability and

Strategic report

Chief Executive's review continued

the rapid development of LEO space networks, are well funded sectors that resonate with governments, investors, and the public at large.

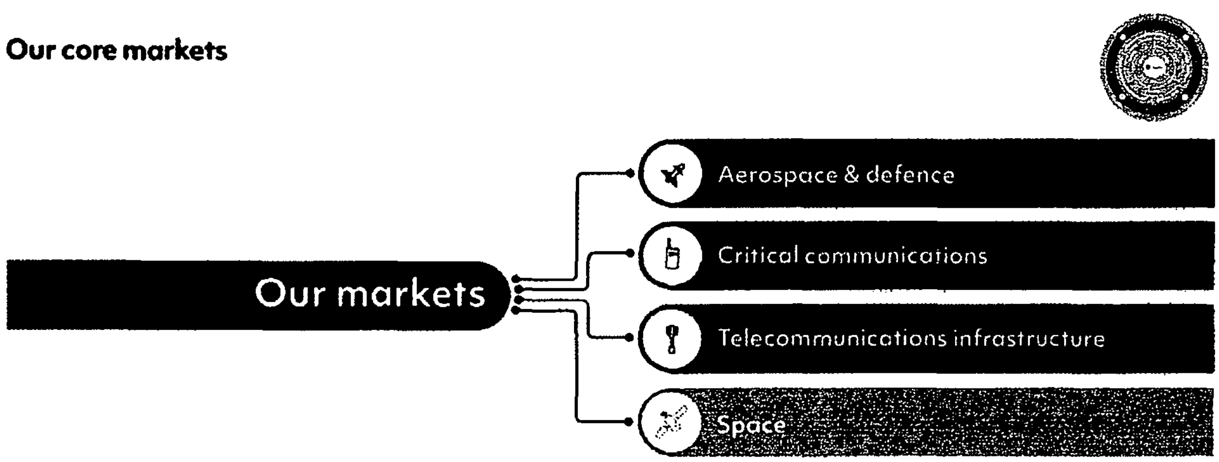
Business plans for FY2024 reflect our confidence in the markets we serve to deliver long term sustainable growth. We have an open and honest culture that is proactive and highly motivated to deliver excellence in all aspects of our business. We will further develop our prospects over the next 12 months with a focus on the following activities:

- Maximise the opportunity associated with the fast-growing LEO Space backhaul communications market, including both ground station and payload applications.
- Development of next generation MMIC designs that will enable us to continue the evolution of our mobile telecom backhaul solutions.
- Develop our scalable Cerus power amplifier platform to maximise the range of power options at selected frequency bands required for LEO space communication links.
- Champion the UK Government National Semiconductor Strategy and position Filtronic as a trusted sovereign supplier of advanced RF packaging solutions.
- Develop our manufacturing capability to add plastic encapsulated devices to our portfolio of hybrids and SiP solutions.
- Selectively target funding from agencies and UK Government initiatives that support and underpin the delivery of the Filtronic technology roadmap.
- Continued investment in our marketing activities including enhanced web content and strategic use of social media platforms for targeted marketing.
- Strengthen the sales organisation with the deployment of direct sales and business development resource in the UK and Western Europe and expand indirect channels in the USA and Europe through distribution and representative networks.
- Consolidate the return on the investment in capital equipment by winning outsourced assembly and test ("OSAT") opportunities with customers who require specialist hybrid and plastic QFN packaging capability.
- Continue to align our business processes and equip our facilities to achieve the accreditation necessary to undertake a higher level of UK defence programmes.

I am pleased with the progress that the business has made in the last financial year and remain excited by the potential that exists at Filtronic. There is an increasing demand for our high-performance products and unique RF design capabilities, and based on our investments in FY2023, I believe we are building the IP portfolio, resources, and expertise necessary to scale the business. The specific market segments that we have identified for growth continue to develop at pace and as we embark on a new financial year, I believe we are well placed to deliver long term shareholder value.

Richard Gibbs
Chief Executive Officer
31 July 2023

Our core markets



Market review

Filtronic's mission is to enable the future of microwave and mmWave communications by providing advanced radio frequency ("RF") communications equipment incorporating specialist RF design and state-of-the art manufacturing. Filtronic have targeted three strategic markets that are forecasting significant investment in RF technology and have the capability to deliver sustainable business growth. These markets include **telecommunications infrastructure, aerospace & defence** (radar and electronic warfare ("EW") applications) and stratospheric and low earth orbit ("LEO") **space** applications. In addition, Filtronic serves the **critical communications** market in North America where it has worked for the leading original equipment manufacturer ("OEM") for over 20 years.

TELECOMMUNICATIONS INFRASTRUCTURE

Filtronic has a long heritage of supplying Xhaul products into the telecommunications infrastructure market. Xhaul is a collective term that covers front, mid and backhaul, representing the various connections between the edge of the telecoms network, base stations, remote radio heads and the core fibre optic network.

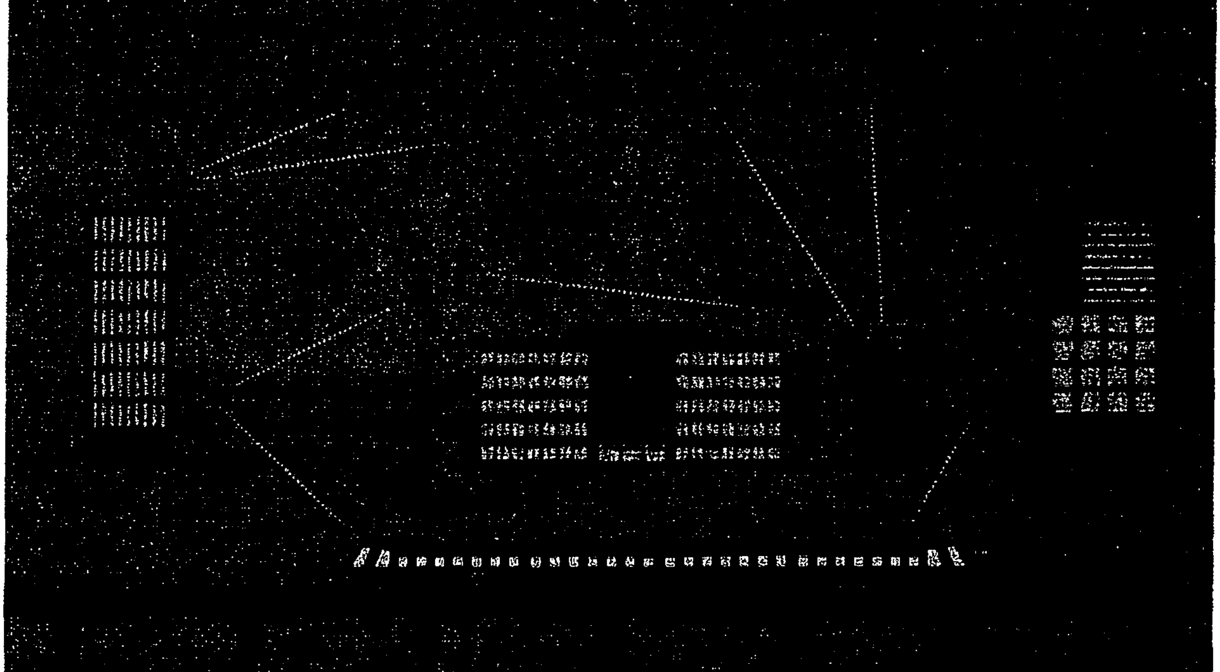
As data demands on telecommunication networks increase, the capacity of Xhaul links has to adapt.

The significant extra bandwidth available with the lightly licensed mmWave bands, primarily E-band (71-76GHz / 81-86GHz), W-band (92-114.5GHz) and D-band (130-175GHz) are important for future ultra-high bandwidth requirements.

The roll out of true 5G networks is a major driver for the deployment of wireless, E-band Xhaul products.

Market estimates predict that by 2027, microwave will account for 65% of the installed base of backhaul connections, and with 11% CAGR, at least 50% of these wireless links will be high frequency mmWave.

Our intent is to become the independent "go to" partner of choice for these demanding mmWave product designs.



XHaul for telecommunications infrastructure
- Transceivers
- Amplifiers
- Filters
- Multiplexers

Strategic report

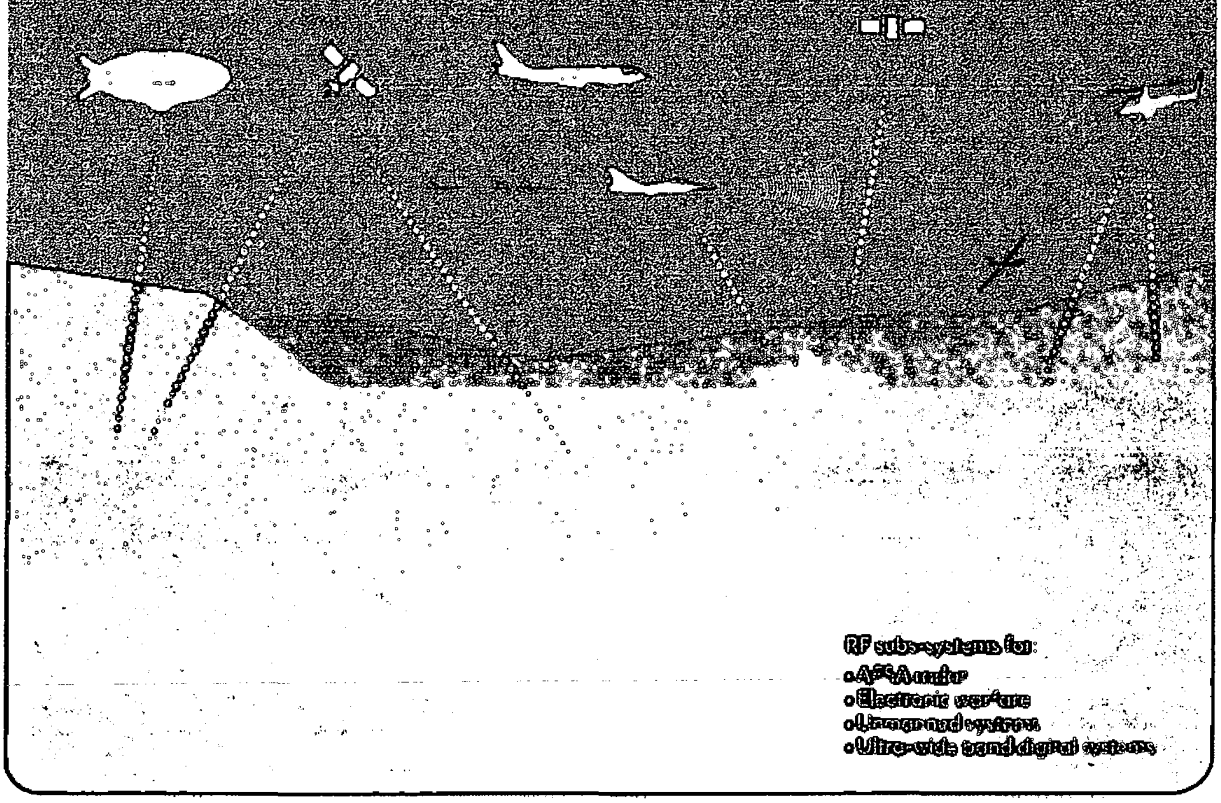
Market review continued

AEROSPACE & DEFENCE

Filtronic has been a supplier of sub-systems and RF components to the aerospace and defence industry for several years, in particular the delivery of filters, which fit in front and electronic modules for successive generations of air and shipborne radar systems.

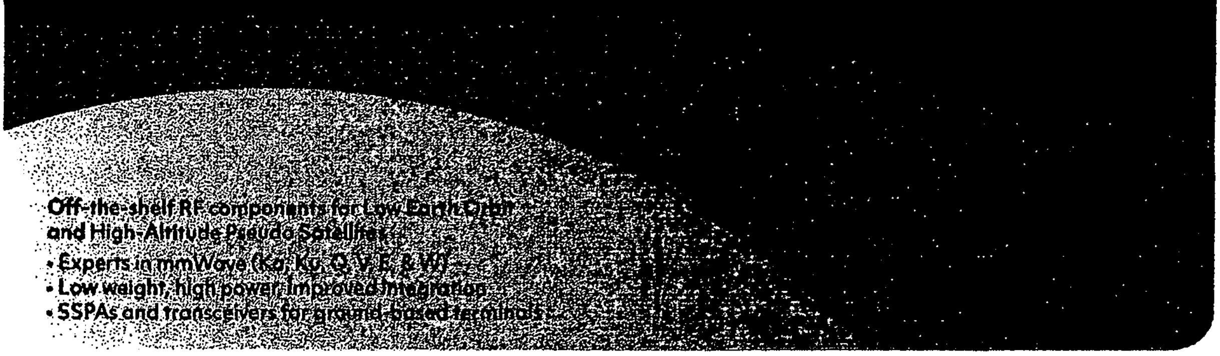
The next generation of Active Electronically Scanned Array (AESA) radar [illegible]

[illegible]



LOW EARTH ORBIT ("LEO") SPACE

Filtronic recently won a major contract with the market leader within the ground station applications. This is an emerging market where our technology is highly relevant and our capabilities well-aligned. In recent years there has been a significant level of effort to design, develop and deploy high-altitude communication networks, or non-terrestrial networks ("NTN"), that both complement and overcome the limitations of conventional terrestrial telecom infrastructure to deliver [illegible] 5G connectivity and services over a wide geographical area.

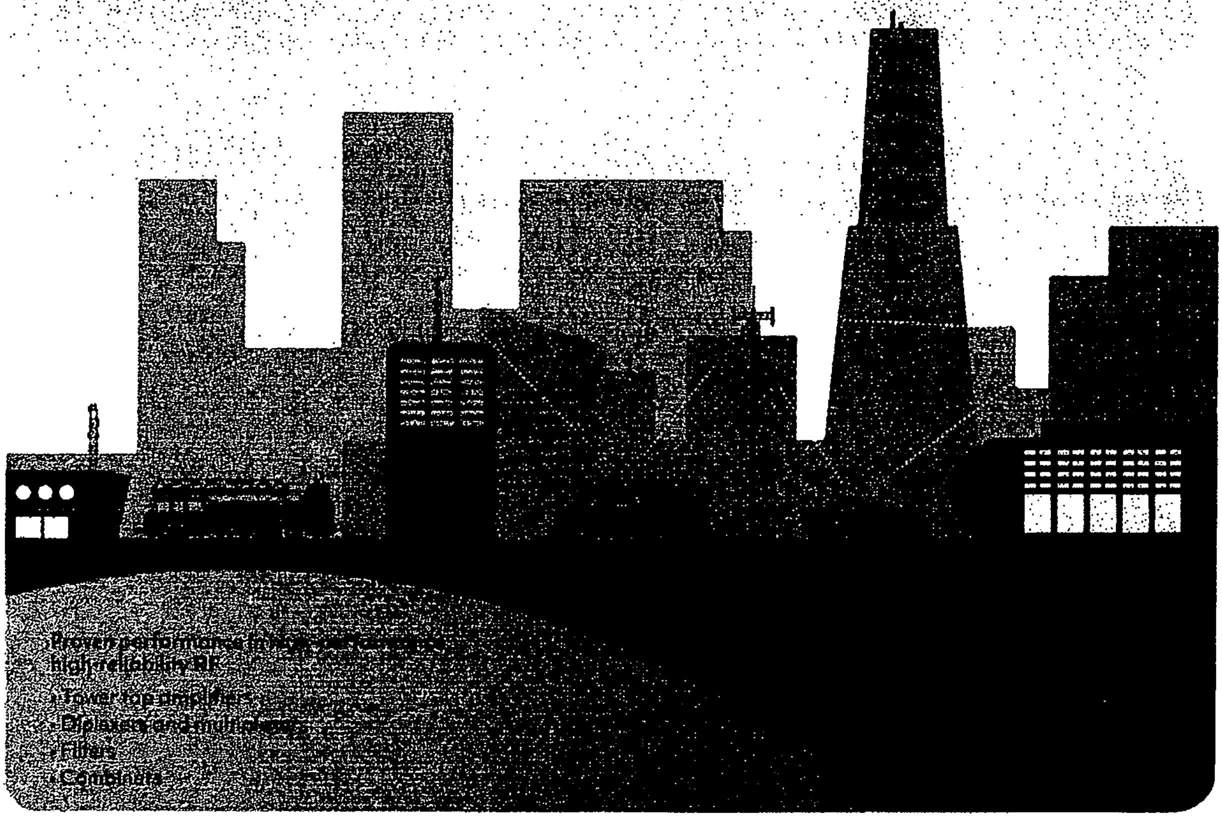


Market review continued

CRITICAL COMMUNICATIONS

Filtronic has supplied into the market leader for over 20 years, supplying a range of sub-systems and RF conditioning products. Critical communication networks are operated for the benefit of emergency services, federal agencies, defence installations and private security networks. Reliability, availability, and security are critical attributes for these services, and for this reason they are normally provided over separate infrastructure, independent of commercial telecoms networks.

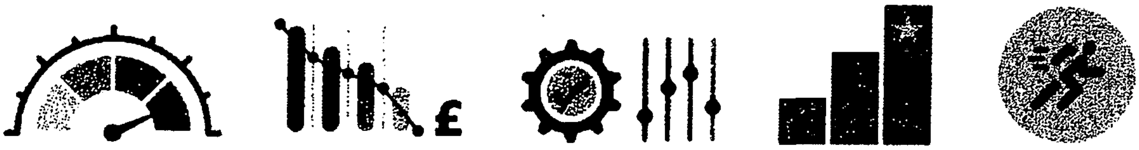
- Filtronic has been a supplier of mission-critical filters and combiners to the North American P25 Land Mobile Radio ("LMR") network market for many years and have established a strong relationship with the leading American OEM in this sector.
- Filtronics tower top amplifier (TTA) range continues to perform well in the market. It has been adopted by the market leader as the leading TTA.
- Whilst there is limited scope to further develop technology for LMR applications. Expenditure on critical communication networks will continue to grow modestly as emergency services expand coverage, integrate services, and replace legacy FM analogue networks.
- This market is a legacy market for Filtronic, we work for the largest OEM and have an extended range of customer-specific filters and combiners. According to recent data the global LMR market is forecast to grow at a 5.9% CAGR between 2022-2029, driven primarily by integration between the LMR system and the LTE network.



Filtronic will continue to seek and develop opportunities in adjacent markets where we can leverage existing technology and capability, particularly those applications associated with the licenced frequency ranges of Q / V/ E/ W and D-band. Current adjacent applications of interest include **low-latency** and **high-performance private networks, high-speed track-to-train networks, mmWave test systems,** and **quantum computing** applications.

Objective and strategy

Filtronic plc is a designer and manufacturer of advanced RF communications products supporting strategically important market sectors including telecommunications infrastructure, space, aerospace and defence and the legacy market of critical communications.



Filtronic have been at the forefront of RF technology for over 45 years, and we create value for our clients by enabling the future of RF, microwave and mmWave communications. We focus on markets where we have a deep understanding of the sector and the customer's application. We can leverage our world class design expertise and extensive IP portfolio to create innovative products and sustainable revenue streams.

Being a trusted supplier of technically advanced products in markets that place high value on quality and reliability, enables us to differentiate ourselves from competition and deliver profitable growth and a positive return for our shareholders.

Our strategy is focused on providing high performance RF solutions from 300MHz to 300GHz focused on three distinct primary growth markets.

Strategic markets

Telecommunications infrastructure

Build on our existing E-band technology to offer a complete product family of high power and low latency transceiver options in a selection of packaging styles that facilitate easy integration into Xhaul radio designs. Expand our frequency band offering to include W-band and D-band transceivers that incorporate our own best-in-class MMIC designs.

Space

Leverage the IP and manufacturing capability developed for the terrestrial telecommunication market to position Filtronic in the emerging LEO space and HAPS market.

To deliver the business strategy we set demanding goals for the organisation. We cascade, measure and reward achievement of these goals via our management objectives and annual appraisal process.

Aerospace and defence

Aerospace

Build on our existing aerospace customer relationships to secure design wins for the next generation of AESA radar and future manufacturing volumes of OSAT hybrid manufacturing.

Defence

Use our considerable design expertise in filters and RF sub-systems for critical wireless communication products to [illegible] design solutions for the UK defence industry.

Strategic report

Objective and strategy continued

Product & technology strategy

Data is universal and drives everything from laptops to cars. Moving that data around is tricky, especially as the requirements increase. Filtronic's expertise enables seamless connection with increased bandwidth, reduced latency and improved connectivity. We work with global technology leaders because we provide a level of expertise they cannot get elsewhere.

Brand strategy

Filtronic has a strong brand and reputation for innovation, quality, collaboration and world class design and manufacturing across the RF spectrum. We recognise the value of a strong brand and have invested in the marketing tools to promote and build the Filtronic brand across our high-growth sectors.

Organisational overview

Filtronic currently operates from four sites, Sedgefield, Leeds and Manchester in the UK and Salisbury, Maryland in the USA.

Sedgefield, UK

mmWave design, manufacture and test

Leeds, UK

RF design and assembly for aerospace and defence and critical communications

Manchester, UK

SatCom design centre

Salisbury, USA

RF assembly and test for critical communications

Sustainable revenue growth

Key progress in FY2023

- First significant contract win in the LEO Space market.
- Two new contract wins with DSTL to develop solutions for the UK defence market.
- First Morpheus orders secured for the roll-out of 5G telecommunications in India.
- Increased our direct and indirect channels to market.
- First production order from the quantum computing market with custom cryogenic filters.
- 11 trade exhibitions completed in FY2023.

Objectives for FY2024

- Drive revenue growth in FY2024.
- Capitalise on further contract wins in LEO space market.
- Continue to develop the DSTL relationship and push to secure follow on contracts from the initial development programmes.
- Expand outsourced semiconductor assembly and test ("OSAT") capability to adjacent hi-reliability markets in oil & gas and telecoms.
- Support the UK Government National Semiconductor Strategy and position Filtronic as a contributor to the sovereign supply chain.
- Expand indirect channels to market for RF subsystems in the USA and selected European and Asian countries.
- 15 Trade shows planned with a focus on expanding presence and building brand awareness in our strategic markets.

Sustainable financial growth

Key progress in FY2023

- Results in line with market expectations.
- Another year of profitable trading and strengthened balance sheet.
- Stronger order book and opportunity pipeline.
- Reduced the customer dependency with four customers now over 10% of revenue (2022: Three).

Objectives for FY2024

- Continue to build good momentum for future growth in existing and emerging markets.
- Continue to invest in R&D and sales and marketing.
- Continue to invest in new technology and broaden our product offering.
- Develop our operational capability to offer new services to new and existing customers.

Technology and innovation

Key progress in FY2023

- Project launched to develop concept solutions for Ka, Q/V and W band in LEO space market.
- Plastic encapsulation concept established, manufacturing equipment specified and received.
- Launched the X2 version of Hades and Morpheus and secured new OEM wins with both products.
- Successful first mmic wafer run for new E band and W band chipsets
- Manchester team fully deployed and additional resources added in support of LEO space opportunities.
- Added wedge bonding capability in Sedgefield operations.
- Developed detailed technology roadmap by market and application.

Objectives for FY2024

- Develop SSPA concept for the LEO ground station applications.
- Productisation of next generation MMICs with a production mask set.
- Complete qualification of plastic quad flat no-lead package ("QFN") with lead customer.
- Capitalise on the tuneable filter programme to identify lead OEM customer.
- Develop high power (x2) transceiver and SSPA product family based on Filtronic power combining concept.
- Develop X2 range with Hercules for low latency private networks.

Develop business systems

Key progress in FY2023

- Secured IASME Governance Gold cyber security accreditation at first attempt.
- Revamped website to be more product focused.
- Significant increase in direct marketing, social media presence and thought leadership papers and technical publications.
- Further investment in the CRM system to augment lead generation and targeted marketing campaigns.
- Upskilling of our management teams with the Filtronic Leadership Academy.

Objectives for FY2024

- Target Space Agency and UK Government funding to underwrite core IP development activity of Ka, Q/V and W-band modules for LEO payload applications.
- Continue the use of direct marketing techniques to build the Filtronic brand awareness within our chosen vertical markets.
- Implement a new MRP system as part of our procurement strategy.
- Embed the ESG strategy into the business.
- Create a high performance culture within the operation.
- Adopt the new apprenticeship programme to build for the future.

ESG

Key progress in FY2023

- Identified the key ESG issues that are a priority
- Formalised our ESG strategy and set the key objectives.
- Set targets based on the priorities identified.
- Published the ESG strategy in a glossy brochure and on the website
- Invested in new more energy efficient machinery.
- Developed an apprenticeship programme.

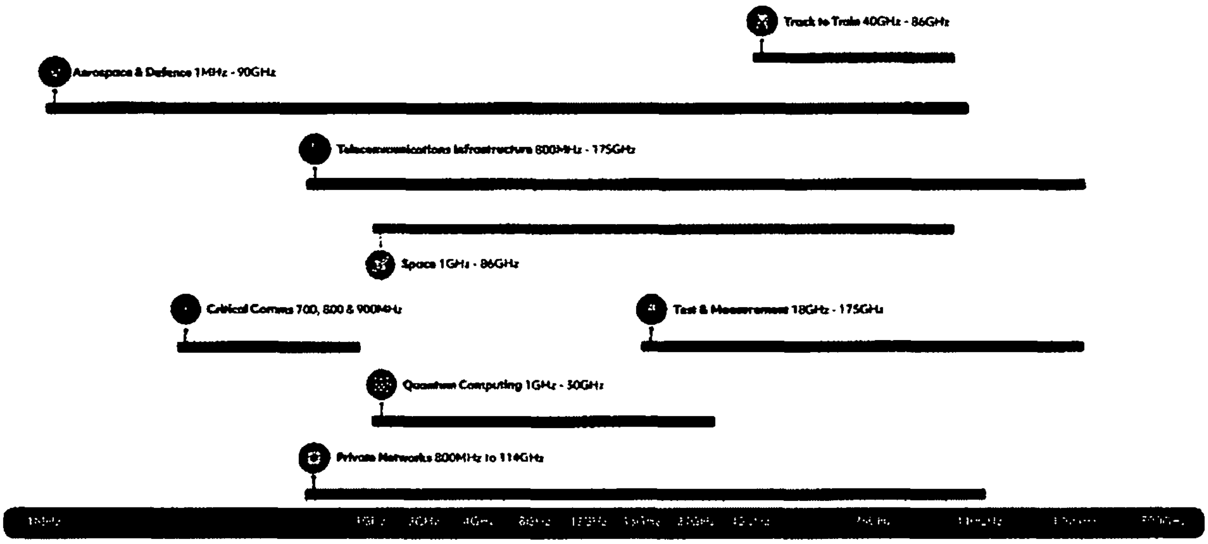
Objectives for FY2024

- Reduce energy consumption and minimise waste.
- Build skills for the future and promote STEM in the local community.
- Remove single waste plastics from our site.
- Actively promote equality, diversity and inclusion in the business.
- Create a learning and development culture.
- Improve communication to our employees.
- Scope and plan for ISO27001.

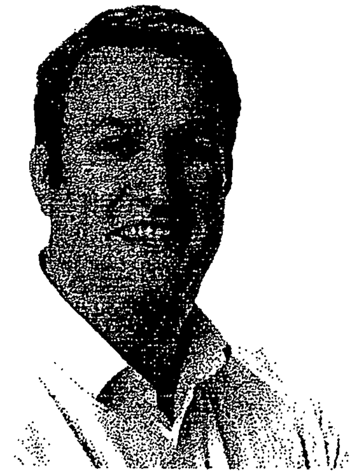
Strategic report

Objective and strategy continued

Where we operate within the RF Spectrum



Financial review



Notwithstanding a heavy focus on top-line growth, another successive year of profit generation enabled further investment to achieve key strategic objectives, despite macro-economic headwinds and well documented industry-wide semiconductor shortages.

Good progress continues to be made by the Group with Adjusted EBITDA generation delivering £1.3m (2022: £2.8m) for the year, in line with market expectations. We maintained investment into the business, particularly in the areas that will drive growth as we capitalise on the opportunities within our core markets. We are in the fortunate position of continuing to see growth prospects in our core sectors, when many markets are struggling with well documented economic and political uncertainty. Given the elevated pipeline of new business, we will maintain our focus on those that offer a high rate of return and deliver shareholder value in the coming year.

Revenue

Had it not been for the widely publicised global semiconductor component shortages, this report would have been heralding another year of revenue growth. Having navigated the global semiconductor component shortage crisis exceptionally well since the issue first surfaced a couple of years ago, it was frustrating that a couple of niche component parts brought output of a core product offering to a halt in Q3 of the financial year. This was a direct result of the semiconductor supplier prioritising output of more widely consumed parts to other markets, resulting in reschedules from the supplier that could not be mitigated. The consequence of this was an annual revenue decrease of 5% to £16.3m (2022: £17.1m). During the year, sales into the telecommunications infrastructure market performed particularly well whilst we were delighted to receive an order from a market leading player in the LEO space market, of which a substantial amount was realised in FY2023.

We are pleased that the pipeline continues to build, particularly in aerospace and defence and the emerging market of space. A key strategic objective of the business has been to broaden our customer base, and this is evidenced in the year by the decrease in the revenue concentration of our three largest customers to 73% (2022: 81%), whilst we now have four (2022: three) customers each generating over 10% of our revenue and in total 85%.

Sales to the telecommunications infrastructure market were particularly strong this year as the pace of 5G backhaul rollouts accelerated, thanks in part to the release of E-band spectrum by governments around the world. This led to sales to this sector increasing year-on-year by 40%. This stronger demand can, in some part, be apportioned to inventory stocking at our lead customer to enable them to flex to demand requirements if they are successful in the Indian market where E-band has recently been licenced.

Sales of Xhaul products to other markets, including the space market, were up 57% on the prior year mainly due to the new customer win in the LEO space market. The contract win enabled us to deliver further growth within our E-band and derivative technology products. This is an exciting and emerging market for us, where our technology and expertise is highly relevant. The initial contract from a major LEO player, valued at £2.3m, to undergo a trial in the ground station using E-band technology, demonstrates the attractiveness of our capability. Our ability to ramp and manufacture rapidly to keep the pace with this fast-moving market gives us a competitive advantage relative to traditional suppliers to the space industry.

Sales of aerospace & defence products saw a year-on-year reduction of 41%, partly as a result of supply issues pushing shipments into FY2024, but mainly due to a hiatus in supply of an established programme that ended in the previous financial year. This market remains critical to our growth plans, and despite the reduction, we continue to see contract wins for development work. DSTL is the MoD's framework to engage with SMEs, and we were delighted to win two new contracts in the year on this platform with revenue from both programmes recognised in the year.

The legacy products supplied into the critical communications market were impacted by upstream component issues within the system-level product. This resulted in a decrease of revenue to this market of 20%. This trend is expected to reverse in FY2024, with demand restored to normalised levels, which we anticipate will provide an uplift in revenue in the next financial year. The TTA product continued to perform well, having exceeded our expectations in the prior year. We won more market share in the year and grew our brand profile with key customer teams. We also won a number of other contracts to this market outside of our lead customer, through both our direct and indirect sales channels.

Operating costs and headcount

Operating costs increased by 6% in the year to £10.0m (2022: £9.4m) as overheads were controlled tightly in the administrative areas of the business to enable us to continue investing in engineering and sales and marketing resource which will drive business growth.

Strategic report

Financial review continued

The Group's largest overhead is salary-related costs, representing nearly 70% of the operational cost base, which increased by £0.4m (7%). Whilst maintaining headcount at a similar level to the prior year we did change the mix of employees during the year with recruitment of employees in revenue generating functions such as engineering and business development that generally attract a higher salary. These increases were partly offset by improvements in manufacturing efficiencies and further automation of operating processes.

The recruitment of business development resource strengthens our direct channel to market and is key to capitalising on opportunities in the high growth markets we operate within. Continuing the investment into engineering is critical and it was pleasing to see that we not only increased the number of engineers, but they bring valuable expertise and experience, which has significantly upskilled the team. This enables us to service a larger opportunity pipeline, increase the number of product developments for customers and expand our technology roadmap to position us well to execute our strategic plans.

Given this shift, there was a slight increase in the total number of employees in the Group during the year which is reflected in the average headcount increasing to 125 (2022: 124). An analysis of the Group's average headcount is presented below:

Number	2023	2022
Manufacturing	**74**	78
Research and development	**31**	26
Sales and marketing	**7**	5
Administration	**13**	15
Total headcount	**125**	124

We are planning to add further business development resource in FY2024, to augment our direct access to market, whilst we also plan to bring in additional engineering resource to deliver scheduled programmes and accelerate new product delivery. Investment in our engineering teams is critical to sustainable financial growth and we plan to maintain this spend at around 12% or more of revenue. This will ensure we have the resource in place to capitalise on growth opportunities and keep ahead of our competitors with the latest technology.

Other costs were managed tightly throughout the year with cost savings of £0.2m realised in administrative functions.

The Group has also been highly active in grant funding channels to further support growth initiatives and investment. Whilst other operating income reduced against the prior year, as we previously received Covid business support from the US government, we have had a number of successes over recent years with capital grants towards key pieces of machinery. Looking forward, we are putting increased effort into securing revenue grants to help fund our technology roadmaps.

A large portion of our product development in the year was customer funded which maintained a healthy flow of cash during the development phase of the engineering projects. However, we also invested our own money in developing products as part of our technology roadmap, particularly to develop solutions for the space market as well as Morpheus X2 to give our customers higher power in telecommunications infrastructure. Consequently, we capitalised £0.5m of development costs in the year. Further commentary on these capitalised development costs can be seen in the Research and Development section of this review.

Adjusted EBITDA

The Group utilises an alternative performance measure ("APM") to track performance of the business. This APM is Adjusted EBITDA as it measures the quality of earnings without the impact of exceptional items and non-cash expenses such as depreciation and amortisation. Adjusted EBITDA for the year was £1.3m (2022: £2.8m) representing a 55% decrease whilst Adjusted operating profit was £0.2m (2022: £1.6m) representing an 85% decrease. This was the result of weaker gross profit from lower revenue, and a weaker sales mix due to lower representation of high margin aerospace and defence revenue and higher representation of 5G telecommunications equipment which is a price sensitive market

The table below shows the reconciliation of operating profit delivered at £0.2m (2022: £2.0m) and to Adjusted EBITDA.

Reconciliation of operating profit to Adjusted EBITDA	2023 £000	2022 £000
Operating profit	**237**	1,975
Exceptional items	–	(391)
Adjusted operating profit	**237**	1,584
Depreciation	**780**	945
Amortisation	**253**	278
Adjusted EBITDA	**1,270**	2,807

Taxation

A tax credit of £0.4m (2022: tax charge of £0.4m) was recognised in the year as a previously unrecognised deferred tax asset was realised given the directors expect to utilise more of the deferred tax asset in future periods. The Group also benefits from R&D tax credits given the development of new technology which lowers the amount of taxable profit

With substantial deferred tax assets, including those not recognised on the balance sheet, the Group will continue to benefit from not having a tax liability for the foreseeable future.

Research and development costs ("R&D")

Total R&D costs in the year before capitalisation and amortisation of development costs were £2.0m (2022: £1.7m). The Group incurred engineering costs on a mixture of customer funded developments and development of our own technology roadmap.

The Group remains committed to investing in R&D for future growth and consequently measures R&D spend as a KPI. Key areas of spend in the year included product development for each of our key growth markets spanning telecommunications infrastructure, aerospace and defence, space and development of capability at new frequency bands including Q, V and W-band. The year ahead will see us continue to invest in the development of our own strategic technology roadmap and proprietary IP enabling us to build long-term shareholder value in the years ahead.

Recruitment of RF engineers has been an industry-wide issue for some time, but we are pleased with recent successes in attracting new talent to the business at each of our three UK engineering development sites. We will augment this by building an organisation fit for the future, maintaining our graduate recruitment scheme and adding a new apprenticeship programme.

The Group capitalises its development costs in line with IAS 38 as set out in note 1 to the financial statements. A reconciliation of R&D costs before capitalisation and amortisation can be seen in the table below:

Reconciliation of R&D costs	2023 £000	2022 £000
R&D costs in income statement	**1,776**	1,937
Capitalisation of development costs	**481**	-
Amortisation of development costs	**(222)**	(259)
R&D cash spent	**2,034**	1,678

Capital expenditure and right of use assets

Capital expenditure increased significantly in the year, with a large element of investment occurring in Q4 of the financial year. The total amount of capital purchased was £1.5m (2022: £0.6m) with investment made into QFN plastic packaging equipment and engineering test systems suitable for operating at frequency bands important for space applications utilising Q and V-band.

Warranty provision

In line with industry practice, the Group provides warranties to customers over the quality and performance of the products it sells. Reflecting a full risk analysis of current commercial contracts at 31 May 2023, the warranty provision was £0.3m (2022: £0.1m)

Funding and cash flow

The Group recorded a decrease in cash and cash equivalents to £2.6m (2022: £4.0m) at the year-end. Cash generated from operating activities in the year was £1.0m (2022: £2.3m) as Adjusted EBITDA performance drove cash generation offset by increased working capital requirements.

Net cash, when including all debt except property leases at the end of the period, was £1.6m (2022: £3.1m), whilst overall net cash including property leases was £0.3m (2022: £2.2m).

We also have additional cash headroom available through a £3.0m invoice discounting facility with Barclays Bank plc in the UK and a $4.0m invoice factoring facility with Wells Fargo Bank in the USA. Both facilities were undrawn at 31 May 2023 (2022: undrawn) and will need renewing within 12 months of the date of signing the Annual Report.

Going concern

In assessing going concern, the Board have considered:

- The principal risks faced by the Group which are discussed within the 'Risk management' section of the Annual Report;
- The financial position of the Group including forecasts and financial plans;
- The healthy cash position at 31 May 2023 of £2.6m (2022: £4.0m) and the additional headroom available through the undrawn invoice discounting facilities and overdraft (2022: undrawn);
- Global semiconductor component shortages impacting supply chains and the potential for customer orders to remain unfulfilled for prolonged periods; and
- The economic headwinds the world is facing with the potential for customers to reassess their priorities, with opportunities postponed or curtailed.

Following the above considerations, the Directors are satisfied that the Group has adequate financial resources to continue in operational existence for a period of at least 12 months from the date of this report. Accordingly, the going concern basis has been adopted in the preparation of the Annual Report for the year ended 31 May 2023.

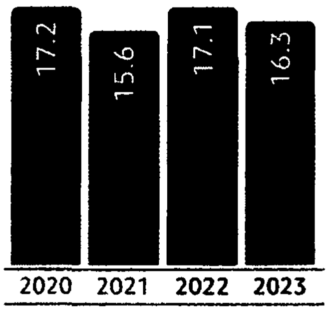
Michael Tyerman
Chief Financial Officer
31 July 2023

Key performance indicators

The Group's management team uses various Key Performance Indicators ("KPIs") to monitor the financial and non-financial performance of the business. Below are the measures and metrics which the Board believes best indicate the financial performance of the Group's continuing operations.

Revenue (£m)

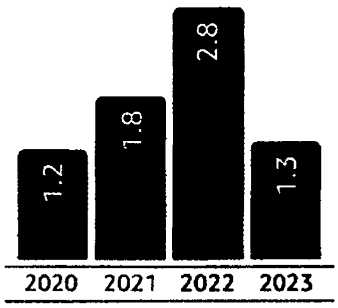
£16.3m



The total amount the Group earns from the sale of products and services.

Adjusted EBITDA (£m)

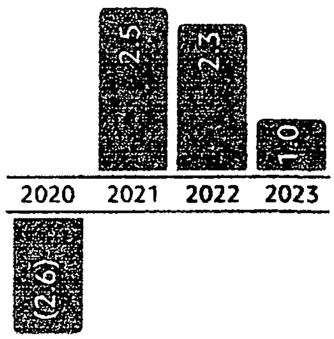
£1.3m



The Board recognises adjusted EBITDA as a key metric of the underlying health of the business.

Cash generated from/(used in) operating activities (£m)

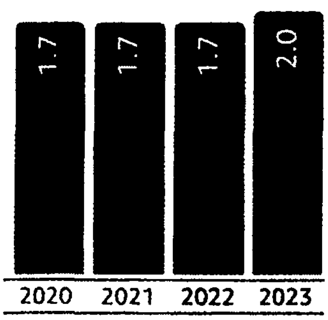
£1.0m



The Board recognises that cash flow from operating activities indicates whether the Group is able to generate sufficient positive cash flow to maintain and grow its operations, or it may require external funding for financing.

R&D costs (£m)

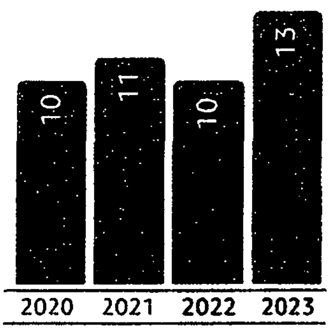
£2.0m



The Board recognises that the Group needs to invest in new products, capabilities and technologies to participate in a technology-driven market and measures the investment made in research and development.

R&D costs as percentage of revenue (%)

13%



The Board recognises that the Group needs to invest in new products, capabilities and technologies to participate in a technology-driven market and measures the investment made in research and development

Risk management

The Board recognises strong risk management is key to our success and achievement of our strategic objectives. A rigorous assessment of the principal risks facing the Group is regularly undertaken with quick and effective responses taken when needed. These principal risks carry financial, operational and compliance impacts including those that threaten the business model, strategy, future performance, solvency and liquidity. They are identified based on the likelihood of occurrence and the severity of impact on the Group that could result in damage to our reputation or business performance.

Approach to managing risk

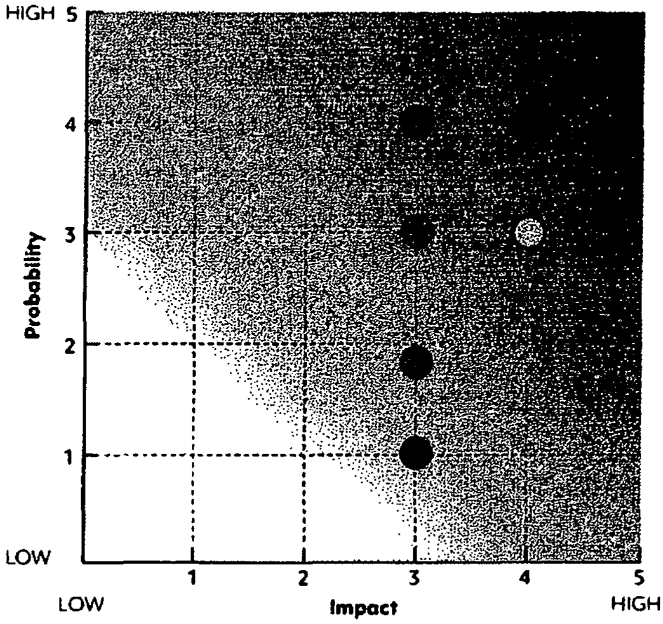
The Board is ultimately responsible for the overall risk management system and internal controls applied throughout the Group to ensure a structured and appropriate approach to risk is taken in line with strategic priorities and risk appetite. The Audit and Risk Committee has oversight of risk management and reports to the Board with its findings. The directors recognise that risk is inherent in any business so actively manages rather than eliminates risk to achieve business objectives which includes review of the effectiveness of these controls.

Risk management within the Group is managed by the Risk Management Committee made up predominantly of the Senior Leadership Team including the Executive Directors.

The team is responsible for:

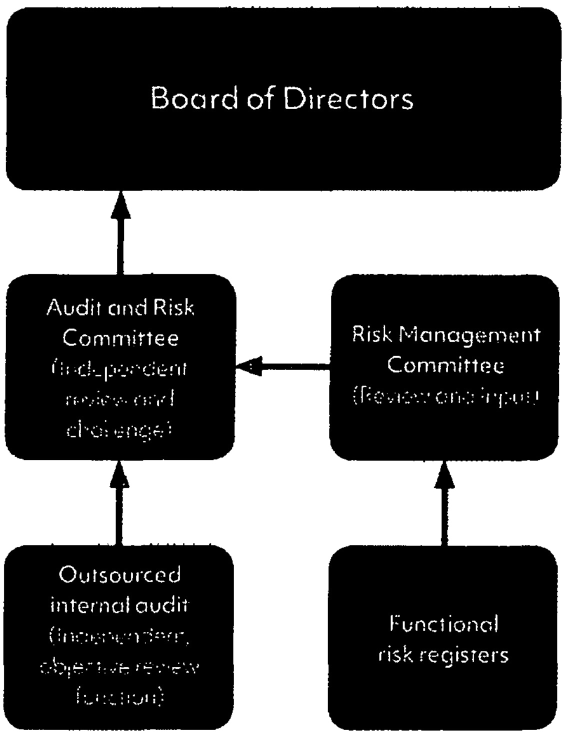
- Identifying the risk and the negative and positive risk circumstances;
- Assessing and evaluating the likelihood and impact of those risks;
- Reporting the risk; and
- Managing the key risks in accordance with established processes under the Group's operational policies and controls.

This process includes a regular review of the Group's risk register considering existing and emerging risks, risk scores and mitigation action plans prepared by risk owners to manage and reduce the risk. Reporting within the Group is structured so that key issues can be escalated rapidly through the management team to the Board where appropriate.



Key:

- Market requirements
- Technology
- Supply chain
- Reliance of key customers
- Cost inflation
- Cyber risk



Risk management continued

Managing new emerging risks

We monitor new and emerging risks closely. In the year, we have not added any new risks to our risk register, but we have downgraded the risk relating to talent retention and acquisition as the competitive environment for skilled employees with experience relevant to Filtronic has eased. Therefore, we have removed the risk from principal risks and uncertainties.

Risks also present opportunities as well as potential downside; the global electronic component shortage created opportunity when our competitors within the critical communications market were unable to supply product as they encountered material shortages. We capitalised on this opportunity as we had mitigated material shortages to this market by leveraging our balance sheet to buy additional components over and above our own requirements.

We have mitigating plans to cover each of the risks we are managing.

In the year ahead, our priorities will focus on ensuring we meet our engineering project timelines given the volume of programmes we are actively managing to support customers and develop our own technology roadmap.

Our principal risks and uncertainties

Risk	Risk description	Mitigation actions	Change in year
Failure to deliver projects on time or to specification	The markets we supply into are time-sensitive and opportunities may be lost if we fail to achieve customer specification or meet the timescales required to match market demand. This may also impact on future revenue. For products in the production cycle, technology insertion is often required as a means of achieving cost reductions to improve product margins. Our product competitiveness is heavily influenced by technology choices at product concept stage and throughout the execution of design to product launch. If the technology we develop is inappropriate this could result in missed opportunities.	Our ability to remain competitive in terms of technology and product design is underpinned by retaining key employees, talent acquisition and effective design methodologies. We work closely with our customers and suppliers to gain a thorough knowledge of the technology being developed in the marketplace. We are also members of key forums such as The European Telecommunications Standards Institute (ETSI). By staying close to the market, we position ourselves to react quickly to any technology changes that develop. When undertaking new product developments, we follow a process which facilitates a thorough review of the engineering development at various milestones throughout the project. This methodology is designed to ensure the product has no design defects, meets the required specification and is on time to exploit the market opportunity. We have a project management team to ensure compliance with our engineering development process and have plans to further strengthen this function in FY2024. In order to protect our intellectual property, we maintain and apply for patents when appropriate and actively encourage innovation in our engineering team through a reward process.	
Failure to identify market requirements	With the rapid evolution of product technology and other corporate decisions, the size of our addressable market may be affected. Failure to forecast market movements correctly thus missing opportunities or wrongly predicting product longevity could impact on long-term revenue and profit.	In a market of rapid technology changes, it is imperative the Group chooses opportunities that will yield a good rate of return and have an extended product life. All new opportunities are appraised to ensure there is a good match between our capacity, capabilities and likely adoption in a growing market with a good rate of return. The appraisal process includes regular communication with our customers including key members of our engineering teams to ensure we are developing innovative products that deliver the technical solutions needed by the market. This process also assists in the formulation of the technology roadmap to ensure it is aligned to the needs of our customers which augments the work we undertake to develop our own market intelligence.	

Risk	Risk description	Mitigation actions	Change in year
Reliance on key customers	Our revenue is currently weighted towards our four largest customers. The loss of any of these customers, material reduction in orders from any such customer or the timing of customer projects may have a material adverse effect upon Filtronic's financial condition.	Our largest customers are very successful in their respective markets, and each has a long-established relationship with Filtronic. We continue to win further contracts with our existing customers and have good outlook visibility as well as being actively engaged with them on new opportunities. The Group has strong account management strategies and mitigates this risk by working closely with customers, at all levels, to ensure that we are designed into their new products at an early stage, enabling us to develop products that meet their specifications and requirements. We provide customers with a well-resourced programme and a high level of service with a focus on product quality and delivery which enables high customer retention rates. To broaden the customer base, we have won several contracts with new customers in the year across several different markets that may lead to significant business in the future. Having strengthened the business development function in FY2023, we are looking to strengthen further in FY2024 in both he direct and indirect channels, giving confidence this risk can be reduced.	
Global electronic component shortage	There is a global electronic component shortage impacting all sectors and companies relying on embedded electronic components due to reduced supply and increased demand. An inability to source components or extended supplier lead times may prevent shipment of products to fulfil orders.	We work closely with our suppliers to understand key challenges as they present themselves. Our knowledge of the supply chain and engineering expertise can be utilised to find alternative sources or marginally different electronic product. With good communication to our customers, highlighting the risks to product lead times, we have been able to secure sales orders and commit purchase orders into the supply chain. We have also utilised the strength of the balance sheet to secure inventory early, ensuring availability of components to fulfil customer orders.	
Cost inflation and margin pressure	Inflation in the UK, as measured by the Consumer Price Index is at elevated levels, driven by broad-based cost increases. This could create a business environment in which customers redirect their spending from new projects to more pressing needs and cost management. Wage inflation, increased energy costs and rising component prices could have a direct impact on our underlying cost base and profitability.	We can control some of these inflationary factors, such as passing costs on to customers, but some factors such as economic and political ones are beyond our control. Ensuring our pricing models are updated so we are quoting for new business with the latest cost base and reducing our energy consumption are some of the measures we have in place to protect our margins.	

Strategic report

Risk management continued

Risk	Risk description	Mitigation actions	Change in year
Cyber security and data integrity	There is a risk to the Group if there is unauthorised access to, or integrity issues with, our data systems. This could cause significant reputational damage as well as service disruptions and potential impact on orders, revenue and profit.	As a supplier to the defence industry the Group has strong cyber security credentials including IASME Governance Gold, Cyber Essentials Plus and DART accreditation. We have also worked with a third party to undertake penetration tests of our system to ensure the integrity of all our defensive systems. Regular reviews are undertaken of the network security arrangements and training is provided regularly to users on cyber threats and other data loss/integrity risks. The Group also limits access to data and access is only provided to those users with a genuine business need. Data shared externally is conducted under contractual arrangements.	No change

Risk key

Increased risk   No change   Decreased risk

Our people

We are extremely proud of our people and their contribution in supporting organisational performance and strategy.

Exceptional people allow us to create exceptional products and solutions for our customers, and the markets we serve. We are proud to have employees who are just that. Our Engineering and Operations teams are very highly regarded by both domestic and international customers and other stakeholders alike.

Despite a very buoyant recruitment market for the last 18 months, our workforce remains very stable; we have an average length of service of over 10 years and an employee turnover rate of less than2%.

Employee Communication and Engagement

Last year we ran our first Employee Survey with an 82% respondent completion rate, which yielded very positive results, which we believe, demonstrates robust employee engagement. The process was managed by an external consultant to encourage open and honest feedback from our employees in an anonymous environment.

The results highlighted some areas for improvement, mainly relating to communication, and we have taken a number of actions, in an attempt to address any gaps and we will continue to listen to our employees and act accordingly.

On a regular basis, management engages with our employees through a range of formal and informal channels, including briefings and memos from the Executive Directors, team meetings, 1-2-1's, and online publications via various social media outlets

Through our HR system we have also enabled surveys covering key aspects of employment such as onboarding and equality, diversity and inclusion. Voluntary leavers are interviewed to provide an additional means of expressing their views enabling us to analyse data to address any retention issues or implement suggested improvements.

Equality, Diversity and Inclusion ("EDI")

EDI is embedded in our culture: procedurally and behaviourally from recruitment, employee development, succession planning through to pay audits. We want to reflect the local communities in which we operate and the diversity in our workforce is largely representative of this.

Filtronic has equal opportunity policies which form part of the Group's core values and which are expected of employees, suppliers and other stakeholders. Our policies and practices emphasise the importance of treating people in a non-discriminatory and inclusive manner across the full employment life cycle.

This year we conducted a full equal pay audit (gender and minority groups) and are extremely satisfied that we are an equal pay employer.

Our workforce gender split is, female 37%: male: 63%. The majority of technical and managerial positions are held by males and we have therefore set ourselves an internal target to increase female representation across technical, managerial and leadership positions. This is a challenging target as the engineering sector is still very much male dominated with only 22% of engineers being female but we have so far adopted the following in an attempt to redress the balance:

- established focus/support groups for female employees;
- improvements to communication and recruitment;
- refresh of the careers section on the Filtronic website;
- more diverse interview panels,
- supporting wider STEM initiatives; and
- closely monitoring the career progression and promotions of women and utilising supported stretch assignments to unleash the potential.

We are additionally hoping that our partnership with the local University Technical College, UTC Durham, that augments our already established graduate programme, will enable us to reach female STEM students at a much earlier point and offer them work experience and T level placements to engage and inspire.

Please see below for a snapshot of key engagement indicators from the survey:

81%
of employees

75%
of employees

85%
of employees

83%
of employees

Our people continued

Employee Remuneration

Our compensation strategy aims to attract and retain talent whilst promoting and rewarding sustainable performance and contributions at all levels of the organisation. The Board and Remuneration Committee continually look to ensure that our remuneration provisions support our strategy and business objectives.

The market competitiveness of salaries across the company is assessed at local or national market level, dependent upon role, and is reviewed annually.

In addition to competitive salaries, we also offer a suite of benefits including, but not limited to, employer matched pension contributions plus 2%, to a maximum of 8%, long-term incapacity benefit, 4 x base pay sum life assurance, childcare vouchers and a cycle to work scheme.

We love to encourage innovation within our business, the Technology Leadership Recognition Policy aims to do this by recognising and rewarding innovative thinking and professional personal development. A number of awards were made in the year, under this scheme, for new patent applications and grants as well white papers and technical presentations. To complement this, we have also introduced a 'Bright Ideas' scheme managed through our T-card system, to broaden the reward scope for new ideas and continuous improvement suggestions. Vouchers are presented quarterly to employees with the best ideas.

We also like to reward loyalty and offer an additional days' holiday every five years to a maximum of 15 years. After this, we gift a long service award to our employees recognising their commitment to the Company.

Employee Share Plans

We have share option plans designed to align employees' interests with the Group's performance and the interest of our shareholders. For information on the share-based compensation plans please see note 31.

UK-based employees of Filtronic are eligible to participate in the Save As You Earn ("SAYE") Scheme. Options are granted at the closing middle market price on the day before issue and vest after completion of a three-year savings period.

Wellbeing

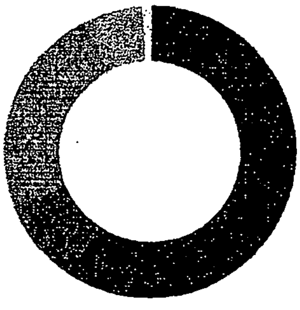
We are committed to supporting our employees, particularly through the cost-of-living crisis, and the additional pressure this has presented for many. Therefore, we have expanded our Employee Assistance Programme, WeCare, to include additional mental health and financial advice for employees, as well as their families. Employees have 24/7 access to an online GP, mental health counselling as well as legal, financial, and nutritional advice.

We have introduced increased flexibility in our working practices to further support employee wellbeing;

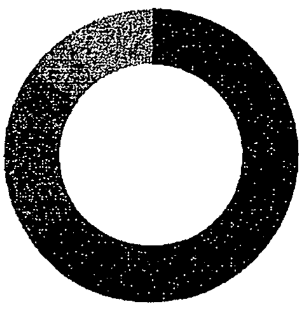
- hybrid working;
- flexible working hours; and
- choice of operational site to work from.

All formal flexible working requests have also been approved this year to aide work-life balance, family support (parent and carer) and pre-retirement scale down.

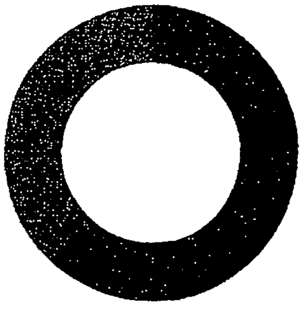
Current headcount metrics



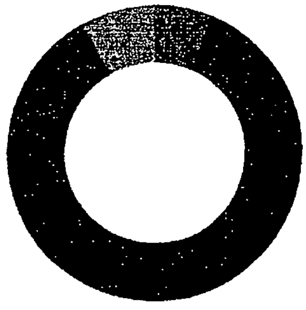
Length of service	FY2023 %	FY2022 %
0-5	59	69
5-10	13	11
10-20	12	27
20+	11	8
>25	5	1



Function	FY2023 %	FY2022 %
Manufacturing	52	61
R&D	34	23
Sales & marketing	5	4
Administration	9	12



Gender	FY2023 %	FY2022 %
Male	63	60
Female	37	40



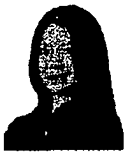
Nationality	FY2023 %	FY2022 %
American	9	10
British	80	78
Other	12	12

Looking to the Future - FY2024 Priorities

Filtronic continues to work towards future-proofing the business to ensure we have the talent to support current and future needs. This year we established a partnership with the University Technical College ("UTC") Newton Aycliffe who run an alternative mainstream school curriculum, focussing solely on STEM subjects.

Our first cohort of engineering apprentices will join in September 2023 alongside our annual intake of graduates. Embedding the apprenticeship programme to a successful outcome will be one of our key objectives for FY2024, alongside further investment in supporting STEM activities.

Esther Sui
Software Development Engineer



What do you love most about your job?

I have always had a passion for working on latest technology, as I love learning new things. My job allows me to find creative ways to make it smarter, faster and more cost-effective.

Why were you attracted to Filtronic?

Filtronic is an innovative leader in RF, a well-respected company whose technology directly impacts the daily lives of millions of people who indirectly rely on their technology. Filtronic's mission and values are also well aligned with my personal attitudes and goals in life.

I wanted to work for an organisation that's leading the future of it's industry, one that doesn't stand still.

Clare Atherton
Lead Operator

How long have you worked at Filtronic?

I have worked at Filtronic for over 20 years.

What's the best thing about your job?

Being part of a great team that always works well together, whether it is seeing new products from development to full production or meeting tight customer deadlines, I always feel the team pulls together and provides support from all levels.

Tim Hargreaves
Management Accountant

What do you love most about your job?

Working with the other departments and stakeholders. Everyone at Filtronic is extremely helpful and willing to go that extra mile.

What's a typical day look like?

Working in Finance, you rarely have two days that are the same. The morning will start with replying to emails from the US, resolving any questions.

I will then usually have a range of ERP development and support, key analysis of current or historic financial data to identify trends or project work combining multiple sets of data into a presentation for key stakeholders.

Between these tasks, there will usually be some ad hoc requests from other departments which depending on the complexity, will also be completed during the day.

Filtronic was really supportive in helping me become a qualified accountant, funding the exams and offering flexibility in my working hours to fit around the course requirements.

Our people continued

Thomas Monklow
RF Engineer

Why you were attracted to RF

I studied a general engineering course at Durham University, specialising in electronics part way through. The two topics I found most interesting were Communications and Microwave engineering, both in regard to the theory and operation but also the practical applications in how critical they are in modern society. It is a field which is constantly changing and evolving, providing new challenges.

What do you love most about your job

I really enjoy the practical work, including testing the products. For most of my first year I have been heavily involved in build and testing to meet both internal and external delivery requirements, an experience I have both enjoyed and found rewarding.

Adele Pliscott
SiP Packaging Engineer

Why RF, what attracted you to this industry?

RF engineering offers unique challenges, for example, in order to support the electrical designs, the selection of materials and processes is critical.

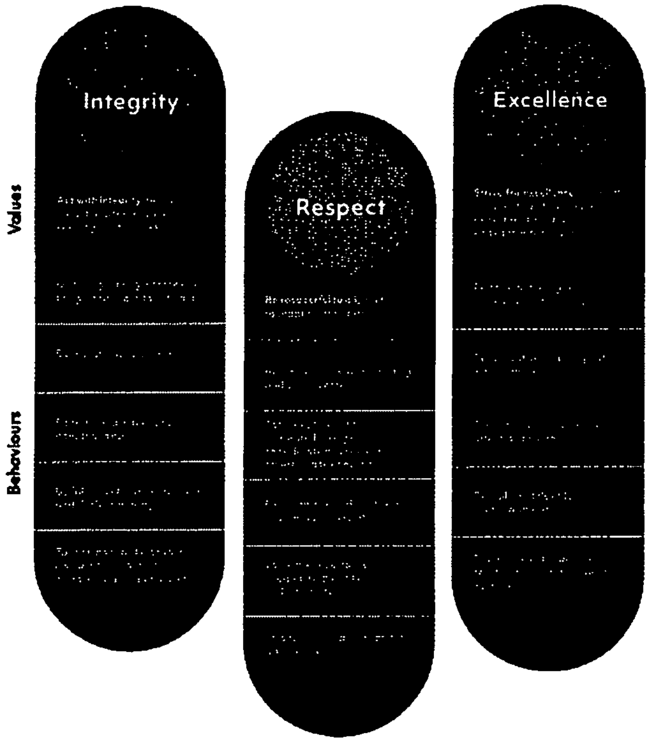
Another aspect is that further technology advancements for RF create interesting challenges for which I enjoy overcoming these technical boundaries.

Why Filtronic?

Filtronic is highly recognised for its RF abilities, from the initial telephone calls I had prior to my employment I was extremely happy with the discussions for technical, business, and future vision for Filtronic.

The leadership was inspiring and strong whilst also offering my inclusion. The marketing was active and the brand was exciting and pushed the standards compared to our competitors.

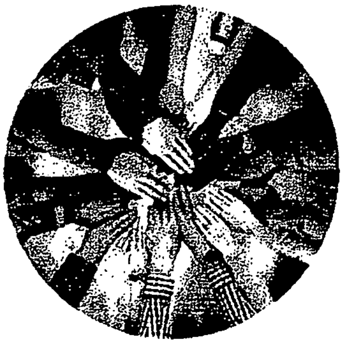
Our values



Sustainability report

At Filtronic we have developed an ESG and sustainability strategy that works in unison with our corporate goal to create value for our customers through technology leadership. The aim of the strategy is simple. We will focus on deliverable ESG goals aligned with our corporate strategic targets.

Key Objectives


ENVIRONMENTAL

1. Minimise the environmental impacts of our own activities and reduce our energy usage per £ of revenue generated (reducing carbon intensity whilst supporting growth)
2. Improve our use of sustainable resources by operational site
3. Reduce paper and packaging waste
4. Focus on our work to meet Scope 1 and 2 Greenhouse Gas ("GHG") Emissions of Net Zero

SOCIAL

1. Equality, diversity and inclusion ("EDI") in the workplace and encourage greater gender power balance
2. Provide a great place to work for our employees enabling them to learn and develop, creating professional opportunities
3. Engage with our employees, keep them informed and pay fair salaries
4. Support STEM initiatives in the local community and provide quality employment for young people through apprenticeships and graduate recruitment

GOVERNANCE

1. Provide a robust cyber security framework protecting the data we hold
2. Comply with export control requirements
3. Maintain strong and enforced policies and procedures and promote a strong code of conduct and ethical behaviour in our business

We are committed to enhancing our impact on the world with a robust and clear ESG strategy. Within each area we've highlighted clear objectives which aim to focus our efforts and ensure that we are able to maximise our impact by focusing on the key areas where we can engage and influence our stakeholders. Our objectives are thought through, aligned to our corporate strategy and aligned to the UN Global Goals, so we can best position our skills and experience to work towards building prosperity for all. We have a clear roadmap ahead of us and we look forward to delivering on our commitments to these goals.

Sustainability report continued

Operating our business in a way that cares for the environment and people has never been more important than it is today. The world is facing significant environmental and social challenges with climate change, environmental destruction, energy availability and increased costs of living.

As a designer and manufacturer of RF technology equipment we are proud of our role in enabling wireless communications. This has provided the world with many benefits including reduced travel needs and enabling remote working whilst providing social benefits of improved communications with our family and friends. However, we recognise that we have a part to play in helping to tackle the challenges facing the planet and its people today.

Filtronic take this responsibility seriously and are working to create a sustainable business fit for the future, delivering consistent financial returns and long-term value to our employees, customers, suppliers, shareholders alike. A business that embraces its environmental obligations, provides opportunities for its employees to learn and develop whilst maintaining a healthy and safe environment and promotes STEM skills in the local community offering opportunities to its people.

Filtronic takes these ESG responsibilities to the heart of its business operations. In addition to complying with the Quoted Companies Alliance ("QCA") Governance Code, Filtronic has in place international trademarks and recognised accreditations for Information Security (IASME Governance Gold and Cyber Essentials Plus), Quality Management (ISO9001), Environmental Quality Management (ISO14001) and defence industry compliance such as JOSCAR. Together, these systems embed a strong culture of sound, ethical values and behaviour within the Group. Never complacent, we are always striving to do more and continually improve.

Filtronic has made significant progress over the last year in terms of its ESG agenda. Whilst we have been actively operating within a strong ESG framework, we had not formally documented and published our ESG strategy or set a baseline from which to measure and manage performance, nor had we put in the public domain the key objectives that matter to us and our stakeholders.

During the year, we undertook a review to inform our formalised ESG strategy. This included an identification phase of the key issues we wanted to form our objectives of the strategy and a baseline measurement from which to gauge performance.

In identifying our objectives, we were clear our framework would have at its core:

Identification of ESG issues

To identify the key environmental, social and governance issues that are a priority for Filtronic we undertook an exercise to identify the ESG issues of significance to our Group, stakeholders and industry. This resulted in 61 issues identified and categorised as follows:

- Environmental (23)
- Social (22)
- Governance (16)

Prioritisation

This list was condensed, following a review by the Senior Leadership Team of the Group, focussing on the issues that mattered to Filtronic, aligned to our corporate strategy and focused on areas where we could make an impact. The list of 11 priority items emerged and these in turn were linked to the UN Sustainable Development Goals to ensure we were focussed on the issues that were of global relevance for sustainable development. These strategic objectives can be seen below along with a plan for the next financial year to continually improve our impact on the environment and society.

The ESG strategy has now been published and a new dedicated section of the Filtronic website has been created. We would encourage our stakeholders to look at both the website and the brochure to understand our vision of how we intend to support sustainability. The brochure sets out Filtronic's approach to ESG including our strategy and key objectives. The web address is **https://filtronic.com/investors/esg-strategy/**.

A sustainable business plan	that delivers growth for shareholders and has purpose
A sustainable organisation plan	that is future focussed on how we deliver
A sustainable climate and waste plan	that is for all and has a positive impact in a broad sense
An ethical and values-based approach to conduct, governance, regulation and the rule of law	that demands integrity and ethical behaviour

Environmental Objectives

The Group is committed to protecting the environment through prevention of pollution and minimising our impact on natural resources. As well as operating in compliance with all relevant statutory and regulatory obligations, the Group strives to implement environmental best practices throughout our activities and continually improve our environmental management system to enhance our environmental performance. As we have now formally documented our ESG strategy, we have collected baseline data of our current performance to enable us to track and monitor progress improvements.

The Group supports, trains and encourages its employees to act responsibly in all matters relating to the environment.

The Group takes account of relevant legislation and regulations and analyses its practices, processes and products to reduce their environmental impact. We also work with our customers and suppliers to achieve a high standard of environmental stewardship. Filtronic looks forward to receiving and implementing the UK government's flow down to industry of its net-zero carbon target which will involve measuring carbon emissions and implementing policies for carbon reduction or offsetting the carbon that is released.

	What we do	What we'll do next
Reduce our energy usage	• Metering and monitoring in place at a room level • Motion sensors on all our lighting • Invested in newer more-efficient machinery	• Implement LED lighting • Energy saving equipment • Education sessions in high-energy consumption areas
Sustainable resources	• NetPark and Manchester supplied with 100% sustainable energy • Cycle-to-work scheme in place • Electric vehicle charging points • Adopted a hybrid working policy	• Convert our Leeds site to 100% sustainable energy in line with our Sedgefield and Manchester sites • Seek opportunities to create renewable power • Open an electric car scheme for employees • Switch to recycled materials removing single use resources where possible
Reduce paper and packaging waste	• Removed foam from our shipping packaging; replaced with cardboard • Implemented docuSign to reduce our need to print documents to sign • Implemented digital systems with workflow for HR processes, expense management and timesheets	• Identification of key waste driving activities by site • Remove single use plastics from our operations • Move business processes to digital including document signature, accounts payable processing etc

Sustainability report continued

Social objectives

Our core values of integrity, honesty and respect, combined with a strong culture and an agreed set of behaviours are critical to our future development. The 'Our People' section of this Annual Report and Accounts sets out how we engage with our employees, providing opportunities and an environment to flourish with everyone given an equal opportunity. It also covers key social points such as employee rewards, behaviours, culture and conduct.

Filtronic recognises that it not only makes a difference to its own employees but also the wider community. This latter point is particularly pertinent to our ESG strategy as we can provide quality education, training and employment within the local community as well as supporting local charities and foundations to help build a sustainable society.

	What we do	What we'll do next
Actively promote equality, diversity and inclusion ("EDI") in the workplace	• Regular analysis of workforce demographics • EDI training • Non-discriminatory working practices and policies • Value the individual • Female-to-male ratio in our engineering function is above the national average	• Develop a clear EDI strategy and communicate it • Promote Filtronic as a female-friendly workplace • Promote females in STEM disciplines • Promote diversity • EDI surveys • Positive actions to increase the ratio of female managers and engineers
Learning and development culture	• Career development and guidance for everyone • Provide training and development programmes for all colleagues • Filtronic Leadership Academy • Regulatory and mandatory training • Expert speakers • Technology Leadership Awards for patents, conference papers and peer reviewed publications • Detailed training needs analysis from appraisal process • Assign an Executive sponsor to all graduate recruits • Encourage networking and industry event attendance • Comprehensive induction process, for all new starters	• Apprenticeships • Create a knowledge sharing environment • Continue to upskill our employees • Utilise supported stretch assignments to facilitate personal development and progression

	What we do	What we'll do next
Engage with our employees and pay fair salaries	• Fair pay and reward structure with regular benchmarking • Excellent benefits package including access to wellbeing support • Flexible working available • Celebrate long-term service with awards • New values embedded in the business • Town hall meetings and team meetings • T-card system for continuous improvement and worker participation • Employee engagement surveys	• Increase frequency of communication • Assess current benefits suite, for ongoing competitiveness and flexibility for individual choices • Implement the improvement actions from the employee engagement survey
Support STEM initiatives in the local community and provide quality employment for young people	• 1 day paid leave given to all employees undertaking charitable work • Graduate recruitment	• Provide opportunities for local young people • Build relationships with local learning institutions • Implement a structured graduate career framework • Support local organisations like the North East STEM Foundation

Strategic report

Sustainability report continued

Governance objectives

Filtronic have always believed that sound governance is fundamental to the long-term success of the Company and we follow the QCA Corporate Governance Code which gives a firm foundation for our governance structure. Having been listed on the London Stock Exchange since 1994, the business has a robust approach to governance, but we can always strive for improvement.

The Board and our management team will drive the ESG agenda. We recognise that good governance will be key to ensuring the changes are embedded throughout the business.

Compliance is critical to our operation, particularly as we supply into sensitive markets such as aerospace and defence, and therefore strong governance is at the heart of how we conduct business.

	What we do	What we'll do next
Cyber security	• Cyber Essentials Plus • Defence Assurance Risk Tool ("DART") • IASME Governance Gold	• Gain IASME Cyber Assurance Level 2 • Scope and plan for ISO27001
Export Control	• Robust internal control framework • Trained personnel • Regular communication with an export control expert	• Training courses for those with export control responsibility • Review our controls and continually improve
Strong and enforced policies and procedures	• Strong Boards and Committees providing strategic oversight and governance support • Adherence to QCA Corporate Governance Code • Strong suite of Group policies and internal controls annually reviewed • Clearly defined and strong company vision and culture • Maintenance of appropriate accreditations and internal audits • Robust internal branding and document control • Annual Report published each year reporting strategic, governance and financial progress	• Review and approve our policies and procedures annually • Develop the ESG strategy further • Ensure employees are suitably trained on policies and conduct which are enforced throughout the organisation

The FY2023 Strategic report has been reviewed and approved by the Board of Directors on 31 July 2023 and signed on its behalf by

Michael Tyerman
Chief Financial Officer
31 July 2023

Board of Directors

Executive Directors

Richard Gibbs (aged 64) : Chief Executive Officer

Appointed to the Board: 1 September 2020

Richard is an experienced director who has led a number of business operations supplying semiconductor, RF and electronics subsystems to OEMs. Richard joined Filtronic from Micross Components, where he was Managing Director. Prior to his time at Micross, Richard spent nine years at E2V Technologies, where he was Group Sales & Marketing Director and President of the RF Product and Hi-Reliability Semiconductors Divisions, and 20 years with Honeywell, of which 10 years were spent managing overseas operations.

Michael Tyerman (aged 44) : Chief Financial Officer

Appointed to the Board: 1 April 2016

Michael joined Filtronic in 2007 as Financial Controller of the Broadband business and was promoted to the position of Group Financial Controller in 2009. He served this position until his appointment to the Board. Prior to joining Filtronic, Michael held various positions within Procter and Gamble, Huntsman and Komatsu which included time working in the Benelux and Nordic regions. Michael is a Chartered Management Accountant.

Non-Executive Directors

Jonathan Neale (aged 60) : Non-Executive Chairman

Appointed to the Board: 15 November 2021

Committees: Ⓐ ● Ⓡ

Jonathan is Chair and Non-Executive Director of Filtronic. He also serves as a Non-Executive Director for the engineering services business Contechs Holdings Ltd and is a Trustee of the incorporated charity The Foundation for Science and Technology. Prior to joining Filtronic, he spent seven years in defence electronics and electronic warfare, 10 years in commercial and defence aerospace with BAE systems and 20 years with McLaren Group Ltd in executive positions across Formula 1, Automotive and Applied Technology.

Peter (Pete) Magowan (aged 55) : Senior Independent Non-Executive Director

Appointed to the Board: 19 November 2018

Committees: Ⓐ Ⓝ ●

Pete was previously an early employee and main board member of ARM Holdings, an Executive at Fidelity International Ltd and General Partner at Alta Berkeley Venture Partners. Pete's early operational career was in sales and marketing at leading technology companies. He received a BSc degree in Electrical and Electronic Engineering from UMIST and has a Diploma in Marketing. He is also a Non-Executive Director of Solid State Group plc.

John Behrendt (aged 62) : Independent Non-Executive Director

Appointed to the Board: 1 January 2021

Committees: ● Ⓝ Ⓡ

John was Head of Principal Investments with Eight Roads, part of the Fidelity network of companies, from 2015 until 2020. John has also held a number of leadership and operational roles, including CEO of Optegra, CEO/CFO of Frontier Silicon Limited, CFO for Teraview Limited, and CFO for Alphamosaic Limited. John is a qualified accountant with the Chartered Institute of Management Accountants (CIMA).

Committee Key: ● Chairman of Committee Ⓐ Audit Ⓝ Nominations Ⓡ Remuneration

Governance report

Dear Shareholder

I am pleased to present the Filtronic plc Governance report for the year ended 31 May 2023.

The Board recognises the value of good corporate governance as the basis for promoting the long-term growth and sustainability of the business. Governance arrangements are reviewed on an ongoing basis to ensure they are fit for purpose and the Board continues to consider that the Quoted Companies Alliance Corporate Governance Code 2018 ("The Code") provides the most appropriate framework for governance for the Company's size and complexity. Throughout the year, we complied with all principles of the Code except for the separation of the Company Secretary role which is currently undertaken by the Chief Financial Officer.

The governance section includes the Corporate governance statement, the Audit and Risk Committee report, the Nominations Committee report and the Directors' remuneration report and describes how Filtronic has applied the main principles of the Code during the year. Further information on compliance can be found on the Filtronic website at www.filtronic.com/investors.

I am aware that it is my responsibility to ensure that Filtronic has the governance arrangements in place to support effective leadership and promote the long-term success of the Company and that these arrangements are followed in practice.

Jonathan Neale,
Chairman
31 July 2023

Corporate governance statement

Introduction

The Board acknowledges the role that the ten QCA Code principles has in providing structure to the Group's corporate governance framework. This section explains how we have adopted the QCA Code, including those provisions where we do not currently comply.

Principle 1 – Establish a strategy and business model which promotes long-term value for shareholders

As explained fully within the strategic report of the Annual Report, our strategy is focussed around four core areas:

- **Telecommunications infrastructure:** defending our current position and target new customers by developing the E-band roadmap to W-band with premium performance high power transceivers, active diplexer and SiP options based on inhouse MMIC design;
- **Defence:** increasing defence project coverage with major customers requiring RF hybrid solutions.
- **Aerospace:** leveraging our current relationships to secure a bigger role in next generation radar design; and
- **Space:** position Filtronic in Space (HAPS/LEO) market by virtue of our UK manufacturing capability and Q-band PA design;

Notwithstanding the challenges posed by the macroeconomic backdrop including inflationary pressures, electronic component shortage and extended lead-times during the year, the delivery of the strategy continues and remains, front and centre, as the focus of the Board's attention. Our objective through the execution of the strategy is to deliver shareholder value and medium-long term growth. As a Board, we will ensure that we continue to challenge ourselves and regularly consider whether we are effective in delivering this objective.

Our business model and execution of the strategy is underpinned by the governance framework outlined in this section.

Principle 2 - Seek to understand and meet shareholder needs and expectations

Great value is taken from maintaining open relationships with our shareholders and the primary point of contact in the Company for this function is the Chief Executive Officer ("CEO"), supported by the Chief Financial Officer ("CFO") and the Chairman.

The CEO and CFO undertake an extensive programme of individual meetings with shareholders at least twice a year. Additionally, the Chairman is available to speak with shareholders at their request. The Senior Independent Director is also available as an alternative communication channel for shareholders who may wish to raise any concerns.

Presentations are also made to analysts to present the Group's results. This assists with the promotion of knowledge of the Group in the investment marketplace and also helps the directors to understand the needs and expectations of shareholders. The Group's website has a dedicated investor section to assist all shareholders. Investors are welcome to send any questions or queries to investor.relations@filtronic.com

Principle 3 - Take into account wider stakeholder and social responsibilities and their implication for long-term success

The Group takes its corporate social responsibility very seriously and is focussed on maintaining and strengthening effective working relationships across a wide range of stakeholders including shareholders, employees, customers and suppliers.

Our stakeholder engagement recognises the materiality and impact of our stakeholders on the achievement of the Company's strategy. The Section 172 (1) Statement and Stakeholder engagement sections within the Governance report provide more information on this

The success of the Group's strategy is part built upon the maintenance of internal and external relationships and good communication with stakeholders.

Principle 4 – Embedded objective risk management considering both opportunities and targets throughout the organisation

The Group faces challenges in the execution of its business strategy. The Board acknowledges that it has overall responsibility for the Group's system of internal controls, which is designed to manage and mitigate rather than eliminate risk, and to review and monitor its effectiveness.

The Audit and Risk Committee have been delegated responsibility to oversee risk management, and undertakes regular reviews of the Group's risk register with a view to:

(i) ensuring the risk register is complete, appropriate and up to date;
(ii) ensuring adequate processes are in place to detect new or emerging risks;
(iii) reviewing risk exposures and any changes to the status of risks in the risk register;
(iv) reviewing risk management assessment and processes;
(v) reviewing risk mitigation measures and the appropriateness of responses to risks;
(vi) reporting its findings to the Board.

Risk management, together with a robust set of systems and internal controls are well established within the business. The Risk Management Committee, made up of the Senior Leadership Team in the business, meet on a regular basis to maintain and review the risk register.

A comprehensive business planning process is also completed on an annual basis including the long-range plan which are reviewed and approved by the Board. This ensures the resources in the Group are correctly aligned with the business strategy. In addition, the Group conducts regularly re-forecasts to ensure resources are aligned to the ongoing needs of the business. During the year, the Group's results are compared against the business plan which is reported monthly and discussed at each meeting of the Board.

Principle 5 – Maintain the board as a well-functioning, balanced team led by the Chairman

The Board is currently comprised of:

- Non-Executive Chairman;
- two Executive Directors; and
- two Non-Executive Directors

The Non-Executive Directors are regarded by the Board as being independent Non-Executive Directors.

The role of Company Secretary is currently undertaken by the CFO. In compliance with the Code, the Board is mindful of the need to develop plans to separate the roles of CFO and Company Secretary at an appropriate time.

Board members are also able to take independent professional advice at the Company's expense in the discharge of their duties.

There is a formal schedule of matters reserved for the Board. To enhance the Board's communication with management and achieve greater operational transparency, senior management from the sales and marketing, operational and engineering organisations are periodically invited to the board meeting to present their key projects and deliverables.

Board meetings

The Board meets each month against a defined reporting timetable and at times in between the scheduled meetings when required. Board meetings are held at the Group's operational sites to enable local management teams to present operational and strategic programme progress to the Board. The Board believes this arrangement gives greater transparency and enhanced relationships between the management and the Board. During the year, board meetings have been held in person at the Sedgefield, Yeadon and Manchester sites.

Directors' attendance FY2023

The Board normally schedules at least 10 meetings during the year. Last year the Board met formally 10 times.

	Meetings attended
Jonathan Neale	10/10
Richard Gibbs	10/10
Michael Tyerman	10/10
Pete Magowan	10/10
John Behrendt	10/10

Principle 6 – Ensure that between them directors have the necessary up-to-date experience, skills and capabilities

At present, the Board is satisfied that its overall size and composition reflects an appropriate balance of sector, financial and public markets skills and experience. The composition of the Board is reviewed at least annually by the Nominations Committee, with a view to ensuring it comprises the skills necessary for executing the Company's strategy.

Details of each director's skills and experience can be found in the directors' biographies section. The members of the Board bring a range of complementary skills and experience from across markets in which the Group operates.

Each member of the Board takes responsibility for maintaining their skill set, which includes formal training and seminars. The directors have also received briefings and training in respect of AIM rules compliance and Market Abuse Regulations.

When necessary, external advice is sought, on legal, HR, financial and governance matters. The primary sources are the Company's Nomad and the Company's lawyers.

Governance report continued

Principle 7 - Evaluate board performance based on clear and relevant objectives, seeking continuous improvements

The Board carries out an evaluation of its own performance at the end of each financial year, reviewing its performance in that year.

The Chairman and the Company Secretary prepare an evaluation questionnaire reflecting the considerations of the corporate governance code as well as significant events over the year.

The performance of the Board, its Committees, and individual directors is assessed. Board members are asked to provide feedback for assessment by the Chairman in the first instance and to the Senior Independent Non-Executive Director, in respect of the Chairman. The combined feedback is discussed by the Board and actions agreed with progress updates during the year.

As part of the Director's induction process the Company Secretary arranges an induction session with each new director covering such matters as:

- Group and organisation structure,
- Filtronic's values and group policies,
- an introduction to the AiM Rules for Companies,
- the QCA Code,
- Market Abuse Regulation ("MAR") and the terms of reference for the Board's committees.

Where specific training needs are identified, including as a result of the Board evaluation process and individual director appraisals, the Company will organise the relevant training. The Company Secretary supports the Chairman in addressing the training and development needs of directors.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours

At Filtronic, we believe in collaboration, we work with our technology leadership clients to solve their complex RF, microwave and mmWave challenges.

Our purpose and reason for being is to be the trusted provider of innovative RF solutions. Innovation matters to us, we want to push the boundaries of what is possible with RF communication.

Filtronic are long-term partners in aerospace and defence, telecommunications infrastructure and critical communications and have formed partnerships in the emerging market of space. These effective partnerships have grown from having a strong value-based culture, where all our employees are encouraged and supported to:

- Act with **integrity;** being honest, always keeping our promises.
- Be **respectful** to all; it is the foundation of our culture.
- Strive for **excellence;** it is what our clients and colleagues expect and what we endeavour to deliver.

The Board monitors and promotes its corporate culture assisted by the SLT, which includes the Head of HR. This team plays a vital role in disseminating the Company's shared values with its employees. The SLT holds monthly meetings, and its members are frequently invited to attend sections of the board meeting which helps the Board assess the Group's culture on an ongoing basis.

Principle 9 - Maintain governance structures and processes that are fit for purpose and support good decision making by the Board

The Board, led by the Chairman, is committed to a high standard of corporate governance across the Group, recognising its importance in protecting shareholders interests and long term success of the Group.

Remit of the Board

Whilst many day-to-day operational matters are managed by the Executive Directors and SLT, other matters, including those listed below, are reserved for the Board:

- Strategy and oversight of the management of the Group;
- Review of business performance and delivery of results;
- Approval of the Company and consolidated financial statements;
- Approval of major corporate transactions and commitments;
- Succession planning (appointment/removal of directors, PDMRs and the Company Secretary);
- Approval of all terms of reference for the committees of the Board;
- Review of the Group's overall corporate governance arrangements including systems of internal controls and risk management; and
- Approval of the distribution of authority.

Committees

The Board is supported by three committees:

- Audit and Risk Committee;
- Remuneration Committee; and
- Nominations Committee.

Detailed written terms of reference for each committee are maintained and are available to view on the company website.

In addition to formal meetings, the Nominations Committee and Remuneration Committee also meet informally during the year to review and discuss board composition and compensation.

Principle 10 - Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company is committed to open communication with all of its stakeholders. Communication with shareholders is driven primarily through:

- the regulatory news service ("RNS"),
- the Filtronic website;
- the Annual General Meeting; and meetings after the Group's interim and full year preliminary accounts.

All shareholders receive a copy of the Annual Report and Accounts either as hard copy or electronically depending on shareholder preference. Copies of historic annual reports and notices of general meetings for the last five years are available on the Filtronic website, as are the half-year results.

Engaging with our employees helps to ensure the values and culture the Board wants to promote are embraced throughout the Group. The Company encourages open two-way communication to promote innovative and collaborative working. Communication with employees takes place ordinarily through town hall meetings at each of the Company's sites, the HR system, team meetings, health and safety meetings and training sessions.

The longevity of our business can only be secured through maintaining and expanding our customer base. Communication with customers is a priority and is mediated through dedicated commercial managers and directors, overseen by the Chief Commercial Officer. Customers are solicited for feedback on products and business operations performance, market landscape and demand trends.

Regular contact and an open-door policy are key to maintaining good and stable relations with our supply chain. The procurement department, aided by clear website sections, ensures that Filtronic' s key policies and values, or their equivalent, are adopted by the supply chain with all suppliers issued with the Filtronic Supplier Code of Conduct which includes, but is not limited to, its policies on issues such as bribery, modern slavery and conflict minerals. Engagement with suppliers is overseen by the Chief Operations Officer.

The group policies were reviewed by the Board during the year and, as a priority for the business, were communicated, via management cascade, to all employees.

Stakeholder engagement

The Board carefully considers stakeholder interests when making decisions on strategically important matters as the directors discharge their duties in alignment with Section 172.

Section 172 (1) Statement UK Companies Act 2006

In compliance with the Companies Act 2006, the Board are required to act in accordance with a set of general duties. The Board consider that they have individually and collectively acted in a way they consider, in good faith, would be most likely to promote the success of the Company.

To achieve long-term success, the Board recognises the importance of building and maintaining relationships with key stakeholders as well as considering the likely consequences of its decisions in the long-term.

Regular updates from the executive Senior Leadership Team ("SLT")

Throughout the year, the SLT updated the Board with information on important areas of business focus, in particular those relating to our key stakeholders. The SLT is made up of the Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Chief Operating Officer, Head of HR, Director of Programmes and the Director of Technology). They each submit a report each month providing comprehensive operational updates and progress against strategic milestones. They are regularly invited to board meetings to present this information and update the Board on key points. This ensures the Board has a good understanding of the priorities of each stakeholder group to aid decision making at board level.

Direct engagement of Board members

The Executive Directors are in daily contact with employees from across the business to understand key topics involving employees, customers and suppliers which are regularly shared with the Board. Regular reporting of customer engagement keeps the Board up to date on customer trends and feedback. A number of board members held meetings with shareholders during the year to discuss strategy and business performance.

Board considerations and decisions

Given the updates from the SLT, some of the topics considered throughout the year are presented below demonstrating how the Board discharged their duties:

Employees and culture

- Consideration and approval of an employee engagement survey to get the views of our employees on a range of key issues.
- Requested and considered a diversity and inclusion report of the Group with the decision to have regular updates given at board level in future.
- Considered succession planning at senior levels of the business.

Strategy

- Considered the importance of ESG to the long-term success of the Group and approved the newly devised ESG strategy.
- Considered company performance against its strategy
- Considered the technology roadmap and required investment to undertake the developments.
- Update on new customer acquisition, strategic milestones and consideration of shareholder value.
- Consideration and approval of the FY2023 interim report.
- Consideration and approval of the FY2024 business plan and long-range forecast.

Governance

- Approval of updated Group Policies including a new Business Continuity policy and Conflict of Interest policy as well as a revised Social Media policy.
- Approval of the ESG strategy, consulting with shareholders.
- Endorsed a full suite of penetration tests of our cyber environment.
- Update from shareholders in relation to strategy and remuneration matters.

The Board recognises its responsibility to take into consideration the needs and concerns of Filtronic's key stakeholders as part of its decision-making process. The table demonstrates how the Group engages with its stakeholders and the outcomes of this during the year:

Stakeholder	How we engage	Key outcomes
Customers	The Board receives feedback from its customer facing teams. Each key account has a dedicated account management who acts as "the voice of the customer". The Chief Commercial Officer briefs the Board each month as to how we are performing with each of our customers.	Increased levels of engagement with customers at a strategic level. A greater understanding of both customer and market trend requirements better informs the development and refinement of our own strategy and technology roadmap to ensure we support our customers to the best of our ability and invest in the right capability to meet their needs.
	The Executive Directors, along with senior members of the sales and engineering teams will attend meetings with strategic-level influencers within our customer's organisation.	Board-level engagement with our customers helps convey our commitment to understand and meet their business needs. Having customers onsite enables them to see our capability and production facilities demonstrating our credibility as a leading technology company.
	We continually seek opportunities to collaborate at a product and technology strategy level with our key clients, but all collaborations are under Non-Disclosure Agreement ("NDA") and require director-level approval.	Disclosure of our product development and technology roadmaps to customers increases the opportunity to align our mutual interests and demonstrate we are the 'go-to company' when it comes to leading technology; the NDA protects our intellectual property interests.
	We regularly participate in a wide range of trade shows, conferences and symposia. They play an important role in our business development planning.	Attendance at trade exhibitions and conferences has materially increased over the last year as we have added more events to our roster to actively promote the business. This has facilitated key engagement, not only with prospective customers, but also having useful discussions with our existing clients.
Employees	The Executive Directors communicate with employees through communication sessions and town hall meetings to update them on the performance of the business and progress on key initiatives. Employees are encouraged to ask questions in a Q&A session at the end of the meetings.	Broad ranging and meaningful communication leads to greater transparency throughout the business and facilitates a more engaged, motivated and effective team. This is done through a range of communication channels including newsletters, emails to all employees and discussion groups with management flow down to employees and informal factory floor-walks.
	The Group relies upon highly specialised skill sets that are in increasingly short supply. We are therefore actively developing a new talent management strategy.	The Group is an attractive employer, providing a rewarding long-term personal development opportunity environment, recognising and rewarding those that have demonstrated strong performance. We have also funded a number of training initiatives to develop our employees and enhance the skills in the business including the newly introduced Filtronic Leadership Academy to upskill all staff who have managerial responsibility.
	The Executive Directors are required to be actively visible across our sites to take the pulse of the business and offer an open-door policy to employees who would like to ask a question or offer a view.	A better informed and consulted workforce is more likely to be both better motivated and more effective. The Group also operates a T-card system where employees can offer ideas for business improvements which are shared with the Executive Directors with the aim of offering feedback to those that have taking the time to share their views and a quarterly prize for the best idea. The Board have also approved an annual employee engagement survey to gain insight into employees' thoughts and attitudes towards their work and overall environment.

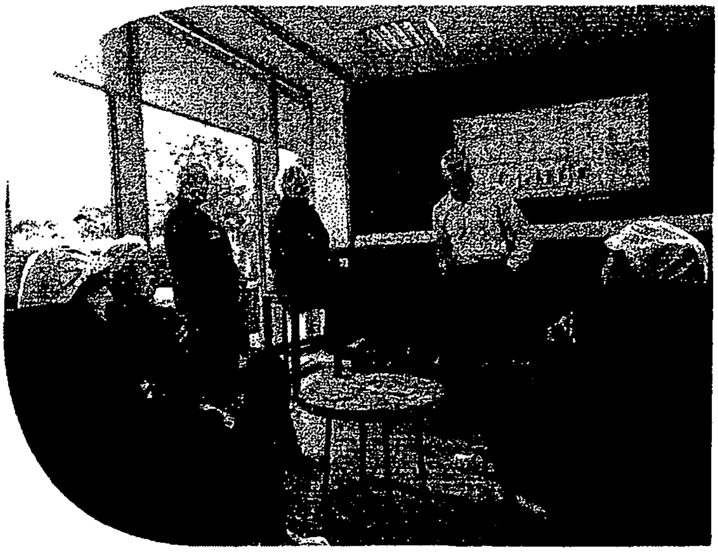
Stakeholder engagement continued

Stakeholder	How we engage	Key outcomes
Employees (continued)	Participation in the Company Sharesave scheme.	Share scheme participation aligns the interests of employees with shareholders giving staff the opportunity to hold a stake in the company. The Company has an active SAYE scheme in place which is open to all employees.
Investors	The Chief Executive Officer and Chief Financial Officer hold analyst and investor meetings throughout the year both on request and specifically following the release of the annual and half year results. Feedback from these meetings is shared with the Board. Major shareholders are regularly engaged to hear their views on a range of issues such as strategy, remuneration and corporate governance.	A wide range of communication channels are used to engage with investors during the year. Feedback from investors has informed the Board's discussions and decisions on the Company's strategy. All material information that is worthy of investor announcement is made available simultaneously to both shareholders and potential shareholders. Meetings with shareholders and potential investors were held during the year with meetings offered both in person and virtually.
	The Annual General Meeting is our primary method of engagement with private investors along with the Annual Report. We encourage investors to attend and ask questions they may have. At the end of the meeting, the Board engage in an open and informal forum with attendees.	We value the opportunity to meet with our shareholders and engage in an exchange of views and ideas and, post AGM, we review the feedback we have received. We were delighted to welcome shareholders back for the 2022 AGM which was physically held in Sedgefield with private investors encouraged to attend.
	The Group's Annual Report and Accounts is available to shareholders in both hard copy form and online. All announcements and presentations are available on the Company's website whilst we also engage on social media platforms such as LinkedIn. There is also a regular newsletters which is sent to those individuals that signup on the company website	We respect that not everyone is 'on-line' and continue to provide shareholders with a choice to receive a hard copy of the report.
	The Company's broker, finnCap Ltd ("finnCap"), provides briefings to the Board on shareholder opinions and independent feedback from investor meetings. Their views are sought on all market related matters or announcements.	Regular and frequent interaction between the Company and our broker ensures we receive regular guidance and remain aligned on our engagement with the investment community. A report collated by finnCap, after the business results investor roadshow, giving shareholders feedback from each meeting is shared with the Board.
Suppliers	Meetings are held with key suppliers at both their facilities and ours. This ensures a more intimate knowledge of each other's capabilities and objectives and leads to closer alignment of values.	The Group's supplier base is a key part of the company's ecosystem and effective relationships with our suppliers are essential to the delivery of Group performance. We engage with our suppliers through our engineering and operations team and we work closely with key suppliers to ensure we take advantage of innovative technical and commercial solutions in the supply chain in order to secure a competitive advantage. We have enjoyed meetings at a number of suppliers' sites in the year, both nationally and internationally.
	Our Supplier Code of Conduct is flowed down to our supply chain to ensure compliance with social responsibility and good governance policies.	We minimise our exposure to supplier related risks by requiring them to adhere to our Supplier Code of Conduct and group policies. They are required to confirm they are not in conflict with these policies before or during engagement.
	Supply contracts of material significance to the Group are subject to internal controls with a summary of the key terms being provided to the Executive Directors for approval.	Supplier gating processes ensure management is kept abreast of supplier risks, opportunities and governance matters and able to act promptly when required. The Board receives regular updates, from the Chief Operations Officer, regarding key supplier performance metrics and any issues under review.
	The Group aims to play fair with is suppliers and pay in line with the contractual payment terms.	By playing fair with our suppliers we gain their respect, support and commitment to meeting our own business objectives.

The Group's engagement with key stakeholder groups and the impact our business operations have on the local community and the environment are considered within the implementation of the Company's Objective and strategy and the Sustainability report.

Standards of business conduct

The Board is committed to a culture of integrity and openness The Board is confident that through our people, our values, our policies and processes we are fostering the right culture to make a positive impact on the business, our employees, our customers, suppliers, the environment and the communities in which we operate. The Board is committed to identifying other means to drive further positive impact through our products, processes and foremost our people, all of which will contribute to the success of the business.



Nominations Committee report

Membership

The members of the Nominations Committee and the meetings attended in the year are:

	Meetings attended
Jonathan Neale (Chairman)	3/3
Pete Magowan	3/3
John Behrendt	3/3

Roles and responsibilities

The Committee's role and responsibilities are set out in full in the terms of reference, which are available on the Filtronic website and set out the Committee's responsibilities as follows:

- Ensure the balance of board members remains appropriate as the Company implements its strategy to ensure the business can compete effectively in the marketplace
- Identify and nominate candidates to fill board vacancies as and when they arise;
- Before such appointments are made, evaluate the overall balance and composition of the Board and in the light of that evaluation, preparing a description of the roles and capabilities required for the appointment; and
- Ensure that each new appointee receives a formal and customised induction to the Group via the Company Secretary and other board members as appropriate.

For terms of reference go to https://filtronic.com/investors/aim-rule-26/

Dear Shareholder

I am pleased to present the Nominations Committee Report for FY2023. This year the Committee continued its focus on succession planning, including reviewing the skills, experience and personal qualities required for robust and sustainable leadership for the Board, its committees, and the wider management team.

The Committee also took account of the results from the annual board performance evaluation exercise conducted in June 2022. The Committee plays a key role in ensuring the effectiveness of the Board and its ability to deliver long term success for the Company. As the Chairman of the Committee, I review the results of this exercise and share the feedback with the members of the Board both individually to personalise the feedback and as a collective. Nothing significant was raised as part of this evaluation but some improvement actions were identified which are highlighted below:

- A greater emphasis on the role of diversity and inclusion and the important role it plays in high performance organisations;
- The director induction process was too focussed on directors' duties. In future it will be more company-specific, with emphasis on the strategy and business plan;
- Succession planning improvements; and
- Keeping under review the combined role of the CFO and Company Secretary with a plan to decouple the role at the appropriate time.

As a result of this process, the Committee commissioned a report from the Group's Head of HR to review key metrics to help the Board establish greater emphasis on high performance culture in teams, driving talent development through diversity and inclusion. This topic is now on the regular committee agenda as we track progress and see how the findings are being addressed and implemented.

In the year ahead, the Committee will continue to work on succession plans for the Board and key management and to oversee any actions coming out of the board effectiveness questionnaires that took place in June 2023 to ensure they are effectively implemented.

Jonathan Neale
Chairman, Nominations Committee
31 July 2023

Activities of the Nominations Committee during the year

The Nominations Committee discharged its responsibilities during the year by:

Area of review	Activities undertaken
Board appointments	• Reviewed the dual role of the Chief Financial Officer and Company Secretary in line with the guidelines of the QCA code. • Undertook a succession planning review of the Board and Senior Leadership Team.
Board performance evaluation	• Conducted a rigorous board performance evaluation exercise and fed the results back as a group and individually. • Agreed the board effectiveness review strategy.
Governance	• Assessed the size and composition of the Board. • Reviewed and approved the Committee's terms of reference. • Commissioned and considered a diversity and inclusion report. • Reviewed compliance with the QCA code.

New appointments and induction of directors

When identifying suitable candidates for board and senior executive appointments, the Committee uses the services of external advisers to facilitate the recruitment search and considers candidates on merit and against objective criteria. The Committee recognises the value of a diverse board and will consider all candidates with the necessary capabilities in accordance with the Company's policies including considerations of equality and diversity.

When a new director joins the Board a full and formal induction process is undertaken including a briefing session on AIM rules with our Nomad. The Company Secretary is tasked with providing the new director with:

- information about the Group including board and committee minutes along with board papers from at least the last six months;
- the Group's policies, procedures and governance information;
- analysis of the Company's key shareholders and share capital;
- guidance for directors on their legal and regulatory responsibilities in an AIM-quoted company;
- guidance on corporate governance and board effectiveness; and
- relevant information about the markets we operate.

As part of the induction process, the new director also:

- Attends a business briefing with the CEO and CFO;
- Has meetings with the other members of the Senior Leadership Team; and
- Attends meetings with any other employees they would like to see.

Diversity and inclusion

The Committee recognises the importance of a diverse Board and is mindful of the issue of board diversity in its succession plans. Company policy ensures that the selection of directors and, in a wider context, employees throughout the Group, as well as opportunities to progress and develop will be based upon a range of factors including skills, experience, qualifications, background and values. There will be no discrimination or less favourable treatment of employees or job applicants in respect of age, race, religion, gender, sexual orientation, pregnancy, disability or marital status.

Board evaluation

The Nominations Committee undertakes an annual evaluation of the Board's performance and effectiveness. The results of the evaluation exercise are shared with board members and any recommendations are discussed and implemented if deemed to be an improvement.

Audit and Risk Committee report

Membership

[illegible]

	Meetings attended
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

Roles and responsibilities of the Audit and Risk Committee

[illegible]

- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]

[illegible]

Dear Shareholder

I am pleased to present the report of the Audit and Risk Committee.

The Audit and Risk Committee continues to fulfil a vital role in the Group's governance framework, providing independent challenge and oversight of the accounting, financial reporting and internal control processes, risk management, the internal audit activity and the relationship with the external auditor. This report outlines how the Audit and Risk Committee has discharged its responsibilities during the year and the key issues it has considered in the year.

Meetings are generally held immediately prior to a board meeting to facilitate immediate and efficient reporting to the Board, with additional meetings where necessary. The Executive Directors may attend the meeting by invitation whilst the external auditors attend when requested, as do the outsourced internal audit providers.

The Company outsources its internal audit activity to third parties as it is not deemed appropriate given the size of the Company to have its own internal audit function. However, the Audit and Risk Committee considers annually whether there is a need for an in-house internal audit function to be established and, were it to conclude that this would be more appropriate than the current arrangements, would recommend this to the Board.

This year, the Committee focussed on controls relating to cyber security and engaged a third-party to undertake a series of penetration tests including, but not limited to, external and internal pen tests, a phishing exercise, website security and wi-fi vulnerabilities. The outcome was very positive with only a small number of minor issues to remedy, demonstrating the robust system we have put in place.

The normal pattern of meetings follows the public reporting and audit cycle, with meetings to consider the external audit plan; the half year announcement and the full year Annual Report and Accounts, the latter with the external auditors' observations and opinions. There are at least two additional meeting in the year to review the internal audit that has taken place in the year and consider the key risks within the Group, how they are managed and review the adequacy of the arrangements to mitigate those risks.

As Chair of the Committee, I maintain regular dialogue with the Chief Financial Officer and have direct access to PricewaterhouseCoopers LLP ("PwC"), the Company's external auditor. The Committee meets separately at least once a year with the external auditors without others being present to facilitate open discussion and the opportunity to discuss any concerns.

Next year the Committee will focus on concluding the tender process to appoint a new external auditor and continue to monitor the Group's risk management systems.

John Behrendt

Chairman, Audit and Risk Committee

31 July 2023

Activities of the Audit and Risk Committee during the year

During the year, the Audit and Risk Committee discharged its responsibilities by:

Area of review	Activities undertaken
Financial reporting	• Review the Annual Report and Accounts, Interim Report and interim management statements prior to Board approval. • Consideration of whether the Annual Report and Accounts is fair, balanced and understandable. • Review the external auditor's detailed report to the Committee on the annual financial statements. • Review of accounting policies and significant accounting judgements and estimates. • Review of changes in corporate governance and accounting standards and their impact. • Review of the going concern basis for preparation of the financial statements including consideration of the Group's latest business plan and three-year outlook, cash flow forecast and corresponding sensitivities on downside scenarios.
External auditors	• Review of the external auditor's plan for the audit of the Group's financial statements, including the identification of key risks. • Review and approval of the external auditor's terms of engagement, remuneration, independence and rep letter. • Review of the external auditors' compliance with ethical and professional guidance on Senior Statutory Auditor rotation. • Assessment of the effectiveness of the audit process. • Recommendation regarding reappointment of the external auditors. • Committee-only meeting with the Senior Statutory Auditor. • Recommendation to undertake a tender process for the FY2024 external audit.
Risk management and internal controls	• Review of the Group's risk management register. • Specific focus on risks in the semiconductor supply chain, cost of living and wage inflation, cyber security as well as the risk relating to the strategic objective of broadening the customer base. • Review of the Group's internal control system and assessment of the effectiveness of those controls in minimising the impact of key risks. • Review of the need for an internal audit function and determine what aspects of the Group's operations should be subject to outsourced internal audit scrutiny. • Ensured cyber security was regularly reviewed. • Reviewed the results of the internal audit undertaken.
Governance	• Review of the Committee's terms of reference. • Recommended training of Market Abuse Regulation ("MAR") to all employees who have access price sensitive information.

Audit and Risk Committee report continued

Key accounting matters

The following key areas of risk and judgement have been identified and considered by the Audit and Risk Committee in relation to the business activities and financial statements of the Group and Parent Company:

Significant issue	Committee action taken
Carrying value of goodwill and other intangible assets	The Committee considered the judgements made in relation to the valuation methodology adopted by management and the model inputs used. These are set out in note 16 to the financial statements. The Committee agreed with the judgements made by management and concluded that no impairment of goodwill should be made in the financial statements of the Group.
Inventory valuation	*Filtronic operates in an industry where developments in product technology and the highly customer specific nature of some inventory may result in inventory becoming slow-moving or obsolete. This in turn may mean that inventory cannot be sold or sales prices for such inventory are discounted to less than the relevant inventory's book value.* The Committee considered a paper from management analysing this inventory by product and looked at projected future usage relative to current inventory on hand. It reviewed the provision for excess and obsolete inventory and noted that the level of provision and the methodology applied was appropriate and consistent.
Carrying value of the investment in subsidiaries (Parent Company)	The Committee considered the judgements made in relation to the valuation methodology adopted by management and the model inputs used. These are set out in note 15 to the financial statements. The Committee agreed with the judgements made by management and concluded that the impairment of the carrying value of the investment in the subsidiary in the financial statements of the Parent Company was necessary.

Risk management and internal controls

Risk and risk management is delegated to the Audit and Risk Committee although the overall responsibility for the Group's system of risk management and internal controls remains with the Board.

The Group has well established risk management and internal control processes that have been developed since the Filtronic was formed in 1977. The Audit and Risk Committee confirms that the effectiveness of the system of internal control, covering all material controls including financial, operational, commercial and compliance controls and risk management systems, have been reviewed during the year. Further details of risk management can be found in the Risk management section of this Annual Report on page 21.

Auditor independence

Both the Audit and Risk Committee and PwC have procedures in place to avoid the auditors' objectivity and independence being compromised.

The Committee performs its own assessment of auditor independence satisfying itself on an annual basis that suitable policies and procedures are in place to safeguard the auditors' independence and objectivity. This includes having regard to length of service, provision of non-audit services and the existence of any conflicts of interest. On the latter point, the Company has a policy of not employing anybody from the audit firm within five years of their departure. The auditor also has open access to the Chair of the Audit and Risk Committee and open lines of discussion with the Committee to ensure there is no influence by management.

As part of their review of auditor independence, PwC has confirmed that it is independent of the Company and has complied with applicable auditing standards. PwC has held office as auditor for five years and therefore the Senior Statutory Auditor is operating in accordance with professional guidelines of serving no longer than five years to maintain independence. However, given this is his fifth year as Auditor on the engagement, it will also be his last year.

External auditor

The Committee considers that PwC has carried out its duties as the auditor in a diligent and professional manner.

In assessing the auditor's effectiveness, the Committee:

- Challenged the work done by the auditor to test management's assumptions and estimates in the key risk areas;
- Reviewed reports received from the auditor on these and other matters;
- Received and considered feedback from management; and
- Held private meetings with the auditor that provided the opportunity for open dialogue and feedback between the Committee and the auditor without management being present.

Having completed its review, the Audit and Risk Committee is satisfied that PwC remained effective and independent in carrying out its responsibilities up to the date of signing this report.

Fair, balanced and understandable

The Company's management and the auditor confirmed to the Audit and Risk Committee that they were not aware of any material misstatements. Having reviewed the reports received from management and the auditor, the Committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust.

After careful consideration of the advice of the Audit and Risk Committee, the Board has concluded that the 2023 Annual Report and Accounts is fair, balanced and understandable and provides the necessary information for the Company's shareholders to assess the Group's risks, performance, business model and strategy.

Whistleblowing

The Group has in place a whistleblowing policy, which sets out the formal process by which an employee, or other stakeholder, may, in confidence, raise concerns about possible malpractice in financial reporting, conduct or other matters to an identifiable whistleblowing officer.

There were no incidents or concerns raised for consideration during the year.

Anti-bribery

The Group has in place an anti-bribery policy, which sets its zero-tolerance position. The policy provides the principles for employees and other stakeholders that acts as guidance on how to recognise and deal with issues that may be considered as giving rise to bribery.

During the period there were no incidents reported that required consideration.

External audit tender

At the date of approval of these financial statements the Committee has agreed to initiate a process and established a timetable to undertake an external audit tender for the next financial year to 31 May 2024. The decision to appoint a new auditor is expected to be made by the Board in August 2023.

Once that process is completed, a resolution for the appointment of the successful audit firm will be proposed to shareholders for approval at the forthcoming AGM, as well as authorising the directors to determine the auditor's remuneration.

Directors' remuneration report

Membership

The members of the Remuneration Committee and the number of meetings attended are:

	Meetings attended
Kate Magowan (Chairman)	3/3
Jonathan Neale	3/3
John Behrendt	3/3

The Remuneration Committee comprises the Non-Executive Directors, including the Chairman

Role of the Remuneration Committee

The Remuneration Committee's role is to define and make recommendations to the Board on the Group's remuneration policy and the employment terms of Executive Directors and senior management along with the effective implementation of that policy. The Committee is also responsible for the review and approval of pay increases, performance related pay arrangements and share incentive plans along with the associated performance targets. The Committee's full terms of reference are reviewed regularly and approved by the Board.

For terms of reference go to https://filtronic.com/investors/aim-rule-26/

Dear Shareholder

On behalf of the Board, I am pleased to present the Filtronic Directors' remuneration report for the year ended 31 May 2023. The report explains the work of the Remuneration Committee during the year and sets out the payments and awards made to directors.

The Company, being listed on AIM, is not required to produce a comprehensive Directors' remuneration report or to submit a remuneration policy to a binding vote. However, the Board does wish to maintain transparency and demonstrate good governance so presents the following remuneration report.

The Remuneration Committee is committed to structuring the remuneration packages of Executive Directors and senior management that are competitive and enable the Group to attract, retain and motivate talented people that can develop and execute the Group's strategy. To promote the long-term success of the Company, the Executive Directors incentive benefits are performance based and earned only subject to the satisfaction of performance conditions. These performance conditions are aligned with the interests of the shareholders.

It is hard to recall a time when pay decisions were as important as they are today whether this relates to the determination of director salaries or protecting our employees from inflationary pressures. The Committee is very sympathetic to the increased cost of living our employees are under, with inflation exceeding levels seen for some time, but recognises the pay decisions we take needs to reflect the current and future needs of the business.

In determining pay awards consideration was given to financial sustainability, enabling the business to produce the returns it needs for further investment whilst ensuring Filtronic remains an attractive proposition to retain and attract the talent needed to deliver our business strategy. Therefore, we undertook a benchmarking exercise against similar businesses in terms of size and nature to understand the competitive market. This resulted in salary increases being awarded to the Executive Directors and key management at a rate of 5%.

The 'Our People' section of this Annual Report and Accounts offers some greater insight into some of the additional benefits our employees enjoy as well as some of the access they get to third-party services for support with their health and wellbeing.

The Committee reviewed the outcomes for the FY2023 annual incentive plan, recognising that shortages of available electronic components were a key factor in the Group not achieving the revenue target for the year. However, the Committee determined that given the target was not achieved, there should be no bonus payment made to participants in the scheme.

The Committee also considered the performance-related bonus plan to be implemented in FY2024, to ensure it aligned with the interests of shareholders. As the Company executes on its growth plans it was concluded that the revenue-based metric for the incentive scheme, implemented in the prior year, formed the best metric to assess performance against the scheme. The incentive for FY2024 will be awarded for achieving stretching targets against the FY2024 strategic business plan. The Committee is confident this will drive the right behaviours in the organisation to deliver long-term shareholder value and ultimately increased revenue will lead to improved levels of profit.

To support the long-range strategic plans and further align the interests of the Executive Directors and key management with shareholders, the Committee has been assessing the success of the incumbent Employee Share Option Plan ("ESOP") scheme and is undertaking a review to ensure it delivers a scheme that drives growth and ultimately share price appreciation.

The main activities of the Committee in FY2023 are set out in the table below. I hope you find this report gives a clear account of the Committee's approach and remuneration outcomes for the year. We are committed to maintaining an open dialogue with shareholders with regards to remuneration and would welcome any comments or concerns, relating to this report, that shareholders may have.

Pete Magowan
Chairman, Remuneration Committee
31 July 2023

Activities of the Remuneration Committee during the year

During the year, the Remuneration Committee discharged its responsibilities by:

Area of review	Activities undertaken
Executive Directors' and senior management remuneration	• Set the remuneration for the Executive Directors and senior management as part of the annual pay review. • Assessed and approved the FY2023 bonus outcomes. • Reviewed and approved the FY2024 performance-related bonus plan and assessed the performance criteria remaining as a revenue based metric. • Determined the performance targets for the 2024 annual bonus in line with Filtronic's strategic plans.
Share incentive plans	• Approved the grant of share options under the ESOP for the Executive Directors and key management. • Approved the grant of share options under the Save as you Earn Plan ("SAYE") for the Executive Directors and key management. • Reviewed employee share scheme headroom availability. • Reviewed the effectiveness of the current share option scheme and its alignment to the interests of shareholders.
Governance	• Considered and approved the Annual Report and Accounts on remuneration. • Reviewed and approved the Committee's terms of reference. • Reviewed compliance with the QCA code.

Directors' remuneration report continued

Details of the service contracts currently in place for directors are as follows:

Name	Executive service agreement appointment date	Key current terms	Notice period
Richard Gibbs Chief Executive Officer	Appointed to the Board on 1 September 2020	Base salary £214,436 Annual bonus Health insurance Long-term incentives	6 months
Michael Tyerman Chief Financial Officer	Appointed to the Board on 1 April 2016	Base salary £144,233 Annual bonus Health insurance Long-term incentives Pension	6 months

Name	Role	Non-Executive terms of appointment date	Fee	Notice period
Jonathan Neale	Chairman and Nominations Committee Chairman	Appointed to the Board on 15 November 2021	£60,000	6 months
Pete Magowan	Remuneration Committee Chairman	Appointed to the Board on 19 November 2018	£40,000	3 months
John Behrendt	Audit and Risk Committee Chairman	Appointed to the Board on 1 January 2021	£40,000	3 months

Total single figure of remuneration for directors - audited

The directors' total remuneration in respect of the year under review is shown below and compared to the previous year.

	Salary or fee		Bonus		Benefits		Long-term incentive		Total remuneration excluding pension contributions	
£000	FY2023	FY2022	FY2023	FY2022	FY2023	FY2022	FY2023	FY2022	FY2023	FY2022
Executive Directors										
Richard Gibbs	**204**	189	-	75	**11**	17	**24**	9	**239**	290
Michael Tyerman	**137**	126	-	50	-	5	**11**	3	**148**	184
Non-Executive Directors										
Jonathon Neale[1]	**60**	33	-	-	-	-	-	-	**60**	33
Pete Magowan	**40**	40	-	-	-	-	-	-	**40**	40
John Behrendt	**40**	40	-	-	-	-	-	-	**40**	40
Reg Gott[2]	-	25	-	-	-	-	-	-	-	25
Total	**481**	453	-	125	**11**	22	**35**	12	**527**	612

[1] Jonathon Neale was appointed to the Board on 15 November 2021.

[2] Reg Gott retired on 28 October 2021

Notes to the single figure table of remuneration for directors - audited

Taxable benefits

The Executive Directors are provided with private health insurance and life assurance. Richard Gibbs also receives a monthly payment in lieu of a contribution to the Company pension scheme.

Incentive outcomes - FY2023

There was no bonus awarded relating to performance in FY2023.

Long-term incentives

The Executive Directors have long-term incentives as part of the Company's share option plan. More details relating to this can be found on page 54 in the 'Management share option plan - audited' section of the Directors' remuneration report.

Annual performance-related bonus plan - FY2024

An annual performance-related bonus plan has been introduced for the year ending 31 May 2024 which will reward the Executive Directors and key management cash bonuses for delivering stretching revenue targets aligned to the FY2024 business plan and achievement of personal objectives that support the growth and development of the business.

The Executive Director can earn up to a maximum of 50% of their base salary. Pay-out is determined by the Remuneration Committee which has discretion to vary the bonus based on performance.

Total single figure of pension benefits for directors - audited

The Executive Directors' total pension benefits in respect of the year under review are shown below and are compared to the previous year:

	Pension contributions	
£000	**FY2023**	FY2022
Michael Tyerman	11	11
Total	**11**	11

Contributions were made to the Company's defined contribution scheme.

Richard Gibbs elected not to join the Company's pension scheme.

Directors' and relevant senior management holdings of Filtronic shares - audited

Directors are not required but are expected to have holdings in the ordinary share capital of the Company.

The interests of the directors, who were serving as at 31 May 2023, in the Company's ordinary shares, which excludes interests under the share option schemes, are set out below:

	FY2023		FY2022	
	Shares	**%**	Shares	%
Richard Gibbs	600,000	0.3%	425,000	0.2%
Michael Tyerman	339,478	0.2%	339,478	0.2%
Jonathan Neale	199,870	0.1%	199,870	0.1%
Pete Magowan	750,000	0.3%	750,000	0.3%
John Behrendt	200,000	0.1%	60,000	0.0%
	2,089,348	1.0%	1,774,348	0.8%

The above shareholdings include holdings of directors' connected parties.

Governance report

Directors' remuneration report continued

Management share options scheme - audited

The Executive Directors who were serving at 31 May 2023 held the following options over the ordinary shares of the Company:

	Plan	Exercise period	Option price	FY2023	FY2022
Richard Gibbs	ESOP	25/09/2023—24/09/2030	8.00p	750,000	750,000
Richard Gibbs	ESOP	24/06/2024—23/06/2031	11.12p	245,448	245,448
Richard Gibbs	SAYE	06/05/2024—05/11/2024	6.67p	35,622	35,622
Michael Tyerman	ESOP	01/03/2019—28/02/2026	5.37p	300,000	300,000
Michael Tyerman	ESOP	24/06/2024—23/06/2031	11.12p	479,988	479,988
Michael Tyerman	SAYE	06/05/2024—05/11/2024	6.67p	58,290	58,290
				1,869,348	1,869,348

The ESOP scheme awarded to Michael Tyerman and key management in 2016 awarded share options for delivering a significant increase in the share price, this performance condition was met and the option vested. The ESOPs granted in June 2021 to Richard Gibbs, Michael Tyerman and key management were granted for the delivery of stretched targets of revenue with the options vesting at various incremental increases of agreed targets.

There are no performance conditions attached to the ESOP options granted to Richard Gibbs, vesting in 2023, other than remaining in employment with Filtronic until the exercise period.

The Remuneration Committee is able to adjust the outcome at its discretion to ensure it is fair and appropriate, taking into account the overall performance of the Group.

Richard Gibbs and Michael Tyerman both opted to take part in the Company's SAYE scheme which was offered to all employees in May 2021.

The closing middle market price on 31 May 2023 was 13p, and on 31 May 2022 it was 10p. The range of middle market share prices during the year ended 31 May 2023 was 16p-9p.

There were no changes in directors' interests between 31 May 2023 and 1 August 2023. The Company's register of directors' interests, which is open to inspection at the Registered Office, contains full details of directors' shareholdings.

Directors' report

The directors present their report together with the audited consolidated financial statements for the year ended 31 May 2023.

Going concern

The Group's business, and the factors likely to affect its future development, performance and position are set out in the Strategic report.

The revenue, trading results and cash flows are explained in the Financial review on page 17.

After a review of forecasts including projections of profitability and cash flows for the year to 31 May 2024 and a further two years, the directors believe that the Group has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and Company financial statements. The basis of preparation, in note 1, provides more detail on this.

Directors and their interests

The directors of the Company during the year, and up to the date of signing this report, were as follows:

Executive Directors
Richard Gibbs
Michael Tyerman

Non-Executive Directors
Jonathan Neale
Pete Magowan
John Behrendt

Details of directors' remuneration and interests in the share capital of the Company are set out in the remuneration report on page 50.

Richard Gibbs, retires by rotation, and being eligible, offers himself for re-election at the Annual General Meeting.

Directors' indemnity

The Company has in place directors' and officers' liability insurance on behalf of its directors and officers in accordance with the provisions of the Companies Act.

Directors' conflicts of interest

There are no declarations to be made under Article 182 of the Companies Act 2006.

Financial results and dividend

The results for the year are set out in the income statement on page 63. The position at the end of the year is shown in the balance sheet on page 65.

The directors are not recommending payment of a dividend (2022: £nil).

Research and development expenditure

Research and development costs in the year are set out in the Financial Review on page 17.

Treasury policy

The Group's treasury policy aims to manage the Group's financial risk and to minimise the adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group. Note 36 sets out the particular risks to which the Group is exposed, and how these are managed.

Significant events and future developments

There have been no significant events since the reporting date. The Group's future developments are disclosed in the Strategic Report on pages 3 to 34.

Share capital

The Company's share capital consists of 0.1p ordinary shares. The rights and obligations attached to each share are equal. Each share carries the right to one vote at the Annual General Meeting of the Company and carries no right to fixed income. There are no limitations on holding or transfer of the shares. The Board has no powers to issue or buy back the Company's shares, other than those approved by the shareholders at the Annual General Meeting held in October 2022.

Substantial shareholdings

Up to 31 May 2023, the Company had been notified, by shareholders, in accordance with chapter 5 of the disclosure and transparency rules, of the voting rights they held as shareholders of the Company. An analysis of shareholders as at 31 May 2023 (as disclosed by shareholders via TR1) is set out in the table below. As at 31 May 2023, the Company had issued share capital of 215,121,085 ordinary shares of 0.1p each.

Top Investors

Rank	Investor	31 May 2023	%
1	Mark and Diana Dixon	41,250,000	19.2
2	David and Monique Newlands	25,895,109	12.0
3	Canaccord Genuity Group Inc.	25,866,264	12.0
4	River and Mercantile Asset Management LLP	11,333,451	4.9
5	Harwood Capital	10,000,000	4.7
6	Michael and Alice Bennett	7,054,761	3.3

Directors' report continued

Corporate Governance

The Corporate governance statement can be found on pages 36 to 39 of this annual report and accounts.

Political and charitable contributions

No contributions were made for political purposes (2022: £nil).

The Group made charitable donations of £1,250 in the year (2022: £100).

Annual General Meeting

The Annual General Meeting of the Company will be held on 26 October 2023 at 11am at
Plexus Building,
Thomas Wright Way,
Netpark,
Sedgefield,
County Durham,
TS21 3FD.

Full details of the business to be transacted at the meeting will be set out in the notice of the Annual General Meeting.

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

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

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

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

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

By order of the Board

Michael Tyerman
Chief Financial Officer
31 July 2023

Independent auditors' report to the members of Filtronic plc

Report on the audit of the financial statements

Opinion

In our opinion, Filtronic plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 May 2023 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 May 2023; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company cash flow statements, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Audit scope

- Two full scope audit components have been identified. The audit of these two components provided 100% coverage over the Group's revenue.
- All full scope audits were performed by the Group engagement team.
- Testing was also performed over certain material balances in two further components.
- Analytical review procedures were performed by the Group engagement team over all out of scope components

Key audit matters

- Carrying value of investments (parent)
- Carrying value of goodwill and non-current assets (Group)

Materiality

- Overall Group materiality: £162,680 (2022: £170,000) based on 1% of revenue.
- Overall Company materiality: £59,847 (2022: £108,000) based on 1% of total assets.
- Performance materiality: £122,010 (2022: £127,000) (Group) and £44,885 (2022: £81,000) (Company).

The scope of our audit

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

Key audit matters

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

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

Independent auditors' report to the members of Filtronic plc continued

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Carrying value of investment (parent)	
Refer to page 48 (Key accounting matters) and note 15 to the financial statements. We focused on this area due to the material investments balance held on the Company's balance sheet and the judgement required to determine whether or not there has been an impairment trigger and, where there is an impairment trigger, the estimates required to assess the recoverable amount of investments. The carrying value of the investment was £4,179,000, against which an impairment charge of £3,833,000 has been recognised in the financial year. The investment relates to the filter related business linked to Filtronic Wireless Ltd and Filtronic Wireless Inc.	We evaluated whether an impairment trigger was present in accordance with the accounting framework and concluded that it was appropriate for management to prepare an impairment assessment to consider the recoverable amount, being the higher of value in use (VIU) and fair value less cost to sell (FVLCTS). We obtained management's impairment assessment, which included a VIU model based on discounted cash flows and a FVLCTS model based on a multiple of forecast earnings. We tested the inputs to the models by assessing forecast cash flows against recent performance of the filters business and comparing to approved budgets. We also tested the integrity of the models and their mathematical accuracy. We obtained and reviewed industry and analyst commentary on the future filters-related market against which to assess the reasonableness of management's assumptions, including the multiple used in management's FVLCTS model. We determined that the VIU model derived a higher recoverable amount. We engaged with our valuation experts in order to assess the discount rate applied by reference to both the Group's weighted average cost of capital and a comparator Group. We challenged management on the key assumptions in the model, including the revenue growth. We agreed the revenue projections to underlying contracts and purchase orders where available and challenged and sensitised growth where this was not supported by available evidence. We reviewed the disclosures in the Annual Report and Accounts for compliance with IFRS, particularly in relation to sensitivity analysis given an impairment has been recognised. Based on the procedures we performed we were able to obtain sufficient and appropriate audit evidence in respect of the carrying value of the investments balance.
Carrying value of goodwill and non-current assets (Group)	
Refer to page 48 (Key accounting matters) and note 16 to the financial statements. The goodwill balance is £974,000. We focused on this area due to the material goodwill balance held on the consolidated balance sheet and the estimates and judgements required to determine recoverable amount.	We considered the carrying value of goodwill and non-current assets by reference to management's value in use model, which was based on discounted cash flows. We assessed management's determination of CGUs against technical guidance and considered whether the impairment assessment was performed at the appropriate level, considering management's own internal reporting for monitoring of goodwill. We tested the inputs to the model to Board approved budgets, which included short and long-term growth rates. We also tested the integrity of the model and its mathematical accuracy.

Carrying value of goodwill and non-current assets (Group) (continued)

We determined that the calculations were most sensitive to growth assumptions and calculated the degree to which these assumptions would need to move before any impairment was required. We assessed the short-term growth rate assumptions against purchase orders and contracts, along with available market data for the telecommunications infrastructure sector.

We also read the disclosures provided in the financial statements regarding goodwill impairment testing, and the associated disclosure of the critical accounting estimates, and found these to be appropriate.

Based on the procedures we performed we were able to obtain sufficient audit evidence in respect of the carrying value of goodwill and non-current assets.

How we tailored the audit scope

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

There were two components which required a full scope audit of their financial information, due to their size and contribution to the financial results of the Group. These were the trading entity within the UK, Filtronic Broadband Limited, and in addition the trading entity in the US, Filtronic Wireless Inc.

All audit work supporting the Group audit opinion was performed by the PwC UK engagement team, with the exception of the verification of physical inventory which was performed by a PwC team member in the US under direct supervision and review of the Group audit team.

Testing was also performed over certain material balances within the Filtronic plc and Filtronic Wireless Limited components.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group's and Company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Group's and Company's financial statements.

Materiality

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

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

	Financial statements - Group	Financial statements - Company
Overall materiality	£162,680 (2022: £170,000).	£59,847 (2022: £108,000).
How we determined it	1% of revenue	1% of total assets
Rationale for benchmark applied	Based upon the Group's trading performance in the year, revenue is considered to be the most stable and appropriate benchmark in appraising financial performance, and is a generally accepted auditing benchmark.	We believe that as a holding Company, the most appropriate benchmark for materiality is total assets which is a generally accepted auditing benchmark.

Independent auditors' report to the members of Filtronic plc continued

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £59,847 and £154,546. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £122,010 (2022: £127,000) for the Group financial statements and £44,885 (2022: £81,000) for the Company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £8,100 (Group audit) (2022: £8,526) and £3,000 (Company audit) (2022: £5,400) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Assessing management's base case and severe but plausible downside cash flow forecasts, including challenging management on the key assumptions underpinning the models, which included sales forecasts, margin performance and working capital assumptions;
- Considering the mitigating actions included in the severe but plausible downside scenario to consider whether they reflected actions within management's control, as well as any costs associated with implementing these mitigating actions;
- Reviewing historic trading results and 'looking back' to compare them with management's original budget for the relevant period, to consider management's historical forecasting accuracy;
- Testing the mathematical accuracy and integrity of management's model;
- Performing additional sensitivity analysis of management's severe but plausible case; and
- Considering the disclosures provided in the financial statements with respect to going concern for consistency with the models that were subject to audit.

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 May 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment law and health and safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK and US tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.. Audit procedures performed by the engagement team included:

- Discussions with management and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of management's controls designed to prevent and detect fraudulent financial reporting;
- Review of Board meeting minutes to identify any instances of reported fraud or non-compliance with laws and regulations;
- Discussions with management to confirm no on-going disagreements or disputes with tax authorities and no issues identified through the testing of the tax computations;
- Testing accounting estimates that we deemed to present a risk of material misstatement, including assessing the data, methods and assumptions applied by management in the development of each estimate;
- Identifying and testing journal entries using a risk-based targeting approach for unexpected account combinations; and
- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the

Independent auditors' report to the members of Filtronic plc continued

financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
31 July 2023

Consolidated income statement

for the year ended 31 May 2023

	Note	Group 2023 £000	Group 2022 £000
Revenue	3	**16,268**	17,052
Adjusted earnings before interest, taxation, depreciation, amortisation and exceptional items		**1,270**	2,807
Amortisation of intangible assets	16	**(253)**	(278)
Depreciation of property, plant and equipment and right of use assets	17, 18	**(780)**	(945)
Adjusted operating profit		**237**	1,584
Exceptional items	5	**-**	391
Operating profit	4	**237**	1,975
Finance costs	11	**(231)**	(194)
Finance income	12	**58**	111
Profit before taxation		**64**	1,892
Taxation	13	**400**	(424)
Profit for the year		**464**	1,468
Basic earnings per share	14	**0.22p**	0.68p
Diluted earnings per share	14	**0.21p**	0.68p

The profit for the year is attributable to the equity shareholders of the Parent Company, Filtronic plc.

The notes on pages 70 to 97 form part of these financial statements.

Financials

Consolidated statement of comprehensive income

for the year ended 31 May 2023

	Note	Group 2023 £000	Group 2022 £000
Profit for the year		**464**	1,468
Other comprehensive income			
Items that are or may be subsequently reclassified to profit and loss:			
Currency translation movement arising on consolidation	28	**(1)**	179
Total comprehensive income for the year		**463**	1,647

The total comprehensive income for the year is attributable to the equity shareholders of the Parent Company, Filtronic plc.

All income recognised in the year was generated from continuing operations.

The notes on pages 70 to 97 form part of these financial statements.

Consolidated balance sheet
as at 31 May 2023

	Note	Group 2023 £000	Group 2022 £000
Non-current assets			
Goodwill and other intangible assets	16	**1,774**	1,495
Right of use assets	17	**2,889**	2,293
Property, plant and equipment	18	**1,446**	701
Deferred tax	19	**1,254**	868
		7,363	5,357
Current assets			
Inventories	20	**2,778**	2,598
Trade and other receivables	21	**5,335**	4,479
Cash and cash equivalents		**2,610**	4,006
		10,723	11,083
Total assets		**18,086**	16,440
Current liabilities			
Trade and other payables	22	**3,673**	2,993
Provisions	23	**364**	282
Deferred income	24	**164**	172
Lease liabilities	25	**617**	540
		4,818	3,987
Non-current liabilities			
Deferred income	24	**29**	130
Lease liabilities	25	**1,698**	1,280
		1,727	1,410
Total liabilities		**6,545**	5,397
Net assets		**11,541**	11,043
Equity			
Share capital	26	**10,796**	10,796
Share premium	27	**11,077**	11,060
Translation reserve	28	**(470)**	(471)
Retained earnings	30	**(9,862)**	(10,342)
Total equity		**11,541**	11,043

The total equity is attributable to the equity shareholders of the Parent Company, Filtronic plc.

Company number 2891064.

The notes on pages 70 to 97 form part of these financial statements. The financial statements on pages 70 to 97 were approved by the Board of Directors on 31 July 2023 and signed on its behalf by

Michael Tyerman
Chief Financial Officer
31 July 2023

Consolidated statement of changes in equity
for the year ended 31 May 2023

	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 June 2021	10,795	11,039	(650)	(11,826)	9,358
Profit for the year	-	-	-	1,468	1,468
New shares issued	1	21	-	-	22
Currency translation movement arising on consolidation	-	-	179	-	179
Share-based payments	-	-	-	16	16
Balance at 31 May 2022	10,796	11,060	(471)	(10,342)	11,043
Profit for the year	-	-	-	464	464
New shares issued	-	17	-	-	17
Currency translation movement arising on consolidation	-	-	1	-	1
Share-based payments	-	-	-	16	16
Balance at 31 May 2023	**10,796**	**11,077**	**(470)**	**(9,862)**	**11,541**

Company statement of changes in equity
for the year ended 31 May 2023

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 June 2021	10,795	11,039	(11,167)	10,667
Loss for the year	-	-	(3,434)	(3,434)
New shares issued	1	21	-	22
Share-based payments	-	-	16	16
Balance at 31 May 2022	10,796	11,060	(14,585)	7,271
Loss for the year	-	-	(4,500)	(4,500)
New shares issued	-	17	-	17
Share-based payments	-	-	16	16
Balance at 31 May 2023	**10,796**	**11,077**	**(19,069)**	**2,804**

The notes on pages 70 to 97 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 May 2023

	Group	
	2023 **£000**	2022 £000
Cash flows from operating activities		
Profit for the year	**464**	1,468
Taxation	**(400)**	424
Finance income	**(58)**	(111)
Finance costs	**231**	194
Operating profit	**237**	1,975
Share-based payments	**16**	16
Depreciation of property, plant and equipment and right of use assets	**780**	945
Amortisation of intangible assets	**253**	278
Movement in inventories	**(157)**	(273)
Movement in trade and other receivables	**(833)**	(1,100)
Movement in trade and other payables	**665**	550
Movements in provisions	**82**	(115)
Change in deferred income	**(109)**	(10)
Tax received	**16**	19
Net cash generated from operating activities	**950**	2,285
Cash flows from investing activities		
Capitalisation of development costs	**(481)**	-
Acquisition of other intangible assets	**(51)**	(57)
Acquisition of plant and equipment	**(946)**	(61)
Acquisition of right of use assets	**(53)**	(132)
Interest received	**9**	-
Net cash used in investing activities	**(1,522)**	(250)
Cash flows from financing activities		
Interest paid	**(231)**	(194)
Repayment of bank loans	**-**	(131)
Exercise of employee share options	**17**	22
Repayment of principal element of lease liabilities	**(626)**	(653)
Repayment of interest-bearing borrowings	**-**	(8)
Net cash used in financing activities	**(840)**	(964)
Movement in cash and cash equivalents	**(1,412)**	1,071
Currency exchange movement	**16**	29
Opening cash and cash equivalents	**4,006**	2,906
Closing cash and cash equivalents	**2,610**	4,006

The notes on pages 70 to 97 form part of these financial statements.

Company balance sheet
as at 31 May 2023

	Note	Company 2023 £000	Company 2022 £000
Non-current assets			
Investments in subsidiaries	15	**346**	4,179
Intangible assets	16	**76**	72
		422	4,251
Current assets			
Trade and other receivables	21	**4,947**	6,321
Cash and cash equivalents		**615**	259
		5,562	6,580
Total assets		**5,984**	10,831
Current liabilities			
Trade and other payables	22	**3,180**	3,560
Total liabilities		**3,180**	3,560
Net assets		**2,804**	7,271
Equity			
Share capital	26	**10,796**	10,796
Share premium	27	**11,077**	11,060
Retained earnings	30	**(19,069)**	(14,585)
Total equity		**2,804**	7,271

The Company made a loss in the year of £4,500,000 (2022: £3,434,000).

Company number 2891064.

The notes on pages 70 to 97 form part of these financial statements. The financial statements on pages 70 to 97 were approved by the Board of Directors on 31 July 2023 and signed on its behalf by

Michael Tyerman
Chief Financial Officer
31 July 2023

Company cash flow statement
for the year ended 31 May 2023

	Company	
	2023 £000	2022 £000
Cash flows from operating activities		
Loss for the year	**(4,500)**	(3,434)
Finance costs	-	1
Operating loss	**(4,500)**	(3,433)
Amortisation of intangible assets	**19**	14
Impairment of investments in subsidiaries	**3,833**	2,372
Share-based payments	**16**	16
Movement in trade and other receivables	**1,375**	1,082
Movement in trade and other payables	**(381)**	71
Net cash generated from operating activities	**362**	122
Cash flows from investing activities		
Acquisition of intangible assets	**(23)**	(28)
Net cash used in investing activities	**(23)**	(28)
Cash flows from financing activities		
Proceeds from exercise of share options	**17**	22
Payment of lease liabilities	-	(14)
Interest paid	-	(1)
Net cash generated from financing activities	**17**	7
Movement in cash and cash equivalents	**356**	101
Opening cash and cash equivalents	**259**	158
Closing cash and cash equivalents	**615**	259

The notes on pages 70 to 97 form part of these financial statements

Financials

Notes to the financial statements

for the year ended 31 May 2023

1 Accounting policies

Reporting entity

Filtronic plc is a public company limited by shares registered in England and Wales, domiciled in the United Kingdom, and listed on AIM on the London Stock Exchange. The principal activity of the Company is design, development and manufacture of high performance Radio Frequency ("RF") technology.

Basis of preparation

The Company and consolidated financial statements for the year ended 31 May 2023 have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared under the historical cost convention except for forward foreign exchange contracts that are accounted for on a fair value basis.

The accounting policies have been applied consistently throughout the Group.

Going concern

In accordance with corporate governance requirements and the statement of directors' responsibilities, and as disclosed in the Directors' Report, the directors have undertaken a review of forecasts and the Group's cash requirements to consider whether it is appropriate that the Group continues to adopt the going concern assumption.

At 31 May 2023, the Group had cash at bank of £2.6m and access to undrawn invoice discounting facilities of £3.0m and $4.0m in the UK and US respectively. Details of these facilities can be found in note 36.

As referred in the Strategic report, the Board recognises the uncertain economic and political environment that the world faces and has reviewed the business outlook to reflect this uncertainty. Cash flow forecasts have been prepared to model various scenarios over a three-year period based on the Group's financial and trading position, principal risks and uncertainties and strategic plans.

A downside scenario was modelled, to stress-test the business, where programme curtailment and/or delays may adversely affect forward-looking demand to levels lower than those initially modelled in the base case scenario including reduced demand from a major customer.

A severe but plausible scenario was also modelled that took the downside scenario and removed a significant contract win that the Group expected to convert from the outlook period.

The scenarios modelled including the severe but plausible model, demonstrate the Group has adequate cash for the next twelve months.

Therefore, the directors continue to adopt the going concern basis to prepare the financial statement

Basis of consolidation and foreign currency translation

The financial statements consolidate the income statements, balance sheets and cash flow statements of the Company and all of its subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are not consolidated from the date that control ceases. Intragroup transactions and balances are eliminated on consolidation.

In publishing the Parent Company financial statements here together with the Group financial statements, the Company has taken advantage of the exemptions in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these approved financial statements.

On consolidation, the financial statements of subsidiaries with a functional currency other than sterling are translated into sterling as follows:

- The assets and liabilities in their balance sheets plus any goodwill are translated at the rate of exchange ruling at the balance sheet date; and
- The income statements and cash flow statements are translated at the average rate of exchange each month in the financial year, which approximates the rate of exchange ruling at the date of the transactions.

Currency translation movements arising on the translation of the net investments in foreign subsidiaries are recognised in the translation reserve, which is a separate component of equity

The functional currency of each Group company is the currency of the primary economic environment in which the Group company operates. The financial statements are presented in sterling which is the functional and presentational currency of the Company.

Transactions denominated in foreign currencies are translated into the functional currency of each Group company at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date.

1 Accounting policies (continued)

Foreign exchange gains and losses arising on the settlement of such transactions and translation of monetary assets and liabilities are recognised in the income statement.

Revenue

IFRS 15 establishes principles for determining when and how revenue arising from contracts with customers should be recognised. Filtronic recognises revenue when it transfers goods or services to a customer with an amount of consideration expected to be received in exchange for fulfilling the performance obligation with the customer.

The Group reviews all income streams against the requirements of IFRS 15. Management undertakes an assessment of all contracts and revenue streams across the business using the five-step approach specified by IFRS 15:

1) Identify the contract(s) with the customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations in the contract; and
5) Recognise revenue when (or as) a performance obligation is satisfied.

In determining the appropriate method of recognising revenue, management is required to make judgements as to whether performance obligations are satisfied over a period of time or at a point in time. For performance obligations that are satisfied over a period of time, judgements are made as to whether the output method or the input method is more appropriate to measure progress towards complete satisfaction of the performance obligation. If performance obligations are not satisfied over time, the Group recognises revenue at a point in time.

Revenue is measured at the fair value of consideration received or receivable for goods and services provided or performed in the normal course of business net of value added tax or sales tax. The nature of our revenue is disclosed below:

Revenue relating to finished goods product

Sales of finished goods product to customers are recognised when control of the product has transferred to the customer and the performance obligation has been satisfied at a point in time. This is usually when title passes, either on shipment or on receipt of goods depending on the delivery terms of the customer contract. The transaction price is specified in the customer contract.

Revenue relating to non-recurring engineering ("NRE")

NRE comprises contracts to provide engineering services, such as the design and development of a product, funded by the customer. The transaction price of the contract is known from inception of the contract. Each contract is reviewed to identify the number of distinct performance obligations and the transaction price is assigned accordingly, usually by the value of work performed on an output method basis; outputs are typically milestones within the development such as design reviews, reports and prototype products. Based on the performance of the obligations in the contract being met, revenue is recognised over time. If relevant, an expected loss on a contract is recognised immediately in the income statement.

Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the financial results.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Investments in subsidiaries

Investments in subsidiaries are stated in the Company's financial statements at cost less any accumulated impairment losses. Investments in subsidiaries are tested for impairment when there is an indication of impairment.

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets is measured at cost less accumulated impairment losses. Goodwill, which is allocated to cash-generating units, is tested for impairment at least annually and when there is an indication of impairment. The goodwill carrying value is written down to its recoverable amount. 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 the determination of the profit or loss on disposal.

Notes to the financial statements continued
for the year ended 31 May 2023

1 Accounting policies (continued)

Internally-generated intangible assets
All research costs are expensed as incurred.

Development costs chargeable to the customer are recognised as an expense in the same period as the associated customer revenue.

Development costs incurred on projects requiring product qualification tests to satisfy customer specifications are generally expensed as incurred, reflecting the technical risks associated with meeting the resultant product qualification test.

Development costs incurred on projects are capitalised where:
1) The technical feasibility can be tested against relevant milestones;
2) The probable revenue stream foreseen over the life of the resulting product can support the development; and
3) Sufficient resources are available to complete the development.

These capitalised costs are amortised on a straight-line basis over the expected life of the associated product. The estimated useful lives for the current and comparative periods are:

- Capitalised development costs 1 to 6 years

Once a new product is in volume production, further development costs are expensed as they arise as they are incurred in response to continual customer demand to enhance the product functionality or to reduce product cost.

Other intangible assets
Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated over the cost of the asset less its residual value.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- Software licence 4 to 5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Impairment charges
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. In assessing the fair value less cost to sell ("FVLCTS"), an estimated market multiple is determined and applied to the forecast EBITDA of the cash generating unit ("CGU").

For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGU"). For the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1 Accounting policies (continued)

Right of use assets and lease liabilities

The Group assesses whether a contract is a lease at inception of the contract. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets which includes the Group's leased office equipment such as printers. For these leases, the Group recognises the lease payment as an operating expense on a straight-line basis over the term of the lease.

The lease is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or the incremental borrowing rate. This is the rate when it is not possible to determine the interest rate in the lease and represents what we would have to pay for a loan of a similar item and term of repayment. The lease liability is subsequently increased by the interest cost on the lease and decreased by payments made. In the event of a change in future lease payments, the lease liability will be remeasured and the difference recognised in the right of use asset.

The Group remeasures the lease liability and makes a corresponding adjustment to the right of use asset whenever there has been a lease payment change, the lease contract is modified or any other significant event.

The right of use asset is initially measured at cost and subsequently at cost less accumulated depreciation and impairment losses. The right of use asset is depreciated over the shorter of the period of the lease term and useful life of the underlying asset. Where there is reasonable certainty the Group will purchase the asset at the end of the lease, the asset is depreciated over the useful life. The depreciation starts at the commencement date of the lease.

Where property leases contain a break option the value of the lease liability and right of use asset recognised on the balance sheet requires judgement to determine the lease term. The Group recognises the full term of the lease, ignoring the break option, as invariably the option will not be exercised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and less any accumulated impairment losses.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

- Fixtures and fittings 2 to 10 years
- Plant and equipment 3 to 10 years
- Computer hardware 2 to 4 years

Property, plant and equipment are tested for impairment when there is an indication of impairment. If impaired, the carrying values of the assets are written down to their recoverable amounts.

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

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Consolidated Statement of Financial Position and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position 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.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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.

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 or substantively enacted at the statement of financial position 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.

Notes to the financial statements continued

for the year ended 31 May 2023

1 Accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price less estimated costs of completion and sale. Inventory, including work in progress, costs comprise direct materials only. Cost is stated in the consolidated balance sheet at standard cost, revalued to actual cost, based on a first in-first out basis.

Provision is made for obsolete, slow moving or defective materials where appropriate. This is reviewed monthly.

Trade and other receivables

Trade and other receivables are amounts due from customers for goods and services performed in the ordinary course of business. They are initially recorded at the transaction price and thereafter measured at amortised cost using the effective interest method, less an allowance for expected credit losses.

Cash and cash equivalents

For the purpose of the cash flow statement and statement of financial position, cash and cash equivalents comprise cash at bank and short-term bank deposits with an original maturity of three months or less.

Warranty provision

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. A warranty provision is recognised when products are sold based on historical warranty data. The level of warranty provision required is reviewed on a product-by-product basis and adjusted accordingly in light of actual experience.

Dilapidations and onerous leases

A provision for dilapidations and onerous leases is recognised in the balance sheet on a lease-by-lease basis and is based on the Group's best estimates of the required cost to settle the relevant obligations.

Grants

Capital-based grants, when present, are included within deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

Grants that compensate the Group for expenses incurred are recognised in the profit or loss account as other operating income on a systematic basis in the same periods in which the expenses are recognised.

Financial liabilities

Financial liabilities comprise interest bearing borrowings and are initially recognised at fair value and subsequently measured at amortised cost with any net gains or losses, including any interest expense, recognised in profit or loss.

Share capital

Ordinary shares issued are classified as share capital in equity.

Dividends

Interim dividends are recognised in equity in the financial year they are paid. Final dividends are recognised in equity in the financial year they are approved by shareholders.

Share-based payments

The Group operates equity settled share option schemes, under which share options are granted to certain employees. The fair value of the share options at the date of grant was calculated using an option pricing model, taking into account the terms and conditions applicable to the option grant. The fair value of the number of share options expected to vest was expensed in the income statement on a straight-line basis over the expected vesting period. At each reporting period, these vesting expectations were revised as appropriate. A credit is made to equity equal to the share-based payment charge in the financial year.

Defined contribution pension schemes

Defined contribution pension schemes are operated for employees. Contributions are recognised as an expense in the income statement as incurred.

Forward currency contracts

Forward currency contracts are held at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the consolidated income statement.

1 Accounting policies (continued)

Accounting developments and new standards

At the date of authorisation of these financial statements, new and revised standards issued but not yet effective are set out below. It is anticipated the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group. These have not been adopted in the Group's accounting policies.

The following amendments are effective for the financial year beginning 1 June 2023:

Ref	Title	Summary	Application date (accounting periods commencing)
IAS 1	Presentation of Financial Statements	Amendments: classification of liabilities as current or non-current	1 January 2023
		Amendments: requirement to disclose 'material' accounting policies instead of 'significant' accounting policies	1 January 2023
		Amendments: clarification of the impact of post balance sheet date conditions on the classification of liabilities as non-current	1 January 2024
IAS 8	Accounting policies, changes in accounting estimates and errors	Amendments: definition of accounting estimates and clarification of the treatment of changes in accounting estimates	1 January 2023
IAS 12	Income taxes	Amendments: clarification of how deferred tax is accounted for on certain transactions	1 January 2023
IAS 16	Leases	Amendments: clarification of the measurement of sale and leaseback transactions that qualify as sales transactions under IFRS 15	1 January 2024
IFRS 17	Insurance contracts	Replaces IFRS 4 'Insurance contracts'	1 January 2023

Financials

Notes to the financial statements continued

for the year ended 31 May 2023

2 Accounting estimates and judgements

The preparation of the financial statements requires the use of accounting estimates and judgements, that affect the application of accounting policies, which are described in note 1, and reported amounts of assets and liabilities, income and expenses. The directors are required to make accounting estimates and judgements which are continually evaluated. They are based on historical experience and other factors, including expectations and best estimates of the future, that are believed to be reasonable under the circumstances. Actual results may differ from the expected results.

Key sources of estimation uncertainty

The key estimates concerning the future, that have a significant effect on the financial statements are considered below:

Investments in subsidiaries - impairment

Investments in subsidiaries are tested for impairment by reference to their recoverable amount relative to their carrying value. In accordance with IAS 36, recoverable amount is determined as the higher of value in use ("VIU"), determined based on the expected cash generated by the CGU to which the investment relates and fair value less costs to sell ("FVLCTS"). Both models are subject to uncertainties surrounding the EBITDA and cash flow forecasts being used.

The sensitivity analysis in respect of the recoverable amount of investments in subsidiaries is presented in note 15.

Goodwill and other intangibles - impairment

Goodwill and other intangibles are tested for impairment by reference to the expected cash generated by the cash generating unit ("CGU") or group of CGUs. This is deemed to be the best approximation of value, but is subject to the same uncertainties as the cash flow forecast being used. The forecasts comprise forecasts of revenue, material costs and overhead costs based on current and anticipated market conditions that have been considered and approved by the Board. Whilst the Group is able to manage most of its costs, significant elements of the revenue forecasts are inherently linked to global demand where uncertainty about both the timing and level of growth remains which is a key sensitivity.

Capitalised development costs - impairment

Intangible assets include development cost assets which have been reviewed for impairment as at the reporting date.

The recoverable amount of each technology development project has been determined based on value in use calculations, using cash flow projections in line with the expected useful economic life of each asset. The value in use calculations are based on management approved risk-adjusted cash flow forecasts for each project and have been discounted using a discount rate of 14%.

The key assumptions used in the cash flow projections relate to revenue and gross profit margin for each technology and are based on assumptions about expected customer demand which is inherently linked to the global demand for the technology under development where the timing and level of demand is subject to uncertainty. The Group has carried out a sensitivity analysis on the impairment tests of each of these projects, using various reasonably possible scenarios and concluded there to be no impairment risk.

Deferred tax asset

The recognition of deferred tax assets relating to tax losses carried forward depends on forecasts of the future taxable profits of the Company and its subsidiaries. The Group has assessed the recoverability of its deferred tax assets by reference to Board approved budgets and cash flow forecasts. These forecasts require the use of estimates and judgements about the future performance of the Company and its subsidiaries using the current order book, forecasts and market knowledge.

Deferred tax assets have been recognised within Filtronic Broadband Limited in the UK and Filtronic Wireless Inc. in the USA so a change to forecast customer demand in either of these subsidiaries would impact on the amount of deferred tax asset recognised. A 10% forecast reduction in the profitability of these subsidiaries would see deferred tax asset recognition reduce by an additional £81,000.

2 Accounting estimates and judgements (continued)

Warranty provision

The Group makes estimates in calculating the warranty provision for existing commitments arising from past events. In estimating the provision, the Group makes judgements as to the quantum and likelihood of the liability arising. Certain provisions require more judgement than others. In particular, the warranty provision has to take account of future outcomes arising from past deliveries of products and services. In estimating these provisions, the Group makes use of management experience, precedents and any specific contract and customer information.

Critical judgements in applying the Group's accounting policies

The critical accounting judgements in applying the Group's accounting policies are considered below and are the judgements that have the most significant effect on the amounts recognised in the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy in note 1 if it meets the criteria as per IAS 38. Initial capitalisation of costs is based on management's judgement whether the criteria of IAS 38 is satisfied, when the technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone and there is commercial interest in the product. As part of this judgement process, management establish future demand relating to the product, evaluate the development plans to complete the product and establish where the development is positioned on the Group's technology roadmap. The directors apply judgement in the review of costs capitalised to determine whether any impairment should be recognised. The directors also apply judgement in its review of impairment of its development costs and assesses this on a regular basis to ensure that any costs still capitalised continue to be commercially viable.

Notes to the financial statements continued
for the year ended 31 May 2023

3 Segmental analysis

Operating segments

IFRS 8 requires consideration of the identity of the chief operating decision maker ('CODM') within the Group. In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Chief Executive Officer, who reviews internal monthly management reports, budget and forecast information as part of this. Accordingly, the Chief Executive Officer is deemed to be the CODM.

The CODM has identified one operating segment within the Group as defined under IFRS 8. In turn, this is the only reportable segment of the Group as the entities in the Group have similar products and services, production processes and economic characteristics. Therefore, there is no allocation of operating expenses, profit measures or assets and liabilities to specific commercial markets.

Accordingly, the CODM assesses the performance of the operating segment on financial information which is measured and presented in a manner consistent with those in the financial statements by reference to Group results against budget.

The Group profit measures are adjusted operating profit and adjusted EBITDA, both disclosed on the face of the consolidated income statement. No differences exist between the basis of preparation of the performance measures used by management and the figures in the Group financial statements.

The Group has four customers representing individually over 10% of revenue each and in aggregate 85% of revenue. This is split as follows:

- Customer A - **34%** (2022: 23%)
- Customer B - **22%** (2022: 36%)
- Customer C - **17%** (2022: 22%)
- Customer D - **12%** (2022: 0%)

Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers and the nature of revenue recognised. Segment assets are based on the geographical

Revenue by destination	2023 £000	2022 £000
United Kingdom	**4,762**	7,489
Europe	**2,600**	3,421
Americas	**5,711**	5,313
Rest of the world	**3,195**	829
	16,268	17,052

Split of non-current assets by location	2023 £000	2022 £000
United Kingdom	**6,925**	5,109
Americas	**438**	248
	7,363	5,357

Non-current assets relate to property, plant and equipment, right of use assets, goodwill and other intangible assets and deferred tax.

4 Operating profit

	2023 £000	2022 £000
Revenue from goods and services	**15,362**	16,580
Revenue from non-recurring engineering ("NRE") projects	**906**	472
Revenue	**16,268**	17,052
Material cost of goods sold	**5,992**	5,645
Wages and salaries	**5,884**	5,532
Social security costs	**623**	577
Pension costs	**336**	291
Share-based payments	**16**	16
Staff costs	**6,859**	6,416
Amortisation	**253**	278
Depreciation	**780**	945
Depreciation, amortisation and impairment	**1,033**	1,223
Other operating income	**(187)**	(329)
Non-salary related exceptional items	**-**	(391)
Other expenses	**2,334**	2,513
Total operating costs	**10,039**	9,432
Operating profit	**237**	1,975

Development costs of £481,000 were capitalised in the year (2022: £nil).

Other operating income relates to grants received for plant and machinery and R&D innovation whilst R&D tax credits claimed under the RDEC scheme are also recognised in operating profit.

5 Exceptional items

Exceptional items are costs that are separately disclosed due to their material and non-recurring nature in order to reflect management's view of the underlying business.

Operating costs are stated after crediting exceptional items as follows:

	2023 £000	2022 £000
Antenna warranty	**-**	(339)
Historic claim	**-**	(52)
	-	(391)

The antenna warranty item related to the Group's legacy Telecoms Antenna Operation previously costed through discontinued operations. The warranty period has now lapsed, and the provision was released unused.

A provision relating to an historic claim was released unused and credited to the income statement as it related to the Telecoms Antenna Operation, sold in January 2020.

Financials

Notes to the financial statements continued

for the year ended 31 May 2023

6 Operating items

	2023 £000	2022 £000
Operating profit is stated after charging/(crediting):		
Depreciation	**780**	945
Research and development costs in the income statement excluding amortisation	**1,776**	1,937
Amortisation of development costs	**222**	259
Amortisation of other intangible assets	**31**	19
Foreign exchange gain	**(107)**	(141)

7 Auditors' remuneration

The Company's auditor is PricewaterhouseCoopers LLP. The auditors' remuneration was as follows:

	2023 £000	2022 £000
Company auditor:		
Audit of the Group and Company financial statements	**45**	35
Company auditor and their associates:		
Audit of subsidiaries' financial statements pursuant to legislation	**85**	75
	130	110

8 Employees

The average number of employees comprised:

	2023 Number	2022 Number
Manufacturing	**74**	78
Research and development	**31**	26
Sales	**7**	5
Administration	**13**	15
	125	124

9 Compensation of directors

Details of the remuneration, pension entitlements and share options of the individual directors are set out in the Directors' remuneration report on pages 50 to 54. The compensation of the directors was:

	2023 £000	2022 £000
Salary or fees	**481**	453
Bonus	**-**	125
Benefits	**11**	22
Long term incentives	**35**	12
Total remuneration excluding pension contributions	**527**	612
Pension contributions	**11**	11
	538	623

The Directors' remuneration is paid through the Company.

The schedule 5 disclosure requirements are included in the Directors' remuneration report in the table entitled 'Total single figure of remuneration for directors - audited' and the table entitled 'Total single figure of pension benefits for directors - audited'. The elements that are audited are identified as such in that report.

10 Related party transactions

Identity of related parties

The Company has a related party relationship with its subsidiaries and with its directors.

Transactions with subsidiaries

The main transactions between the Company and its subsidiaries are management administration recharges to its subsidiaries of £1,018,000 (2022: £931,000) and a royalty charge of 1% of filters product sales to Filtronic Wireless Limited of £30,000 (2022: £38,000). These intercompany transactions are eliminated on consolidation.

The Company also acts as a central service to distribute money around the Group to ensure subsidiaries are adequately funded to meet obligations and to invest funds from subsidiaries where surplus cash exists. The total figures for these transactions along with the management and royalty charge can be seen in notes 21 and 22 through the movement in the Company's intercompany receivables and payables.

The amount outstanding from subsidiary undertakings to the Company at 31 May 2023 totalled £4.9m (2022: £6.3m). Amounts owed to subsidiary undertakings by the Company at 31 May 2023 totalled £2.8m (2022: £2.8m).

Transactions with key management personnel

Key management personnel are considered to be the Executive Directors of the Company. The remuneration given to these individuals is disclosed in the Directors' remuneration report.

11 Finance costs

	2023 £000	2022 £000
Interest expense for lease arrangements	**139**	127
Minimum service costs and interest charges on invoice discounting facilities	**92**	67
	231	194

Notes to the financial statements continued
for the year ended 31 May 2023

12 Finance income

	2023 £000	2022 £000
Revaluation of foreign currency denominated intercompany balance	**49**	111
Interest receipt on treasury deposits	**9**	-
	58	111

13 Taxation

Recognised in the income statement	2023 £000	2022 £000
Current tax credit		
Overseas taxation in the financial year	**18**	-
Adjustment in respect of prior year — R&D tax credit	**(32)**	(24)
Total current tax credit	**(14)**	(24)
Deferred tax (credit) /charge		
Change of tax rate	**-**	(109)
Origination and reversal of temporary differences	**(386)**	557
Total deferred tax (credit)/charge	**(386)**	448
Income tax (credit)/charge	**(400)**	424

The reconciliation of the effective tax rate is as follows:

	2023 £000	2022 £000
Profit before taxation	**64**	1,892
Profit before taxation multiplied by the average standard rate of corporation tax in the UK (20%) (2022:19%)	**13**	359
Disallowable items	**46**	155
Deferred tax asset not recognised	**30**	194
Enhanced R&D tax credit	**(89)**	(270)
Adjustment in respect of prior year R&D tax credit	**(32)**	(24)
Foreign tax not at UK rate	**18**	15
(Recognition)/derecognition of deferred tax asset	**(386)**	104
Rate change of deferred tax	**-**	(109)
Taxation	**(400)**	424

The main rate of UK corporation tax was 19% for the first 10 months of the year, although the corporation tax rate increased to 25% on 1 April 2023 for companies with profits above £250,000. Consequently, the average rate of corporation tax for the year was 20%. The US federal corporate tax rate is 21%.

The deferred tax assets recognised in the year have been calculated at the rates expected to be in existence in the period of reversal.

14 Earnings per share

	Total Group 2023 £000	Total Group 2022 £000
Profit for the year	**464**	1,468

	'000	'000
Basic weighted average number of shares	**215,121**	214,726
Dilution effect of share options	**1,358**	868
Diluted weighted average number of shares	**216,479**	215,594
Basic earnings per share	**0.22p**	0.68p
Diluted earnings per share	**0.21p**	0.68p

15 Investments in subsidiaries

	Company investments in subsidiaries £000
Cost	
At 1 June 2021, 31 May 2022 and 31 May 2023	**21,110**
Impairment	
At 1 June 2021	(14,559)
Impairment in the year	(2,372)
At 31 May 2022	(16,931)
Impairment in the year	(3,833)
At 31 May 2023	**(20,764)**
Carrying amount at 31 May 2022	4,179
Carrying amount at 31 May 2023	**346**

The investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. The assessment of the carrying amount is derived from the higher of the value in use and the fair value less costs to sell. Value in use is determined by discounting the future cash flows generated from the continuing use of the cash generating unit ("CGU") to which the investment relates whilst the fair value less costs to sell is the amount that a market participant would pay for the asset or CGU, less the costs of sale

The carrying amount was calculated using the value in use model which returned a higher carrying value based on the following key assumptions:

- Budgets incorporating post-tax cash flows have been prepared to 31 May 2024 based on past experience, actual operating results, known future cash flows and estimates of future cash flows;
- Cash flows for a further four years have been prepared based on the Company's long-range plan together with cost inflation and additional overhead assumptions. A perpetuity factor has been applied based on the year to 31 May 2028. A long-term growth factor of 2.2% was applied to the perpetuity cash flows; and
- The CGU has a pre-tax discount rate of 14% (2022:12%) which was applied in determining the recoverable amount of the unit, being the estimated weighted average cost of capital for the CGU.

The investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. At 31 May 2023 it was identified that the investment in the CGU responsible for RF conditioning products would need to be impaired by £3.8m based on discounting the future cashflows following a review of budgets. The recoverable amount of £0.3m was determined based on a value-in-use calculation which requires the use of key assumptions. A key input of the model is the discount rate used. Therefore a +/- 1% difference in the discount rate would impact impairment by £170,000 on +1% and £210,000 on -1%.

Notes to the financial statements continued
for the year ended 31 May 2023

15 Investments in subsidiaries (continued)

The Company's subsidiaries are related parties.

The subsidiaries at 31 May 2023, which were owned by Filtronic plc, were as follows:

Name of subsidiary	Country of incorporation	Description of equity held	Proportion held	Activity
Filtronic Broadband Limited[1]	UK	1p ordinary shares	100%	Design and manufacture of microwave products for telecommunication systems
Filtronic Holdings UK Limited[1]	UK	£1 ordinary shares	100%	Holding Company
Isotek (Holdings) Limited[1]	UK	1p ordinary shares	100%	Holding Company
Owned by Isotek (Holdings) Limited:				
Filtronic Wireless Limited[1]	UK	1p ordinary shares	100%	Design and manufacture of filters and related products for telecommunication systems
Filtronic Wireless Inc.[2]	USA	US$1 ordinary shares	100%	Design and manufacture of filters and related products for telecommunication systems
Owned by Filtronic Wireless Limited:				
Isotek Hong Kong Holdings Limited[3]	Hong Kong	HK$1 ordinary shares	100%	Holding Company
Owned by Isotek Hong Kong Holdings Limited:				
Isotek Telecommunications Suzhou Limited[4]	China	US$350,000 paid in share capital	100%	Design and manufacture of filters and related products for telecommunication systems

[1] Plexus 1, NETPark, Thomas Wright Way, Sedgefield, County Durham TS21 3FD, United Kingdom

[2] 700 Marvel Road, Salisbury, Maryland, 21801, USA

[3] RM 1501, C1 Grand Millennium Plaza (lower block), 181 Queen's Road Central, Hong Kong

[4] Suzhou Industrial Park, 199 Sinegang Street, Oriental Gate Building 2, Room 2201, Seat A172

16 Goodwill and other intangible assets

	Group					Company
	Goodwill £000	Other intangibles (core technology) £000	Software costs £000	Development costs £000	Total £000	Software costs £000
Cost						
At 1 June 2021	974	10,884	323	1,015	13,196	127
Additions	-	-	57	-	57	28
At 31 May 2022	**974**	**10,884**	**380**	**1,015**	**13,253**	**155**
Additions	-	-	51	481	532	23
At 31 May 2023	**974**	**10,884**	**431**	**1,496**	**13,785**	**178**
Amortisation						
At 1 June 2021	-	10,884	243	353	11,480	69
Provided in the year	-	-	19	259	278	14
At 31 May 2022	**-**	**10,884**	**262**	**612**	**11,758**	**83**
Provided in the year	-	-	31	222	253	19
At 31 May 2023	**-**	**10,884**	**293**	**834**	**12,011**	**102**
Carrying amount at 31 May 2022	974	-	118	403	1,495	72
Carrying amount at 31 May 2023	**974**	**-**	**138**	**662**	**1,774**	**76**

Goodwill and other intangibles relate to the acquisition of Isotek (Holdings) Limited. Goodwill is allocated to the CGUs that were expected to benefit from the synergies of the combination and which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill may be impaired.

The carrying value of intangible assets and goodwill has been assessed for impairment by reference to its value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the CGUs. The calculation of the value in use was based on the following key assumptions:

- Budgets incorporating pre-tax cash flows have been prepared to 31 May 2024 based on past experience, actual operating results, known future cash flows and estimates of future cash flows;
- Cash flows for a further four years have been prepared based on the Company's long range plan together with cost inflation and additional overhead assumptions. A perpetuity factor has been applied based on the year to 31 May 2028. A long-term growth factor of nil was applied to the perpetuity cash flows; and
- The Group's pre-tax discount rate of 14% (2022: 12%) was applied in determining the recoverable amount of the unit, being the estimated weighted average cost of capital for the CGUs.

Based on the testing above the directors do not consider any of the remaining goodwill or intangible assets to be impaired, even allowing for a reasonable degree of sensitivity to the underlying assumptions, including the discount rate.

Notes to the financial statements continued
for the year ended 31 May 2023

17 Right of use assets

	Group			Company
	Property leases £000	Plant and equipment £000	Total £000	Plant and equipment £000
Cost				
1 June 2021	1,626	1,422	3,048	-
Additions	66	512	578	-
Exchange differences	34	4	38	-
At 31 May 2022	1,726	1,938	3,664	-
Additions	599	579	1,178	-
Disposals	(595)	-	(595)	-
Exchange differences	7	1	8	-
At 31 May 2023	**1,737**	**2,518**	**4,255**	
Depreciation				
At 1 June 2021	495	285	780	-
Provided in the year	331	232	563	-
Exchange differences	27	1	28	-
At 31 May 2022	853	518	1,371	-
Provided in the year	288	290	578	-
Disposals	(595)	-	(595)	-
Exchange differences	12	-	12	-
At 31 May 2023	**558**	**808**	**1,366**	-
Carrying amount at 31 May 2022	873	1,420	2,293	-
Carrying amount at 31 May 2023	**1,179**	**1,710**	**2,889**	-

The Group's lease commitments are made up of property leases and plant and equipment. Plant and equipment classified as a right of use asset is financed under asset finance agreements which usually require the Group to make a deposit against the machinery of 20%.

The Group leases office premises at its sites in Sedgefield, Yeadon and Manchester in the UK, Salisbury, Maryland in the USA and a virtual office space in Suzhou, China. Leases remaining are up to six years.

In addition to the depreciation charges shown in the table above, the consolidated income statement includes the following amounts relating to leases:

	2023 £000	2022 £000
Interest expense (included in finance cost)	**139**	127
Expense relating to viable lease payments not included in lease liabilities (included in operating costs)	**2**	7

18 Property, plant and equipment

	Group				Company
	Fixtures and fittings £000	Plant and equipment £000	Computer hardware £000	Total £000	Plant and equipment £000
Cost					
At 1 June 2021	292	3,766	170	4,228	-
Additions	3	51	7	61	-
Disposals	-	(441)	-	(441)	-
Exchange differences	1	42	1	44	-
At 1 June 2022	296	3,418	178	3,892	-
Additions	133	810	3	946	-
Disposals	(153)	(91)	(17)	(261)	-
Exchange differences	-	7	-	7	-
At 31 May 2023	**276**	**4,144**	**164**	**4,584**	
Depreciation					
At 1 June 2021	150	2,946	118	3,214	-
Depreciation	31	337	14	382	-
Disposals	-	(441)	-	(441)	-
Exchange differences	1	35	-	36	-
At 31 May 2022	182	2,877	132	3,191	-
Depreciation	38	158	6	202	-
Disposals	(153)	(91)	(17)	(261)	-
Exchange differences	-	6	-	6	-
At 31 May 2023	**67**	**2,950**	**121**	**3,138**	-
Carrying amount at 31 May 2022	114	541	46	701	-
Carrying amount at 31 May 2023	**209**	**1,194**	**43**	**1,446**	-

19 Deferred tax

	Group	
	2023 £000	2022 £000
Deferred tax assets		
Opening balance	**868**	1,218
Origination /(reversal) of tax losses	**559**	(585)
Utilisation of tax losses	**(47)**	(309)
(Reversal)/origination of capital allowances	**(128)**	342
Exchange differences	**2**	93
Change of tax rate	**-**	109
	1,254	868

Deferred tax assets within the UK and the USA have been recognised as the directors consider that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of temporary differences.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such deductions are reversed when the probability of future taxable profits improves.

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Notes to the financial statements continued
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19 Deferred tax (continued)

Deferred tax assets which have been recognised:	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Depreciation in advance of capital allowances	**287**	415	-	-
Tax losses carried forward	**967**	453	-	-
	1,254	868	-	-

The deferred tax assets have not been recognised where the directors consider that it is unlikely that future taxable profits will be available against which they can be used. There is no expiry date for these unrecognised deferred tax assets which are reassessed at each reporting date. These deferred tax assets are presented below:

Deferred tax assets which have not been recognised:	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Depreciation in advance of capital allowances	**2,473**	1,397	**510**	510
Tax losses carried forward	**15,805**	15,775	**14,043**	13,917
Share options deferment	**80**	80	**80**	80
	18,358	17,252	**14,633**	14,507

20 Inventories

	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Raw materials	**3,528**	3,548	-	-
Work in progress	**628**	531	-	-
Finished goods	**426**	264	-	-
	4,582	4,343	-	-
Inventory provision	**(1,804)**	(1,745)	-	-
Inventories (net of provision)	**2,778**	2,598	-	-

Raw materials, consumables and changes in finished goods and work in progress recognised in cost of sales in the year amounted to £5,539,000 (2022: £5,083,000).

The amount charged to the income statement in the year in respect of write-downs of inventories is £60,000 (2022: £196,000). The amount credited to the income statement in the year in respect of reversals of write-downs of inventories is £nil (2022: £nil)

21 Trade and other receivables

	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Trade receivables	**4,351**	3,512	-	-
Group receivables	-	-	**4,896**	6,266
Other receivables and prepayments	**984**	967	**51**	55
	5,335	4,479	**4,947**	6,321

There are no provisions for bad debt. The Group receivables in the Company were reviewed in the year for expected credit losses in accordance with IFRS 9.

Amounts owed to Group undertakings are unsecured, interest-free and payable on demand.

22 Trade and other payables

	Group		Company	
	2023 £000	2022 £000	**2023 £000**	2022 £000
Trade payables	**2,891**	1,825	**55**	78
Group payables	**-**	-	**2,784**	2,784
Other payables and accruals	**782**	1,168	**341**	698
	3,673	2,993	**3,180**	3,560

Amounts owed to Group undertakings are unsecured, interest-free and payable on demand.

23 Provisions

	Group		Company	
Warranty provision	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Opening balance	**135**	342	**-**	-
Used during the year	**(58)**	(24)	**-**	-
Released unused during the year	**(60)**	(347)	**-**	-
Charge for the year	**300**	163	**-**	-
Exchange differences	**-**	1	**-**	-
	317	135	**-**	-

The provision for warranty relates to the units sold during the last two financial years. The provision is based on estimates made from historical warranty data. Factors that could impact the warranty provision include the success of the Group's productivity and quality initiatives as well as parts and labour costs. The provision is expected to be utilised in the next two financial years.

	Group		Company	
Dilapidation provision	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Opening balance	**147**	55	**-**	-
Used during the year	**(29)**	-	**-**	-
Released unused during the year	**(71)**	-	**-**	-
Charge for the year	**-**	91	**-**	-
Exchange differences	**-**	1	**-**	-
	47	147	**-**	-

The Group leases physical facilities at its three sites in the UK and one in the USA with each of these leases requiring the site to be restored to its original condition. The dilapidation provision reflects management's best estimates and ability to measure the likely costs that may be incurred restoring the building to its original state. Settlement will be made on exit from each property. There are currently no plans to leave any of the Group's properties.

	Group		Company	
Total provision	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Warranty provision	**317**	135	**-**	-
Dilapidation provision	**47**	147	**-**	-
	364	282	**-**	-

Notes to the financial statements continued

for the year ended 31 May 2023

24 Deferred income

	Group		Company	
	2023 £000	2022 £000	**2023 £000**	2022 £000
Contract liabilities	**140**	134	**-**	-
Capital grant	**24**	38	**-**	-
Total current deferred income	**164**	172	**-**	-
Contract liabilities	**-**	111	**-**	-
Capital grant	**29**	19	**-**	-
Total non-current deferred income	**29**	130	**-**	-
Total deferred income	**193**	302	**-**	-

Contract liabilities are invoices raised in advance of NRE work completed for customers that will be recognised as income once the performance obligation of the contract has been met. The majority of NRE contracts are invoiced with a proportion of the contract value upfront which is recognised as revenue, over time, across the life of contract at each milestone based on the percentage of the overall contract value achieved at that performance obligation.

A capital grant of £40,000 was awarded in the year towards the purchase of a new die attach machine to support new product introductions. The grant is being amortised over a period of four years with a remaining life of 0.5 years.

25 Lease liabilities

	Group 2023 £000	Group 2022 £000
Opening lease liability	**1,820**	2,020
New leases entered into during the year	**1,126**	445
Payments made during the year	**(765)**	(653)
Finance costs	**139**	-
Exchange differences	**(5)**	8
	2,315	1,820

	2023 £000	2022 £000
Lease liability payable in less than a year	**617**	540
Current lease liabilities	**617**	540
Lease liability payable in one to five years	**1,579**	1,017
Lease liability payable in more than five years	**119**	263
Non-current lease liabilities	**1,698**	1,280
Total lease liabilities	**2,315**	1,820

Interest bearing loans and borrowings

The following are the cash flows relating to the Group's financial liabilities other than trade and other payables, for which there is no material difference between their carrying value and contractual cash flows:

	Carrying value £000	Contractual cash flows £000	Less than 1 year £000	1-2 years £000	2-5 years £000	Over 5 years £000
Lease liabilities at 31 May 2023	2,315	2,725	777	665	1,166	117
Lease liabilities at 31 May 2022	1,820	2,176	642	446	795	293

26 Share capital

	Group and Company		
	Deferred shares of 10p each Number '000	Ordinary shares of 0.1p each Number '000	£000
At 1 June 2021	106,877	214,415	10,795
Exercise of share options	-	383	1
At 31 May 2022	106,877	214,798	10,796
Exercise of share options	-	323	-
At 31 May 2023	**106,877**	**215,121**	**10,796**

All shares are allotted, called up and fully paid. Holders of the ordinary shares are entitled to receive dividends when declared, and are entitled to one vote per share at meetings of the Company.

The deferred shares have no rights to vote or receive dividends.

Financials

Notes to the financial statements continued
for the year ended 31 May 2023

27 Share premium

	Group and Company £000
At 1 June 2021	**11,039**
Exercise of share options	21
At 31 May 2022	**11,060**
Exercise of share options	17
At 31 May 2023	**11,077**

28 Translation reserve

	Group £000
At 1 June 2021	**(650)**
Currency translation movement arising on consolidation	179
At 31 May 2022	**(471)**
Currency translation movement arising on consolidation	1
At 31 May 2023	**(470)**

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations.

29 Dividends

The directors are not proposing to pay a dividend for the year ended 31 May 2023 (2022: £nil).

30 Retained earnings

	Group £000	Company £000
At 1 June 2021	**(11,826)**	**(11,167)**
Profit/(loss) for the year	1,468	(3,434)
Share-based payments	16	16
At 31 May 2022	**(10,342)**	**(14,585)**
Profit/(loss) for the year	464	(4,500)
Share-based payments	16	16
At 31 May 2023	**(9,862)**	**(19,069)**

31 Share options

Sharesave plans

Seven sharesave plans have been offered to employees over the years, at the date of this report. The first six of the schemes offered to employees have now closed. Under these plans employees who join the plan can save up to £500 per month for three years. The members of the plans are granted a number of share options based on the amount they would save over the three years. At the end of the three years, the members have a six-month period in which they can exercise the share options. The scheme has an exercise price calculated by reference to the average of the middle market closing price of the shares on AIM for the dealing day immediately prior to the plan offer date.

Sharesave Plan—Scheme 7	**Weighted average exercise price 2023**	**Number of options 2023**	Weighted average exercise price 2022	Number of options 2022
Outstanding at the beginning of the year	**6.67p**	**1,898,193**	-	-
Granted during the year	**6.67p**	**-**	6.67p	2,059,029
Cancelled during the year	**6.67p**	**(157,598)**	6.67p	(160,836)
Exercised during the year	**6.67p**	**(22,668)**	6.67p	-
Outstanding at the end of the year	**6.67p**	**1,717,927**	6.67p	1,898,193
Exercisable at the end of the year	**6.67p**	**-**	6.67p	-

Management incentive plans

The options granted in the year have specific performance targets attached to them. The exercise price for an option was the middle market closing price of Filtronic plc's ordinary shares as derived from AIM on the dealing day prior to issue.

The following options under this scheme were outstanding at 31 May 2023:

Ordinary shares of 0.1p 2023	**2022**	**Date granted**	**Earliest date exercisable**	**Latest date exercisable**	**Exercise price**
950,000	1,250,000	01/03/2016	01/03/2017	28/02/2026	5.4p
300,000	300,000	11/04/2016	11/04/2017	10/04/2026	8.5p
200,000	200,000	28/03/2018	28/03/2019	27/03/2028	9.0p
-	200,000	11/02/2020	11/02/2021	11/02/2030	9.3p
750,000	750,000	24/09/2020	24/09/2023	24/09/2030	8.0p
2,361,760	2,543,574	24/06/2021	24/06/2024	24/06/2031	11.1p
181,814	-	12/10/2022	12/10/2032	12/10/2032	11.4p
4,743,574	5,243,574				

The weighted average price of the outstanding options under this scheme at 31 May 2023 was 9p (2022: 9p).

	Number of share options 2023	Number of share options 2022
Outstanding at the beginning of the year	**5,243,574**	3,083,334
Granted during the year	**181,814**	3,270,828
Cancelled during the year	**(381,814)**	(727,255)
Exercised during the year	**(300,000)**	(383,333)
Outstanding at the end of the year	**4,743,574**	5,243,574
Exercisable at the end of the year	**1,450,000**	1,750,000

Notes to the financial statements continued
for the year ended 31 May 2023

32 Share-based payments

	Group and Company	
	2023 £000	2022 £000
Share options expense	**16**	16
	16	16

The share options expense is the fair value of the share options at the date of grant spread over the expected vesting period of the share options. The fair value of the share options at the date of grant was measured using the Black-Scholes model.

The inputs to the Black-Scholes model and the weighted average fair value of the share options granted during the year were as follows:

	Group and Company	
	2023	2022
Number of share options granted	**181,814**	5,329,857
Weighted average share price	**11.37p**	9.40p
Expected volatility	**50%**	50%
Expected life	**3.0 years**	3.0 years
Risk-free interest rate	**2.5%**	0.8%
Weighted average fair value	**4.0p**	2.5p

Expected volatility is the estimate of the volatility of the share price over the expected life of the share options.

33 Pension costs

	Group		Company	
	2023 £000	2022 £000	**2023 £000**	2022 £000
Defined contribution schemes	**336**	291	**42**	43

34 Capital expenditure commitments

	Group		Company	
	2023 £000	2022 £000	**2023 £000**	2022 £000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	**234**	34	**-**	-

35 Analysis of net cash

	1 June 2022 £000	Cash flow £000	Other changes £000	**31 May 2023 £000**
Cash and cash equivalents	4,006	(1,412)	16	**2,610**
Bank loans	-	-	-	**-**
Lease liabilities - plant and machinery	(863)	419	(576)	**(1,020)**
Net cash when including all debt except property leases	3,143	(993)	(560)	**1,590**
Lease liabilities - property leases	(957)	346	(684)	**(1,295)**
	2,186	(647)	(1,244)	**295**

35 Analysis of net cash (continued)

Reconciliation of cash flow to movement in net cash

	2023 £000	2022 £000
Movement in cash and cash equivalents	**(1,412)**	1,071
Movement in bank loans	**-**	131
Movement in lease liabilities - plant and machinery	**(157)**	(28)
Movement in lease liabilities - property lease	**(338)**	228
Exchange differences	**16**	29
Movement in net cash	**(1,891)**	1,431
Opening net cash	**2,186**	755
Closing net cash	**295**	2,186

Cash at bank earns interest at floating rates based on daily bank deposit rates. There are no restrictions on the availability of the cash and cash equivalents at 31 May 2023 (2022: £nil).

IFRS 16 requires the recognition of property leases on the balance sheet which is classified as a debt item.

36 Financial instruments

Fair value

The carrying amount of all the financial assets and liabilities approximates to their fair value as described below.

Cash and cash equivalents comprise bank balances and bank deposits with a maturity of three months or less.

Trade and other receivables are all receivable in less than one year. Trade receivables are generally receivable within 90 days.

Trade and other payables are all payable in less than one year. Trade payables are generally payable within 90 days.

All financial assets and liabilities are held at amortised cost other than derivative financial instruments which are held at fair value.

Liquidity risk

The Group has cash at bank of £2.6m whilst the Company has cash at bank of £0.6m.

Cash is held on bank deposit for varying periods from overnight to six months to ensure all liabilities can be met as they fall due

The Group has access to a £3.0m sales invoicing facility with Barclays Bank and a $4.0m invoice factoring facility with Wells Fargo Bank.

The sales invoicing facility with Barclays Bank allows the Company to borrow 70% of the UK entities' debtors denominated in US dollars and sterling up to a value of £3.0m. The facility is due its next formal review in September 2023, although this can be reviewed at their discretion at any time.

The sales invoice factoring facility with Wells Fargo Bank allows the Company to borrow 85% of the US entities' debtors denominated in US dollars up to a value of $4.0m. The facility matures on 12 July 2024 when it will be due for renewal.

The amount of cash available to the Group and the headroom available on debt facilities results in a low liquidity risk.

Credit risk

The exposure to credit risk is limited to the carrying amount of cash and cash equivalents and trade and other receivables in the balance sheet.

The credit risk related to cash and cash equivalents is considered to be low due to the cash being held at banks with high credit ratings such as Barclays Bank and Wells Fargo Bank.

Notes to the financial statements continued
for the year ended 31 May 2023

36 Financial instruments (continued)

Credit risk is primarily related to trade receivables. The Group's businesses are concentrated on long-term relationships with a small number of large and long-established OEMs. Payment terms for trade receivables range from prepayment terms to 90 days net. Overdue receivables are regularly monitored and appropriate action is taken to collect payment. The Group has historically incurred only low levels of unrecoverable receivables. Therefore credit risk is considered to be low.

Trade receivables included the following amounts for the Group's largest customers:

	Group	
	2023 £000	2022 £000
Customer one	**1,571**	1,226
Customer two	**1,105**	830
Customer three	**970**	742
Other customers	**705**	714
	4,351	3,512

The age of trade receivables that have not been provided for was as follows:

	Group	
	2023 £000	2022 £000
Not past due	**4,347**	3,487
Post due less than three months	**4**	25
	4,351	3,512

No trade receivables have been provided for in either FY2023 or FY2022.

The Company has no trade receivables

Interest rate risk
Cash is generally held on short-term bank deposits which earn interest at variable money market deposit rates. At 31 May 2023, there was £nil held on short-term deposit. The remaining cash in the Group is held in very low interest rate bank accounts. Sterling interest rates are very low and therefore interest rate risk is considered to be low.

The interest rate sensitivity of the expected annual interest income/(expense) assuming a balance on deposit or loan of £1,000,000 is as follows.

	Expected annual interest income £000	Expected annual interest expense £000
1.5%	**15**	(15)
1.0%	**10**	(10)
0.5%	**5**	(5)

36 **Financial instruments** (continued)

Foreign currency risk

The Group's and Company's reporting currency is sterling, which is also the Company's functional currency. The functional currencies of the subsidiaries are sterling, US dollar and Chinese yuan.

The Group's results and financial position are affected by fluctuations in foreign currency exchange rates.

The Group has generated a surplus of US dollars during the year due to an increasing number of projects being supplied in US dollars. Whilst the Group aims to maintain a natural hedge, it is not adequate to offset the exposure on currency risk. Therefore, the Group has used forward foreign exchange contracts to reduce the currency risk from surplus US dollars. The nature of the Group's businesses means there is limited visibility of the currency required in US dollars. Therefore, when forward contracts are used to reduce currency risk, they are usually only for short periods of no more than six months. If the US dollar were to weaken significantly, this could materially reduce the Group's revenue and operating profit.

There was a forward contract in place at 31 May 2023, the fair value of the foreign currency contract was a liability of £34,000 (2022 : £nil).

Cash is mainly held in sterling and US dollars.

The Group's exposure to foreign currency risk for cash and cash equivalents, trade receivables and trade payables was as follows:

	Group					
	2023			2022		
	EUR £000	**RMB £000**	**USD £000**	EUR £000	RMB £000	USD £000
Cash and cash equivalents	**337**	**27**	**549**	4	20	859
Trade receivables	**-**	**-**	**3,084**	-	-	2,194
Trade payables	**(321)**	**-**	**(615)**	(6)	-	(740)
Net exposure	**16**	**27**	**3,018**	(2)	20	2,313

The sensitivity of the Group operating profit to the US dollar to sterling exchange rate, assuming all other variables remain constant, is as follows:

If the US dollar had been 1% stronger/weaker against sterling throughout the year ended 31 May 2023, then the Group operating profit would have been £78,000 higher/lower. The impact of other currencies is not material.

Capital management

The capital structure of the Group and Company consists of equity and debt. Equity comprises ordinary share capital and retained earnings. Debt includes sales invoice financing facilities with large banks, asset finance and lease liabilities.

The objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to maximise future returns for shareholders.

Cash flow is controlled by ongoing justification, monitoring and reporting of capital expenditure and regular monitoring and reporting of operational costs.

Company information

Directors
Jonathan Neale - Non-Executive Chairman

Richard Gibbs - Chief Executive Officer

Michael Tyerman - Chief Financial Officer

Pete Magowan - Non-Executive Director

John Behrendt - Non-Executive Director

Company Secretary
Michael Tyerman

Company number
2891064

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Chartered Accountants and Statutory Auditors
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Orchard Street
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Bankers
Barclays Bank plc
10 Market Street
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Financial public relations
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Registrars
Link Group
Enquiries regarding shareholdings, change of address or similar particulars should be directed in the first instance to our Registrars, Link Group whose address is:

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Tel: +44 (0)371 664 0300

(calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate). Lines are open 9.00am - 5.30pm Monday to Friday excluding bank holidays in England and Wales.

Shareholder portal
You can register online to view your holdings using the Signal Shares shareholder portal, a service offered by Link Group at www.signalshares.com. This is an online service enabling you to quickly and easily access and maintain your shareholding online – reducing the need for paperwork and providing 24 hour access for your convenience. Through the shareholder portal you can:

- Cast your proxy vote online
- View your holding balance and get an indicative valuation
- View movements on your holding
- Update your address
- Elect to receive shareholder communications electronically
- Access a wide range of shareholder information including the ability to download shareholder forms

Filtronic website
Shareholders are encouraged to visit our website (www.filtronic.com) which has more information about the Company.

Glossary

5G:	5th Generation mobile networks
Adjusted EBITDA:	EBITDA before exceptional items
AGM	Annual General Meeting
AESA:	Active Electronically Steered Array
Backhaul:	The portion of a hierarchical telecommunications network that comprises the intermediate links between the core network and the small subnetworks at the edge of the network
CAGR:	Compound Average Growth Rate
CGU:	Cash Generating Unit
CODM:	Chief Operating Decision Maker
CRM:	Customer Relationship Management
CY:	Calendar year
D-band:	130GHz to 175GHz
DART:	Defence Assurance Risk Tool
DSTL:	Department of Science and Technology Leadership
E-band:	71GHz to 86GHz
EBITDA:	Earnings Before Interest, Taxation, Depreciation and Amortisation
EDI:	Equality, Diversity and Inclusion
EMEA:	Europe, the Middle East and Africa
ERP:	Enterprise Resource Planning System
ESG:	Environmental, Social and Governance
ESOP:	Employee Share Option Plan
ETSI:	European Telecommunication Standards Institute
EW:	Electronic warfare represents the ability to use the electromagnetic spectrum - signals such as radio, infrared or radar - to sense, protect and communicate. At the same time, it can be used to deny adversaries the ability to either disrupt or use these signals
FM:	Frequency modulation. The modulation of a radio or other wave by variation of its frequency
FVLCTS:	Fair value less costs to sell used for financial appraisal
FY:	Financial year
GHG:	Greenhouse Gases
GHz:	Gigahertz: 10^9 Hertz
Gigabit:	10^9 bits
HAPS:	High Altitude Pseudo-Satellites
IP:	Intellectual Property
Ka-band:	26.5GHz - 40GHz
Ku-band:	12GHz - 18GHz
LED:	Light Emitting Diode
LEO:	Low Earth Orbit
LMR:	Land Mobile Radio
LTE:	Long-Term Evolution
MHz	Megahertz
MMIC:	Monolithic Microwave Integrated Circuit
mmWave:	Millimetre Wave
MOD:	Ministry of Defence
MRP:	Material Requirements Planning system
NDA:	Non disclosure agreement
NRE:	Non-recurring engineering
NTN:	Non-Terrestrial Networks
OEM:	Original Equipment Manufacturer
OSAT:	Outsourced Semiconductor Assembly and Test
PA:	Power Amplifier

P25:	Project 25: a suite of standards for digital mobile radio communications designed for use by public safety organisations
PDMR:	Person discharging managerial responsibility
Q-band:	33GHz to 50GHz
QCA:	Quoted Companies Alliance
QFN:	Quad flat no-lead package. It is a leadless package that comes in small size and offers moderate heat dissipation in printed circuit boards.
RAN:	Radio access network. The part of a mobile network that connects end-user devices, like smartphones, to the cloud
RF:	Radio Frequency: a rate of oscillation in the range of around 3kHz to 300GHz
SAYE:	Save As You Earn
SiP:	System in package. This is a number of integrated circuits enclosed in one or more chip carrier packages that may be stacked package on package
SLT:	Senior Leadership team
SSPA:	Solid State Power Amplifier
STEM:	Science, Technology, Engineering and Mathematics in an educational context
TTA:	Tower Top Amplifier
UTC:	University Technical College Newton Aycliffe
V-band:	40GHz to 75GHz
VIU:	Value In Use used for Financial appraisal
W-band:	92GHz to 115GHz
Xhaul:	The common flexible transport solution for future 5G networks, integrating the fronthaul and backhaul networks with wired and wireless technologies in a common packet based transport network

filtronic

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