

**Filtronic Wireless Limited**

**Annual report and financial statements**

**Registered number 01360332**

**31 May 2017**



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## Strategic report

Filtronic Wireless Limited ("the Company") operates as a subsidiary of Filtronic plc which is a UK company trading on AIM of the London Stock Exchange.

### Business model and principal activities

Filtronic Wireless Limited is a designer and manufacturer of ultra-wide band integrated antennas, RF filters, combiners and microwave subsystems for the mobile telecommunications industry, focusing on equipment for original equipment manufacturers ("OEMs") and mobile network operators.

The legacy filter business that the Company has historically supplied into has become increasingly commoditised due to strong competition from Asia where there is an aggressive pursuit of filter business to fill excess manufacturing capacity at low cost following the completion of the 4G rollout in China. Rather than fight this trend, the Directors have manoeuvred the business towards ultra-wide band integrated antennas and operator market filter business which can still attract higher margins. In future, legacy filter business will be more targeted when the customer requires a flexible quick to market solution. The Company will pursue a strategy to cover development costs with NRE charges when bidding for this work.

One notable trend in wireless infrastructure has been the increasing integration of the various sub-systems in the RF to save weight, reduce signal losses, lower overall capital cost and decrease operating expenditure. To capitalise on this trend, the Company utilises resources from the Filtronic Wireless legal entity in Sweden where a team of antenna engineers work to develop our antenna portfolio with all of their costs recharged to the Company on a cost plus model. This has enabled the Company to develop a range of ultra-wide band antennas that integrate our existing filter, combiner, software and electronics technologies with our newly developed radiating elements and phase shifters. Key elements of these developments are subject to patent applications. These advanced and novel antennas enable our OEM customers to offer operators integrated radios and RF management in a single solution. This development has been a major focus for the Company and we are currently supplying items from this product range into a major European OEM.

The Company continues to develop new designs and products and offers the following range of solutions;

- Ultra-wide band antennas to support the need to reduce the environmental impact of mobile phone telecommunication towers and support the introduction of new transmission frequencies.
- Custom filtering for interference suppression and blocking protection.
- Remote radio head products for the OEM base station market.
- Innovative combining solutions which enable the rapid deployment of new systems maximising the use of available spectrum in the most compact and cost effective way.

With certified management systems and cost effective new product introduction and development processes, our experienced staff are able to support the needs of our customers to design and manufacture high performance products. Volume manufacturing is sourced from our manufacturing partner who is based in Suzhou, China where we also have a local Chinese subsidiary in the Filtronic group with our own dedicated staff on site to oversee the production process. We can provide the complete manufacturing process to minimise lead times, whilst maintaining the highest quality.

### Business review and results

During the year, the Company more than tripled year-on year sales as it fulfilled the inaugural production orders for the ultra-wide band antennas to a major European OEM. The increase in turnover from the prior financial year is 229% to £17,025,706 (2016: £5,170,692) resulting in the business returning to profitability with an operating profit of £1,183,955 (2016: £2,592,628 operating loss) being 7% of turnover (2016: -50%).

Executing these contracts demonstrated our ability to introduce new products and rapidly ramp to volume production whilst controlling costs which ensured a healthy margin was achieved. This business has enabled us to gain good momentum into the antenna market and established us as a credible player in the sector as confirmed by the growing number of trials underway with other customers. This has been validated by a growing pipeline of opportunities that we hope to convert in the next financial year.

## Strategic report *(continued)*

### Research and Development

Filtronic Wireless Limited operates in a fast moving, technology-driven market place where generating our own proprietary technology is key to maintaining our competitive advantage. The Company therefore continues to invest in research and development and where appropriate obtains patents to protect our intellectual property. During the year research and development expenditure was £1,661,297 (2016: £1,738,143) of which £nil (2016: £186,109) was capitalised and the remainder charged to the income statement.

### Key performance indicators

	FY2017	FY2016	FY2015
<b>Revenue (£m)</b> The total amount the Company earns from the sales of products and services.	17.0	5.2	3.6
<b>Operating profit/(loss) before exceptional items (£m)</b> The Board recognises operating profit/(loss) before exceptional items as a key metric of the underlying health of the business.	1.2	(2.4)	(3.0)
<b>Operating profit/(loss) before exceptional items per employee (£k)</b> Employees are a critical asset in our business and we monitor the operating profit/(loss) before exceptional items per employee to measure productivity.	91.1	(133.5)	(91.2)
<b>Research and development costs (£m)</b> The Board recognises that the Company 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.	1.7	1.7	2.6

### Assessment of risk

#### *Introduction*

The Company develops and markets leading-edge telecommunications products for a range of wireless telecoms applications. The business is in a fast-changing sector with demanding performance standards and international competition; all of which pose risks to the business.

#### *Market*

We supply a niche range of products to both a small number of large OEM customers and a larger group of mobile phone operators is becoming addressable. With the rapid evolution of product technology and other corporate decisions the size of our addressable market may be affected. We may also fail to forecast market movements correctly therefore missing opportunities or wrongly predicting product longevity.

## **Strategic report** *(continued)*

### **Assessment of risk** *(continued)*

#### **Manufacturing**

In most of the products, production is demand-led and customers may vary their requirements from the business at short notice, which also impacts inventory and production management. Customers in these businesses expect consistent high quality product, hence we depend on control of our operating environment, including management of security of supply in our supply chain, and the provision of correctly designed technological solutions including the achievement of target cost reduction plans. Non-performance in these areas risks a diminished market position.

All our products are provided to customers after detailed qualification testing. However, this may not test all aspects of the product's design and manufacturing process or may not ensure that the product is viewed as fit for purpose in its intended use. Identification of these types of problem after release of product to customers creates the risk of being required to rectify such product defects. Historically such work has not had a substantial impact on the financial performance of the business, although a major defect, leading to a field recall, could do so in future.

#### **Customers**

The Company relies on a concentrated customer base for the majority of its revenues and the loss of any one of those customers, or a significant reduction in orders from any of these customers may have a material effect on its business, results of operations and financial condition.

#### **Suppliers**

The Company relies on a small number of suppliers and in common with other telecoms entities relies for the manufacture of its products on a large Chinese turnkey manufacturer that provides favourable supply and financing terms. The loss of this manufacturer or of other key suppliers, or a material change to supply terms, would have a material effect on the business, results of operations and financial condition.

#### **Intellectual property**

The Company has a significant intellectual property portfolio, with patent applications having been filed in a number of jurisdictions across the world, including, but not limited to, the UK, the United States, India and China.

Whilst the Company does not believe that any of its products infringe the valid intellectual property rights of third parties, it may be unaware of intellectual property rights of others that may cover some of its technology, products and services and as a result it could suffer litigation expenses or could be prevented from selling certain products as a result of third party infringement claims being made.

#### **Technology**

Our product competitiveness is strongly influenced by technology choices at product concept stage and throughout execution of design to product launch. For products in the production cycle, technology insertion is often required as a means of achieving price reductions, which underpin turnover. The market is time sensitive and opportunities may be lost if the technology we develop is not appropriate or ready for exploitation to match market demand, so having an adverse effect on business performance.

Our ability to remain competitive in terms of technology and product design is also underpinned by retaining key staff, the loss of whom could seriously impact the rate of introduction of new products and technologies.

#### **Financial management**

It is expected that future revenues will generate a surplus of US dollars. The nature of the business means there is limited visibility of future revenues. Therefore, when forward exchange contracts are used to reduce currency risk on the surplus currency expected to be generated, they are usually only for short term periods of no more than 6 months.

M Tyerman  
Director



26 February 2018

Registered Office: Filtronic House, 3 Airport West, Lancaster Way, Yeadon, West Yorkshire, LS19 7ZA

## Directors' report

The principal risks and uncertainties, an indication of future developments in the Company and details of the research and development activities carried out have been discussed within the Strategic Report.

### Financial instruments

- **Foreign currency risk:** The Company is predominantly exposed on US dollars as the majority of sales are denominated in this currency. Where possible the Directors aim to mitigate this through natural hedging by buying key raw materials in the same currency but where an exposure remains the Company makes use of forward exchange contracts to create certainty.
- **Liquidity risk:** The Company aims to mitigate liquidity risk by managing cash generated from its operations and accessing its invoice discount facility with Barclays bank as well as parental support from Filtronic plc.
- **Credit risk:** The Company undertakes an assessment of all new customers prior to issuing credit facilities. Due to the nature of the industry our main customers are large multinational OEMs which present a minimal level of risk.

### Proposed dividend

The directors do not recommend the payment of a dividend (2016: £nil).

### Directors

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

R Smith  
D Lynch  
M Tyerman  
M Black (appointed 1 November 2017)

None of the Directors had any interest in the shares of the Company during the year.

The interests of R Smith and M Tyerman in the share capital of the ultimate parent undertaking, Filtronic plc, are given in that company's financial statements.

### Employees

The Company had 13 employees at 31 May 2017 (2016: 18 employees).

### Political contributions

The Company made no political donations or incurred any political expenditure during the year.

### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## **Directors' report** *(continued)*

### **Other information**

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1-4.

### **Auditor**

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting of Filtronic plc.

By order of the board



**M Tyerman**  
*Director*

26 February 2018

Registered Office:  
Filtronic House,  
3 Airport West,  
Lancaster Way,  
Yeadon,  
West Yorkshire,  
LS19 7ZA

## **Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements**

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS101 *Reduced Disclosure Framework*.

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

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

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





## KPMG LLP

1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA  
United Kingdom

### **Independent auditor's report to the members of Filtronic Wireless Limited**

We have audited the financial statements of Filtronic Wireless Limited for the year ended 31 May 2017 set out on pages 9 to 22. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2017 and of its profit;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

## **Independent auditor's report to the members of Filtronic Wireless Limited (continued)**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

**Johnathan Pass (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

27 February 2018

**Income statement and other comprehensive income**  
*for the year ended 31 May 2017*

	<i>Note</i>	2017 £	2016 £
<b>Revenue</b>	<b>2</b>	<b>17,025,706</b>	5,170,692
Cost of sales		<b>(11,747,672)</b>	(4,086,996)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>5,278,034</b>	1,083,696
Distribution costs		<b>(33,890)</b>	(76,781)
Administrative expenses		<b>(4,060,189)</b>	(3,410,179)
		<hr/>	<hr/>
<b>Operating profit/(loss) before exceptional items</b>		<b>1,183,955</b>	(2,403,264)
Exceptional items	6	-	(189,364)
		<hr/>	<hr/>
<b>Operating profit/(loss)</b>		<b>1,183,955</b>	(2,592,628)
Finance income	9	<b>1,447,845</b>	449,090
		<hr/>	<hr/>
<b>Profit/(loss) before taxation</b>		<b>2,631,800</b>	(2,143,538)
Taxation	8	<b>482,521</b>	1,617,993
		<hr/>	<hr/>
<b>Profit/(loss) for the financial year</b>		<b>3,114,321</b>	(525,545)
		<hr/>	<hr/>

There were no items to be included in other comprehensive income in either the current or prior year.

The above results are all as a result of continuing operations.

**Balance sheet**  
*at 31 May 2017*

	<i>Note</i>	2017 £	2016 £
<b>Fixed assets</b>			
Intangible assets	10	124,743	186,109
Property, plant and equipment	11	350,331	212,962
Deferred tax	12	751,000	834,000
		<u>1,226,074</u>	<u>1,233,071</u>
<b>Current assets</b>			
Inventories	13	33,680	83,378
Trade and other receivables	14	14,073,917	15,909,497
Cash and cash equivalents	15	1,109,648	13,327
		<u>15,217,245</u>	<u>16,006,202</u>
<b>Current liabilities</b>			
Trade and other payables	16	(9,362,200)	(12,980,895)
Deferred income	17	(11,840)	(114,075)
Provision	18	(429,034)	(86,375)
Interest bearing borrowings	15	-	(538,232)
		<u>5,414,171</u>	<u>2,286,625</u>
<b>Net current assets</b>		<u>5,414,171</u>	<u>2,286,625</u>
<b>Total assets less current liabilities</b>		<u>6,640,245</u>	<u>3,519,696</u>
<b>Net assets</b>		<u>6,640,245</u>	<u>3,519,696</u>
<b>Capital and reserves</b>			
Share capital	19	117	117
Retained earnings		6,640,128	3,519,579
		<u>6,640,245</u>	<u>3,519,696</u>
<b>Total equity</b>		<u>6,640,245</u>	<u>3,519,696</u>

These financial statements were approved by the board of directors on 26 February 2018 and were signed on its behalf by:



**M Tyerman**  
*Director*

Registered Number: 01360332

## Statement of changes in equity

*for the year ended 31 May 2017*

	Share capital £	Retained earnings £	Total equity £
Balance at 1 June 2015	117	4,037,966	4,038,083
Loss for the period	-	(525,545)	(525,545)
Share based payments	-	7,158	7,158
<b>Balance at 31 May 2016</b>	<b>117</b>	<b>3,519,579</b>	<b>3,519,696</b>
Profit for the period	-	3,114,321	3,114,321
Share based payments	-	6,228	6,228
<b>Balance at 31 May 2017</b>	<b>117</b>	<b>6,640,128</b>	<b>6,640,245</b>

## Notes to the financial statements

### 1 Accounting policies

Filtronic Wireless Limited is a company incorporated and domiciled in the UK.

The Company's ultimate parent undertaking, Filtronic Plc includes the Company in its consolidated financial statements. The consolidated financial statements of Filtronic Plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Filtronic plc, Filtronic House, Unit 3, Airport West, Yeadon, West Yorkshire, LS19 7ZA.

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of ultimate parent undertaking include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the Strategic Report.

#### *Measurement convention*

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: liabilities for cash-settled share-based payments.

## Notes to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### ***Going concern***

The financial statements have been prepared on a going concern basis as the Company has adequate resources to continue for the foreseeable future. The Directors have used forecast data to look forward at least 12 months from the date of sign off and forecasts indicate that the Company has sufficient resources and facilities in place to meet its liabilities as they fall due. Therefore, the Directors have adopted the going concern basis of accounting in preparing the financial statements.

#### ***Foreign currency***

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

#### ***Revenue***

Revenue is recognised for goods and services during the periods when the risks and rewards of ownership have been transferred to the customer, there is no continuing management involvement and the amount of revenue can be measured reliably. Revenue excludes any related value added or sales tax.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. The majority of sales in the Group are made at the point the product leaves the Filtronic production facility but there are sales to a number of customers where the revenue is recognised once the product is delivered to the customer. In addition, some customers require Filtronic to store items on their behalf in vendor managed inventory at third party locations, in this instance, revenue is recognised when the goods have been moved out of the location by the customer and a consumption advice has been provided.

Contracts undertaken to provide an engineering service, such as the design of a product, funded by the customer is recognised as revenue when the outcome of the contract can be estimated reliably and the contract revenue is recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed against project milestones. Otherwise, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

#### ***Capitalisation of development costs***

In line with the requirements of IFRS, the Group's policy is to capitalise development expenditure as intangible assets when all the following criteria are met:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the asset;
- the asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the asset if it is to be used internally;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell it; and the ability to measure reliably the expenditure attributable to the intangible asset.

This process is continually reviewed to ascertain whether any development costs meet the criteria for capitalisation. This requires various judgements by management as to whether the various criteria have been met. The period over which development costs are amortised are reviewed on a case by case basis in line with the expected product life.

## Notes to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### ***Other intangible assets***

Other intangible assets that are acquired 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, or another amount substituted for cost, 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:

- Licences Life of the licence/patent
- Software Licence 4 to 5 Years

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

#### ***Property, plant and equipment***

Fixed assets are stated at cost less accumulated depreciation. The carrying values of tangible fixed assets are reviewed for impairment if there are indications that the carrying values may not be recoverable.

Depreciation is provided in order to write off the cost of tangible fixed assets in equal instalments over their estimated useful lives as follows:

Plant and equipment      2 – 7 years

#### ***Employee benefits***

##### ***Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

##### ***Operating leases***

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

#### ***Inventories***

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### ***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 economic benefits will be required to settle the obligation.

A warranty provision is recognised when products are sold. The provision is 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.

#### ***Current tax***

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



## Notes to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### *Deferred tax*

Deferred tax is recognised as a liability or asset if the transaction or events that give rise to an obligation to pay more tax in the future or a right to pay less tax in the future have occurred by the balance sheet date.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### *Share-based payments*

The Filtronic plc group operates share option schemes, under which share options are granted to certain employees of Filtronic Wireless Limited. The granting of the share options is a share-based payment.

The fair value of the share options at the date of grant is 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 is expensed in the income statement on a straight-line basis over the expected vesting period. Each reporting period these vesting expectations are revised as appropriate.

A credit is made to equity, equal to the share-based payment expense in the period.

### 2 Turnover

An analysis of revenue by geographical market is given below:

	2017 £	2016 £
United Kingdom	56,973	49,755
Europe	16,601,674	4,740,005
Americas	367,059	380,932
	<u>17,025,706</u>	<u>5,170,692</u>

### 3 Operating items

Operating profit/(loss) is stated after charging/(crediting):	2017 £	2016 £
Research and development costs before capitalisation/amortisation of development costs	1,661,297	1,738,143
Development costs capitalised	-	(186,109)
Amortisation of development costs	62,036	-
Amortisation of other intangible assets	1,149	-
Depreciation of property, plant and equipment	145,814	70,703
Operating lease rentals	75,335	83,896
Foreign exchange losses/(gains)	178,152	(11,867)
	<u>1,661,297</u>	<u>1,738,143</u>

## Notes to the financial statements *(continued)*

### 4 Auditor's remuneration

	2017 £	2016 £
Audit of financial statements	15,552	11,313

### 5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2017 No.	2016 No.
Manufacturing	6	3
Research and development	6	14
Administration	1	-
Sales	-	1
Average number of employees	13	18

The aggregate payroll costs of these persons were as follows:

	2017 £	2016 £
Wages and salaries	777,209	870,953
Social security costs	71,847	102,501
Contributions to defined contribution plans	37,687	58,253
Expenses related to share option plans	6,228	7,158
	892,971	1,038,865

### 6 Exceptional items

Operating profit/(loss) is stated after charging exceptional items as follows:

	2017 £	2016 £
Redundancy costs	-	189,364

### 7 Directors' emoluments

The emoluments of R Smith and M Tyerman are paid through the parent company, Filtronic plc for their services to the Group as a whole. It is not practical to split remuneration across the subsidiaries of the Group and therefore no separate emoluments are disclosed in these financial statements. David Lynch is paid through Filtronic Wireless Inc; a US subsidiary within the Group

## Notes to the financial statements *(continued)*

### 8 Taxation

#### Recognised in the profit and loss account

	2017 £	2016 £
UK corporation tax		
Adjustments in respect of prior year – R&D tax credit	(613,812)	(818,185)
Foreign tax		
Tax on income for the periods	48,291	34,192
Total current tax	(565,521)	(783,993)
<i>Deferred tax</i>		
Origination of temporary differences	-	(834,000)
Effect of change in UK corporation tax rate	83,000	-
Total deferred tax	83,000	(834,000)
Taxation	(482,521)	(1,617,993)

#### Reconciliation of effective tax rate

	2017 £	2016 £
Profit/(loss) before taxation	2,631,800	(2,143,538)
Profit/(loss) before taxation multiplied by rate of corporation tax	521,887	(428,708)
Non-deductible expenses	(257,500)	(106,292)
Foreign tax not at UK rate	48,291	34,192
Adjustment in respect of prior year R&D tax credit	(613,812)	(818,185)
Enhanced R&D tax credit	(223,088)	-
Recognition of previously unrecognised tax losses	-	(299,000)
Impact of tax rate on deferred tax	83,000	-
Group relief	(41,299)	-
Taxation	(482,521)	(1,617,993)

The main rate of UK corporation tax was reduced from 20 percent to 19 percent on 1 April 2017 giving an effective tax rate for the financial year of 19.83 percent (2016: 20 percent). This will reduce from 17 percent from 1 April 2020. The deferred tax assets recognised in the year have been calculated at the rates of their expected use.

## Notes to the financial statements *(continued)*

### 9 Finance income

	2017 £	2016 £
Revaluation of intercompany balance denominated in USD	1,447,845	449,090

### 10 Intangible assets

	Computer software £	Development costs £	Total £
<b>Cost</b>			
At 31 May 2016	-	186,109	186,109
Reclassification of computer software	10,095	-	10,095
<b>At 31 May 2017</b>	<b>10,095</b>	<b>186,109</b>	<b>196,204</b>
<b>Amortisation</b>			
At 31 May 2016	-	-	-
Reclassification of computer software	8,276	-	8,276
Charge for the year	1,149	62,036	63,185
<b>At 31 May 2017</b>	<b>9,425</b>	<b>62,036</b>	<b>71,461</b>
<b>Net book value</b>			
At 31 May 2017	670	124,073	124,743
At 31 May 2016	-	186,109	186,109

## Notes to the financial statements *(continued)*

### 11 Property, plant and equipment

	Plant and equipment £
<i>Cost</i>	
At 31 May 2016	567,730
Additions	283,853
Disposals	(39,894)
Reclassification of computer software	(10,095)
	<hr/>
<b>At 31 May 2017</b>	<b>801,594</b> <hr/>
<i>Depreciation</i>	
At 31 May 2016	354,768
Charge for the year	145,814
Disposals	(39,894)
Reclassification of computer software	(9,425)
	<hr/>
<b>At 31 May 2017</b>	<b>451,263</b> <hr/>
<i>Net book value</i>	
<b>At 31 May 2017</b>	<b>350,331</b> <hr/>
At 31 May 2016	212,962 <hr/>

### 12 Deferred tax

Deferred tax assets are attributable to the following:

	2017 £	2016 £
Opening balance	834,000	-
Tax losses recognised	-	834,000
Effect of change in UK corporation tax	(83,000)	-
	<hr/>	<hr/>
	<b>751,000</b>	834,000 <hr/>

Deferred tax assets 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 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 reductions are reversed when the probability of future taxable profits improves.

## Notes to the financial statements *(continued)*

### 13 Inventories

	2017 £	2016 £
Raw materials	33,680	83,378
	<u>33,680</u>	<u>83,378</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £11,747,672 (2016: £4,086,996).

The write-down of stocks to net realisable value amounted to £22,142 (2016: £nil). The reversal of write-downs amounted to £ nil (2016: £nil). The write-down and reversal are included in cost of sales.

### 14 Trade and other receivables

	2017 £	2016 £
Trade debtors	2,162,416	4,172,909
Prepayments and accrued income	100,479	894,833
Amounts owed by group undertakings	11,776,087	10,786,436
Taxation/VAT	34,935	55,319
	<u>14,073,917</u>	<u>15,909,497</u>

### 15 Cash and cash equivalents/interest bearing borrowings

	2017 £	2016 £
Cash and cash equivalents	1,109,648	13,327
Interest bearing borrowings	-	(538,232)
	<u>1,109,648</u>	<u>(524,905)</u>

The Company has an invoice discounting facility provided by Barclays Bank that enables it to borrow up to £3.0m against trade debtors. There were no drawings at 31 May 2017.

## Notes to the financial statements *(continued)*

### 16 Trade and other payables

	2017 £	2016 £
Trade creditors	1,530,129	3,645,187
Amounts due to group companies	7,397,893	9,231,534
Accruals	434,178	104,174
	<u>9,362,200</u>	<u>12,980,895</u>

### 17 Deferred income

Deferred income consisted of contributions from customers towards tooling costs totalling £11,840 (2016: £114,075). These costs will be released to the income statement over the coming year.

### 18 Provision

	Warranty provision £
At 31 May 2016	86,375
Amounts released unused	(5,341)
Charge for the year	333,000
	<u>414,034</u>
<b>At 31 May 2017</b>	<b><u>414,034</u></b>

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.

	Dilapidations provision £
At 31 May 2016	-
Charge for the year	15,000
	<u>15,000</u>
<b>At 31 May 2017</b>	<b><u>15,000</u></b>

The company leases a facility in Yeadon, West Yorkshire where the business is operational. The terms of the lease contract require the facility to be returned to its original condition at the end of the lease.

The total provision at 31 May 2017 was £429,034 (2016: £86,375).

## Notes to the financial statements *(continued)*

### 19 Share capital

#### Allotted, called up and fully paid

	2017 £	2016 £
11,760 ordinary shares of 1p each	117	117
	<u>117</u>	<u>117</u>

### 20 Capital commitments

	2017 £	2016 £
Capital expenditure contracted for but not provided in the financial statements	63,774	-
	<u>63,774</u>	<u>-</u>

### 21 Operating leases

Annual commitments under non-cancellable leases were as follows:

	Land and buildings 2017 £	2016 £
Operating leases which expire:		
Less than one year	61,500	65,000
Between one year and five years	315,000	260,000
More than five years	39,583	92,083
	<u>395,083</u>	<u>357,083</u>

The Company leases a facility in Yeadon, West Yorkshire, UK where the business is operational.

### 22 Ultimate parent undertaking

The Company's ultimate parent undertaking is Filtronic plc, a company registered in England and Wales.

Copies of the financial statements of Filtronic plc, which include the Company, can be obtained from Filtronic plc, Filtronic House, Unit 3, Airport West, Yeadon, West Yorkshire, LS19 7ZA.