

Filtronic Broadband Limited

Annual report and financial statements

Registered number 3398105

31 May 2017

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Contents

Strategic report	1
Directors' report	4
Statement of directors' responsibilities in respect of the annual report and the financial statements	6
Independent auditor's report to the members of Filtronic Broadband Limited	7
Income statement and other comprehensive income	9
Balance sheet	10
Statement of changes in equity	11
Notes to the financial statements	12

Strategic report

Filtronic Broadband 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

The Company is a designer and manufacturer of a number of product offerings which are detailed below at its state of the art, highly automated UK facility in Sedgefield, County Durham.

The Company has continued to develop new designs and products and now offers the following range of solutions:

- Design and manufacture of E-band and V-band transceiver modules for telecommunications infrastructure and adjacent markets.
- Design and manufacture of microwave and millimetre wave filters and diplexers.
- “Build-to-print” and design for cost/manufacture and test services for precision hybrid/surface mount technology up to 90GHz.
- Design and manufacture of customised Monolithic microwave integrated circuit (“MMICs”) for microwave and millimetre wave integrated transceiver modules, multi-chip module applications and advanced packaging solutions

Filtronic Broadband Limited offers a vertically integrated design, manufacture and test capability for highly integrated E-band and V-Band transceivers for the mobile backhaul and wireless front-haul markets. E-band is particularly appropriate for these applications as it enables much higher data rates to be achieved than legacy wireless backhaul solutions. The latest product offering, Orpheus, is spectrally efficient and has consistently performed at data rates up to 10Gbps in a 2GHz channel. At these performance levels the product offers a viable alternative to fibre whilst offering much lower costs and a far higher degree of flexibility in terms of installation.

The performance is achieved through the use of proprietary MMICs, which have been designed in-house by the Company’s highly experienced engineering team. The MMICs, which give a differentiating capability in the market, are manufactured on the processes of leading foundries around the world. This, coupled with its system design knowledge and capability, has enabled the Company to design the highly integrated, drop-in transmit and receive modules that are required for “carrier grade” mobile backhaul applications at E-band frequencies.

The Company also provides build to print services at microwave and millimetre wave frequencies, which take advantage of the in-house expertise that has been developed. Build to print products often embody some key component or design feature that creates intellectual property, protecting our sourcing position and enabling higher yields in manufacture and test.

In addition, the Company manufactures modules for phased array radars and has won both “build-to-print” and test solution development contracts for complex microwave modules, based on the proven capabilities from 4GHz to 90GHz. These projects are based on robust design for manufacture principles and rely on the vast experience that has been developed to achieve and support automated, volume manufacture.

Business review and results

During the year, Filtronic Broadband Limited has concentrated on developing and supplying E-band transceiver modules for mobile telecommunications backhaul and adjacent markets coupled with the completion of a long range ultra-high capacity data link prototype for a major US multinational. The E-band spectrum offers the market increased capacity and is being lightly licensed for use in a number of important markets.

The prospects for E-band are very encouraging with growing demand from a tier 1 Original Equipment Manufacturer (“OEM”) and several tier 2 customers. We have also been commissioned to develop a derivative of our E-band transceiver for a high-speed wireless internet network. This client is planning to use E-band as a lower

Strategic report (continued)

Business review and results (continued)

cost and faster to install alternative to fibre optic cable and represents a clear sign that broadband networks of the future will include wireless technology.

Entering the defence & aerospace market has been a key objective for Filtronic Broadband for several years and following a number of prototype builds we were selected as a manufacturing partner for a tier 1 European defence equipment supplier to manufacture their advanced radar transmit receive modules. The working capital for this initial programme is financed by our customer as they buy all material and they supply that material to us on a “free issue” basis for manufacture and test.

The demand for high frequency transceivers, sub-systems and components is set to grow rapidly in the coming years and the business is ideally placed to benefit from this growth. We have further strengthened our sales team and attended several trade shows that have led to exciting new customer engagements that include major Silicon Valley technology companies who are seeing the value of our mmWave technology capabilities.

Turnover in the year increased 6% to £4,917,092 (2016: £4,618,463). The Company reduced the operating loss in the year to £934,298 (2016: operating loss of £1,623,284) being -19% of turnover (2016: -35%). This is mainly due to improved product margins and better production yields.

Research and development

The Company operates in a fast moving, technology driven market place where generating our own proprietary technology is key to maintain our competitive advantage. The Company, therefore, continues to invest in research and development with expenditure of £1,050,175 (2016: £849,807). There was no capitalisation of research and development costs in the year (2016: £99,890).

Key performance indicators

	FY2017	FY2016	FY2015
Revenue (£m) The total amount the Company earns from the sales of products and services.	4.9	4.6	7.2
Operating loss (£m) The Board recognises operating profit/(loss) as a key metric of the underlying health of the business.	(0.9)	(1.6)	(1.9)
Operating loss per employee (£k) Employees are a critical asset in our business and we monitor the adjusted operating profit/(loss) per employee to measure productivity.	(15.3)	(26.6)	(22.7)
Research and development costs (£m) 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.	1.1	0.8	1.0

Strategic report (*continued*)

Principal risks and uncertainties

Introduction

The Company supplies microwave products for the wireless telecommunications market. The business is in a fast-changing sector with a small number of sophisticated customers, demanding performance standards and international competition; all of which pose risks to the business.

Market

The Company supplies a niche range of products to a small number of large OEM customers. With the rapid evolution of product technology and other corporate decisions the size of our addressable market may be affected. The loss of any of these customers, including or any material reduction in orders from any such customers may have a material adverse effect upon the Company's financial condition. We may also fail to forecast market movements correctly so missing opportunities or wrongly predicting product longevity.

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 management. Customers in these businesses expect consistent high quality product and reducing prices, 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.

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 innovation 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 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.

The Directors approve budgets and other performance targets, the components of which form the financial objectives. Performance against these targets is reported monthly and concentrates upon key performance indicators identified and updated as part of this budgetary control process. Financial forecasts are updated and reviewed monthly and include cash flow forecasts.

M Tyerman
Director



26 February 2018

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

Directors' report

The Directors present their annual report and financial statements for the year ended 31 May 2017.

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 result and dividend

The results for the year are set out in the income statement on page 9. The position at the end of the year is shown on the balance sheet on page 10. The Directors do not recommend the payment of a dividend.

Financial risk management

The main risks associated with the Company's financial assets and liabilities are as follows:

- **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.

Directors

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

R Smith
M Tyerman (appointed 7 July 2016)
M Weaver

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 61 employees at 31 May 2017.

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

Directors' report *(continued)*

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.

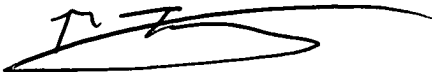
Other information

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 1-3.

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.

By order of the board



M Tyerman
Director
Registered office:
Filtronic House,
3 Airport West,
Lancaster Way,
Yeadon,
West Yorkshire,
LS19 7ZA

26 February 2018

Statement of directors' responsibilities in respect of the annual 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 FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 Broadband Limited

We have audited the financial statements of Filtronic Broadband 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.

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 loss for the year then ended;
- 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 Broadband 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 £
Revenue	2	4,917,092	4,618,463
Cost of sales		(2,826,916)	(3,413,590)
Gross profit		2,090,176	1,204,873
Distribution costs		(22,028)	(35,107)
Administrative expenses		(3,024,557)	(2,833,072)
Other operating income		22,111	40,022
Operating loss	3	(934,298)	(1,623,284)
Loss before taxation		(934,298)	(1,623,284)
Taxation	7	230,707	310,237
Loss for the financial year		(703,591)	(1,313,047)

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 £
Non-current assets			
Intangible assets	8	76,776	99,890
Property, plant and equipment	9	915,075	762,055
		<hr/> 991,851	<hr/> 861,945
Current assets			
Inventories	11	845,073	808,102
Trade and other receivables	12	1,178,369	4,077,931
Cash and cash equivalents	13	558,236	49,746
		<hr/> 2,581,678	<hr/> 4,935,779
Current liabilities			
Trade and other payables	14	(10,453,815)	(11,722,936)
Deferred income	15	(54,429)	(306,821)
Provision	16	(50,420)	(38,450)
		<hr/> (7,976,986)	<hr/> (7,132,428)
Net current liabilities		<hr/> (7,976,986)	<hr/> (7,132,428)
Total assets less current liabilities		<hr/> (6,985,135)	<hr/> (6,270,483)
Non-current liabilities			
Deferred income	15	(10,733)	(32,198)
		<hr/> (6,995,868)	<hr/> (6,302,681)
Net liabilities		<hr/> (6,995,868)	<hr/> (6,302,681)
Capital and reserves			
Share capital	17	68,140	68,140
Retained earnings		(7,064,008)	(6,370,821)
		<hr/> (6,995,868)	<hr/> (6,302,681)
Shareholders' deficit		<hr/> (6,995,868)	<hr/> (6,302,681)

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: 3398105

Statement of changes in equity

for the year ended 31 May 2017

	Share capital £	Retained earnings £	Total equity £
Balance at 1 June 2015	68,140	(5,060,796)	(4,992,656)
Loss for the financial year	-	(1,313,047)	(1,313,047)
Share-based payments	-	3,022	3,022
Balance at 31 May 2016	68,140	(6,370,821)	(6,302,681)
Loss for the financial year	-	(703,591)	(703,591)
Share-based payments	-	10,404	10,404
Balance at 31 May 2017	68,140	(7,064,008)	(6,995,868)

Notes to the financial statements

1 Accounting policies

Filtronic Broadband 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 for liabilities for cash-settled share-based payments, which are stated at fair value.

Going concern

At 31 May 2017 the Company's current liabilities exceeded its current assets by £7,976,986 (2016: *current liabilities exceeded current assets by £7,132,428*). In addition, the Company had a net deficit of £6,995,868 at 31

Notes to the financial statements (continued)

1 Accounting policies (continued)

May 2017 (2016: net deficit £6,302,681). The Directors have reviewed the expected future activities of the Company and believe it will meet its debts as they fall due for the foreseeable future.

The financial statements have been prepared on a going concern basis, as Filtronic plc have indicated that they will give continued financial support to the Company for the next twelve months and for the foreseeable future and the Directors have confirmed they have the financial resources to do so.

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 FRS101, 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.

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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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

Property, plant and equipment are stated at cost less accumulated depreciation. The carrying values 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 property, plant and equipment in equal instalments over their estimated useful lives as follows:

Plant and equipment 3 - 10 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

Inventories 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 probably 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.

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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 Broadband 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 Revenue

An analysis of revenue by geographical market is given below:

	2017	2016
	£	£
United Kingdom	161,591	138,330
Europe	2,094,019	866,957
Americas	1,147,375	571,834
Rest of World	1,514,107	3,041,342
	<u>4,917,092</u>	<u>4,618,463</u>

3 Operating items

Operating loss is stated after charging/(crediting):

	2017	2016
	£	£
Research and development costs before capitalisation/amortisation of development costs	1,050,175	849,807
Development costs capitalised	-	(99,890)
Amortisation of development costs	33,297	-
Amortisation of other intangible assets	3,978	-
Depreciation of property, plant and equipment	298,025	330,349
Operating lease rentals	119,795	140,190
Net gain on disposal of tangible fixed assets	(25,242)	(10,408)
Foreign exchange gain	(54,918)	(3,555)
	<u></u>	<u></u>

4 Auditor's remuneration

	2017	2016
	£	£
Audit of financial statements	<u>17,253</u>	<u>16,750</u>

Notes to the financial statements *(continued)*

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	39	40
Research and development	18	15
Administration	2	5
Sales	2	1
	<hr/>	<hr/>
Average number of employees	61	61
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	2017 £	2016 £
Wages and salaries	2,086,207	1,924,885
Social security costs	169,031	158,391
Contributions to defined contribution plans	86,887	82,089
Expenses related to share option plans	10,404	3,043
	<hr/>	<hr/>
	2,352,529	2,168,408
	<hr/> <hr/>	<hr/> <hr/>

6 Directors' emoluments

	2017 £	2016 £
Directors emoluments	109,340	64,376
	<hr/> <hr/>	<hr/> <hr/>

The emoluments of the highest paid director were £109,340 (2016: £64,376). He is a member of the defined contribution pension scheme, under which the Company made contributions of £6,150 (2016: £3,615).

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.

Notes to the financial statements *(continued)*

7 Taxation

Recognised in the profit and loss account

	2017 £	2016 £
UK corporation tax		
Adjustments in respect of prior year – R&D tax credit	(230,707)	(310,237)
	<hr/>	<hr/>
Total current tax	(230,707)	(310,237)
	<hr/>	<hr/>

Reconciliation of effective tax rate

	2017 £	2016 £
Loss before taxation	(934,298)	(1,623,284)
	<hr/>	<hr/>
Loss before taxation multiplied by rate of corporation tax	(185,271)	(324,656)
Non-deductible items	61,983	44,853
Adjustment in respect of prior year R&D tax credit	(230,707)	(310,237)
Enhanced R&D tax credit	(133,853)	-
Losses carried forward not recognised	257,141	279,803
	<hr/>	<hr/>
Taxation	(230,707)	(310,237)
	<hr/>	<hr/>

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)

8 Intangible assets

	Computer software £	Development costs £	Total £
Cost			
At 31 May 2016	-	99,890	99,890
Reclassification of computer software	242,266	-	242,266
Additions	5,820	-	5,820
At 31 May 2017	248,086	99,890	347,976
Amortisation			
At 31 May 2016	-	-	-
Reclassification of computer software	233,925	-	233,925
Charge for the year	3,978	33,297	37,275
At 31 May 2017	237,903	33,297	271,200
Net book value			
At 31 May 2017	10,183	66,593	76,776
At 31 May 2016	-	99,890	99,890

9 Property, plant and equipment

	Plant and equipment £
Cost	
At 31 May 2016	5,801,176
Additions	461,078
Disposals	(442,569)
Reclassification of computer software	(242,266)
At 31 May 2017	5,577,419
Depreciation	
At 31 May 2016	5,039,121
Charge for the year	298,025
Disposals	(440,877)
Reclassification of computer software	(233,925)
At 31 May 2017	4,662,344
Net book value	
At 31 May 2017	915,075
At 31 May 2016	762,055

Notes to the financial statements *(continued)*

10 Deferred tax

Deferred tax assets which have not been recognised:

	2017 £	2016 £
Depreciation in advance of capital allowances	1,480,649	1,488,000
Tax losses not carried forward	981,141	724,000
	<u>2,461,790</u>	<u>2,212,000</u>

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.

11 Inventories

	2017 £	2016 £
Raw materials	591,993	533,514
Work in progress	60,599	140,818
Finished goods	192,481	133,770
	<u>845,073</u>	<u>808,102</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £2,292,626 (2016: £ 2,997,609).

The write-down of stocks to net realisable value in the year amounted to £nil (2016: £250,000). The reversal of write-downs amounted to £ nil (2016: £ nil). Changes in the stock provision are included in cost of sales.

12 Trade and other receivables

	2017 £	2016 £
Trade debtors	436,548	587,522
Amounts due from group companies	490,880	3,314,710
Other taxation/VAT	120,213	26,123
Prepayments and accrued income	130,728	149,576
	<u>1,178,369</u>	<u>4,077,931</u>

Notes to the financial statements *(continued)*

13 Cash and cash equivalents

	2017 £	2016 £
Cash and cash equivalents	558,236	49,746
Cash and cash equivalents	<u>558,236</u>	<u>49,746</u>

The company has an invoice discounting facility provided by Barclays Bank that enables the Company to borrow up to £3m against trade debtors. There were no borrowings at 31 May 2017 (2016: £nil).

14 Trade and other payables

	2017 £	2016 £
Trade creditors	796,063	497,461
Amounts due to group companies	9,480,609	10,787,180
Accruals	177,143	438,295
	<u>10,453,815</u>	<u>11,722,936</u>

15 Deferred income

Deferred income classified as current consists of a capital grant made by a customer that will be recognised as income in the next year. Deferred income classified as non-current consists of the non-current portion that will be released to the income statement over the life of the asset. Total deferred income at 31 May 2017 was £65,162 (2016: £339,019)

Notes to the financial statements *(continued)*

16 Provision

	Warranty provision £
At 31 May 2016	38,450
Amounts released unused	(18,256)
Used during the year	(11,502)
Charge for the year	11,502
	<hr/>
At 31 May 2017	20,194
	<hr/>

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	30,226
	<hr/>
At 31 May 2017	30,226
	<hr/>

The company leases a facility in Sedgefield, County Durham, UK where the business is operational. The terms of the lease contract require the facility to be amended back to its original condition.

Total provision at 31 May 2017 was £50,420 (2016: 38,450).

17 Share capital

	Allotted, called up and fully paid	
	2017	2016
	£	£
6,814,012 ordinary shares of 1p each	68,140	68,140
	<hr/>	<hr/>

Notes to the financial statements *(continued)*

18 Capital commitments

	2017 £	2016 £
Capital expenditure contracted but not provided for in financial statements	<u>1,890</u>	<u>14,651</u>

19 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Other	
	2017 £	2016 £	2017 £	2016 £
Operating leases which expire:				
Less than one year	111,996	111,996	814	7,620
Within two to five years	<u>65,331</u>	<u>177,327</u>	<u>-</u>	<u>814</u>

The Company leases a facility at Netpark in Sedgefield, County Durham where the business is based. There is also a vehicle under a non-cancellable operating lease.

19 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.