

Filtronic Broadband Limited

Annual report and financial statements

Registered number 3398105

For the year ended 31 May 2019

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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 auditors' report to the members of Filtronic Broadband Limited	7
Income statement	10
Balance sheet	11
Statement of changes in equity	11
Notes to the financial statements	13

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 several product offerings which are detailed below at its state-of-the-art, highly automated UK facility in Sedgfield, 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 transceiver modules and derivatives of the technology.
- Design and manufacture of microwave and millimetre wave filters and diplexers.
- Microwave assembly 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.

The Company supplies products into the telecoms and critical communication markets. The core offering is vertically integrated design, manufacture and test capability for highly integrated E-band transceivers and derivatives for mobile XHaul and adjacent 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 defence market has become a significant part of the business, through our customer, who is a major European defence contractor supplying TRM modules. The Company manufactures these TRM modules for phased array radars based on the proven manufacturing capabilities and process engineering know-how. 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.

One of the key objectives of our strategy is to broaden the customer base and the number of markets we serve. Emerging markets such as high altitude pseudo-satellites (“HAPS”) and low earth orbit networks are in the early stages of development as a number of technology firms look to expand internet coverage to include geographic locations that do not have adequate traditional installed network broadband service. The knowledge of high-capacity, long-range transceivers is highly relevant and therefore the Company is seeking to play a role in these markets having won multiple contracts to develop long-range ultra-high capacity data links for use within the HAPS market. Other markets the Company is targeting are 5G mmWave equipment, trackside-to-train communications and low latency private networks.

The Company also provides microwave assembly services at microwave and millimetre wave frequencies, which take advantage of the in-house expertise that has been developed over many years. Microwave assembly 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.

Strategic report (continued)

Business review and results

During the year, the Company saw production of its two main defence contracts supplying high specification Transmit Receiver Modules (“TRMs”) to our customers’ specifications reach full volume. The Company also won a third multi-year contract in the year, to the same customer, to supply microwave modules for use in aerospace radar systems, with the initial production ramp commencing in the final month of the year. The component materials used on each of the contracts are specified and, for the most part, procured by the customer and then “free issued” to us for manufacture, assembly and testing. Our know-how was critical to winning this work and as we enhance our production capabilities, our capacity to win and execute additional contracts of this type will increase.

Sales of our XHaul Orpheus transceiver products picked up in the year as a market leading Original Equipment Manufacturer (“OEM”) adopted this transceiver and embedded it in their new E-band XHaul radio. This customer has achieved considerable market success with their product and has placed orders covering their current requirements that give very good visibility into the next financial year. We continue to seek opportunities for these products in other applications and are working on developing new design variants and configurations that meet the specification requirements and price points demanded by the telecoms market.

In addition to our focus on our traditional core markets, we are working to develop opportunities for our mmWave transceiver products and derivatives of the technology in emerging applications such as high-capacity communications links to satellites, HAPS and trackside-to-train links. During FY2019, we also secured and delivered development contracts for 5G-related mmWave equipment applications and our Orpheus module was “designed-in” to the radio of a Tier-2 OEM with order-flow and forecasts received from the customer as they benefit from 5G deployments.

Turnover in the year increased 39% to £7,747,219 (2018: £5,593,181) resulting in an operating profit after exceptional items of £4,873,027 (2018: operating profit of £219,070) being 63% of turnover (2018: 4%). The operating profit benefitted from a large exceptional credit to the income statement due to the waiver of an intercompany balance owed to Filtronic Wireless Ltd for £3,878,643. Operating profit before exceptional items was £994,848 (2018: £219,070). In line with our strategy to broaden the customer base and markets we serve it was particularly pleasing to see much of the growth coming from new markets and product offerings which have much longer product life cycles and therefore provide more visibility over future revenues.

Research and development (“R&D”)

The Company operates in a fast moving, technology driven marketplace 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 £802,237 (2018: £1,054,078) whilst capitalisation of development costs in the year was £250,310 (2018: £ nil).

Key performance indicators

	FY2019	FY2018	FY2017
Revenue (£m) The total amount the Company earns from the sales of products and services.	7.7	5.6	4.9
EBITDA/(LBITDA)* (£m) The Board recognises EBITDA/(LBITDA) as a key metric of the underlying health of the business.	1.3	0.5	(0.6)
EBITDA/(LBITDA) per employee (£k) Employees are a critical asset in our business and we monitor the EBITDA/(LBITDA) per employee to measure productivity.	18.5	8.5	(9.8)
R&D before capitalisation of 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 R&D.	1.1	1.1	1.1

*Earnings/(Loss) Before Interest, Tax, Depreciation and Amortisation and Exceptional items

Strategic report *(continued)*

Principal risks and uncertainties

Introduction

The Company supplies microwave and mmWave products for the wireless telecommunication infrastructure and critical communications markets. 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.

On behalf of the board

Michael Tyerman
Director



27 February 2020

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

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 May 2019.

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 10. The position at the end of the year is shown on the balance sheet on page 11. 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 has exposure on US dollars as a significant amount 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 discounting 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 (resigned on 31 October 2019)
M Tyerman
M Weaver (resigned 1 August 2019)
M Black (appointed 8 November 2019)

Employees

The Company had 70 employees at 31 May 2019.

Political contributions

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

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

Directors' report *(continued)*

Going concern

At 31 May 2019 the Company's current liabilities exceeded its current assets by £2,457,591 (2018: current liabilities exceeded current assets by £7,143,865). In addition, the Company had a net deficit of £795,353 at 31 May 2019 (2018: net deficit £6,632,148). The directors have prepared cash flow forecasts for a period of twelve months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. In addition a letter of support has been provided by the ultimate parent, Filtronic plc.

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.

Independent auditors

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

On behalf of the board



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

27 February 2020

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 profit or loss of the company 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 United Kingdom Accounting Standards, comprising FRS 101, 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 company will continue in business.

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

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.

Independent auditors' report to the members of Filtronic Broadband Limited

Opinion

In our opinion, Filtronic Broadband Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); 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 Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 May 2019; the income statement, the statement 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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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.

Independent auditors' report to the members of Filtronic Broadband Limited (continued)

Reporting on other information (continued)

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2019 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 company and its 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 Annual Report and the Financial Statements set out on page 6, 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 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 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.

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

**Independent auditors' report to the members of Filtronic Broadband Limited
(continued)**

Companies Act 2006 exception reporting

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

- we have not received 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 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
27 February 2020

Income statement
for the year ended 31 May 2019

	<i>Note</i>	2019 £	2018 £
Revenue	2	7,747,219	5,593,181
Cost of sales		(2,924,431)	(1,815,593)
Gross profit		4,822,788	3,777,588
Distribution costs		(5,150)	(6,048)
Administrative expenses		(3,917,860)	(3,769,127)
Other operating income		94,606	216,657
Operating profit before exceptional items		994,384	219,070
Exceptional items	3	3,878,643	-
Operating profit	4	4,873,027	219,070
Finance costs	8	(18,981)	(10,458)
Profit before taxation		4,854,046	208,612
Taxation	9	1,004,578	144,702
Profit for the financial year		5,858,624	353,314

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 2019

	<i>Note</i>	2019 £	2018 £
Non-current assets			
Intangible assets	<i>10</i>	253,098	41,354
Property, plant and equipment	<i>11</i>	888,691	988,261
Deferred tax asset	<i>12</i>	637,526	-
		<hr/> 1,779,315	<hr/> 1,029,615
Current assets			
Inventories	<i>13</i>	1,373,198	1,107,792
Trade and other receivables	<i>14</i>	2,605,033	2,337,961
Cash and cash equivalents	<i>15</i>	828,451	1,262,823
		<hr/> 4,806,682	<hr/> 4,708,576
Current liabilities			
Trade and other payables	<i>16</i>	(6,939,640)	(11,718,467)
Deferred income	<i>17</i>	(74,836)	(84,587)
Provision	<i>18</i>	(49,387)	(49,387)
Financial liabilities	<i>19</i>	(200,410)	(206,836)
		<hr/> (2,457,591)	<hr/> (7,350,701)
Net current liabilities			
		<hr/> (2,457,591)	<hr/> (7,350,701)
Total assets less current liabilities		<hr/> (678,276)	<hr/> (6,321,086)
Non-current liabilities			
Financial liabilities	<i>19</i>	(117,077)	(311,062)
		<hr/> (117,077)	<hr/> (311,062)
Net liabilities		<hr/> (795,353)	<hr/> (6,632,148)
Capital and reserves			
Called up share capital	<i>20</i>	68,140	68,140
Retained earnings		(863,493)	(6,700,288)
		<hr/> (795,353)	<hr/> (6,632,148)
Total shareholders' deficit		<hr/> (795,353)	<hr/> (6,632,148)

These financial statements on pages 10 to 25 were approved by the board of directors on 27 February 2020 and were signed on its behalf by:



M Tyerman
Director

Registered Number: 3398105

Statement of changes in equity
for the year ended 31 May 2019

	Called up share capital	Retained earnings	Total shareholders' deficit
	£	£	£
Balance at 1 June 2017	68,140	(7,064,008)	(6,995,868)
Profit for the financial year	-	353,314	353,314
Share based payments	-	10,406	10,406
	<hr/>	<hr/>	<hr/>
Balance at 31 May 2018	68,140	(6,700,288)	(6,632,148)
Profit for the financial year	-	5,858,624	5,858,624
Share based payments	-	(21,829)	(21,829)
	<hr/>	<hr/>	<hr/>
Balance at 31 May 2019	68,140	(863,493)	(795,353)
	<hr/>	<hr/>	<hr/>

Notes to the financial statements

1 Accounting policies

Filtronic Broadband Limited is a company incorporated and domiciled in England, UK. This is a private company limited by shares.

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").

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 as applicable to companies using FRS101 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.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Going concern

At 31 May 2019 the Company's current liabilities exceeded its current assets by £2,457,591 (2018: *current liabilities exceeded current assets by £7,143,865*). In addition, the Company had a net deficit of £795,353 at 31 May 2019 (2018: *net deficit £6,632,148*). The directors have prepared cash flow forecasts for a period of twelve months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

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 has indicated that it does not intend to seek repayment of these amounts owing for the period covered by the forecasts.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and consequently have prepared the financial statements on a going concern basis.

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

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has been endorsed by the EU. This standard replaces IAS 18 Revenue. The Company has adopted IFRS 15 in these financial statements.

The scope of IFRS 15 includes all contracts where the Company has agreed to provide goods or services to a customer, except for the following:

- Insurance contracts (IFRS 4)
- Financial instruments (IAS 39/IFRS 9)
- Leases (IAS 17)

IFRS 15 establishes principles for determining when and how revenue arising from contracts with customers should be recognised. Filtronic should recognise revenue when it transfers goods or services to a customer based on the amount of consideration to which we expect to be entitled from a customer in exchange for fulfilling our performance obligations.

During the year, the Company has undertaken a review of all income streams against the requirements of IFRS 15. Management has undertaken an assessment of all contracts and revenue streams across the business using the five-step approach specified by IFRS 15: identify the contract(s) with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and 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 Company recognises revenue at a point in time.

No revenue was recognised against development milestones in the current or prior financial year.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

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.

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:

- Computer software 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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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 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.

Accounting developments and new standards

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 June 2018:

- IFRS 9 'Financial instruments' (effective for accounting periods beginning on or after 1 January 2018);
- IFRS 15 'Revenue from contracts with customers' (effective for accounting periods beginning on or after 1 January 2018).

Notes to the financial statements *(continued)*

2 Revenue

An analysis of revenue by geographical market is given below:

	2019 £	2018 £
United Kingdom	3,652,931	2,515,153
Europe	2,151,419	703,387
Americas	569,284	765,793
Rest of World	1,373,585	1,608,848
	<u>7,747,219</u>	<u>5,593,181</u>

3 Exceptional items

	2019 £	2018 £
Waiver of intercompany balance	3,878,643	-

The Company received a waiver for an intercompany balance payable to Filtronic Wireless Ltd in the period.

4 Operating profit

Operating profit is stated after charging/(crediting):

	2019 £	2018 £
Research and development costs before (capitalisation)/amortisation of development costs	802,237	1,054,078
Amortisation of development costs	33,296	33,297
Amortisation of other intangible assets	5,270	5,000
Depreciation of property, plant and equipment	272,754	286,055
Impairment of intercompany balance	(3,878,643)	-
Operating lease rentals	116,375	112,000
Net gain on disposal of tangible fixed assets	-	(43,211)
Foreign exchange gain	(57,543)	(98,929)

5 Auditor's remuneration

	2019 £	2018 £
Audit of financial statements	18,000	18,000

Notes to the financial statements *(continued)*

6 Staff numbers and costs

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

	2019 No.	2018 No.
Manufacturing	52	42
Research and development	13	18
Administration	1	2
Sales	4	2
	<hr/>	<hr/>
Average number of employees	70	64
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2019 £	2018 £
Wages and salaries	2,360,562	2,267,651
Social security costs	240,815	204,604
Contributions to defined contribution plans	135,995	125,157
Expenses related to share option plans	(21,829)	10,406
	<hr/>	<hr/>
	2,715,543	2,607,818
	<hr/>	<hr/>

7 Directors' emoluments

	2019 £	2018 £
Directors' emoluments	123,856	111,903
	<hr/>	<hr/>

The emoluments of the highest paid director, paid by Filtronic Broadband Limited, were £123,856 (2018: £111,903). He is a member of the defined contribution pension scheme, under which the Company made contributions of £6,461 (2018: £6,304).

The emoluments of M Tyerman are paid through the parent company, Filtronic plc for his 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.

8 Finance costs

	2019 £	2018 £
Interest costs financing plant and equipment	(18,981)	(10,458)
	<hr/>	<hr/>

Notes to the financial statements *(continued)*

9 Taxation

Recognised in the income statement

	2019 £	2018 £
UK corporation tax		
UK current tax expense	10,788	-
Adjustments in respect of prior year – R&D tax credit	(241,007)	(144,702)
R&D tax credit	(136,833)	-
Total current tax	(367,052)	(144,702)
Deferred tax		
Recognition of deferred tax asset	(637,526)	-
Total deferred tax	(637,526)	-
Tax on profit	(1,004,578)	(144,702)

Reconciliation of effective tax rate

The tax charge for the year is higher than (2018: same as) the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £	2018 £
Profit before taxation	4,854,046	208,612
Profit before taxation multiplied by rate of corporation tax	922,269	39,636
Non-deductible items	67,469	82,622
No gain – no loss intercompany impairment	(736,942)	-
Adjustment in respect of prior year R&D tax credit	(241,007)	(144,702)
Enhanced R&D tax credit	(136,833)	(67,070)
Recognition of deferred tax asset	(637,526)	-
Recognition of previously unrecognised tax losses	(242,008)	-
Losses carried forward not recognised	-	(55,188)
Total tax credit	(1,004,578)	(144,702)

The main rate of UK corporation tax is unchanged from 19% effective from 1 April 2017 giving an effective tax rate for the financial year of 19% (2018: 19%). This will reduce to 17% from 1 April 2020.

Notes to the financial statements *(continued)*

10 Intangible assets

	Computer software £	Development costs £	Total £
<i>Cost</i>			
At 31 May 2018	250,961	99,890	350,851
Additions	-	250,310	250,310
At 31 May 2019	250,961	350,200	601,161
<i>Accumulated amortisation</i>			
At 31 May 2018	242,903	66,594	309,497
Charge for the year	5,270	33,296	38,566
At 31 May 2019	248,173	99,890	348,063
<i>Net book value</i>			
At 31 May 2019	2,788	250,310	253,098
At 31 May 2018	8,058	33,296	41,354

11 Property, plant and equipment

	Plant and equipment £
<i>Cost</i>	
At 31 May 2018	5,691,340
Additions	173,185
Disposals	(148,815)
At 31 May 2019	5,715,710
<i>Accumulated depreciation</i>	
At 31 May 2018	4,703,079
Charge for the year	272,754
Disposals	(148,814)
At 31 May 2019	4,827,019
<i>Net book value</i>	
At 31 May 2019	888,691
At 31 May 2018	988,261

Notes to the financial statements *(continued)*

12 Deferred tax

Deferred tax assets which have been recognised:

	2019 £	2018 £
At 1 June	-	-
Tax losses recognised	637,526	-
	<hr/>	<hr/>
At 31 May	637,526	-
	<hr/>	<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 the business plan for the Company 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.

Deferred tax assets which have not been recognised:

	2019 £	2018 £
Depreciation in advance of capital allowances	1,378,640	1,529,838
Tax losses not carried forward	-	582,324
	<hr/>	<hr/>
	1,378,640	2,112,162
	<hr/>	<hr/>

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.

13 Inventories

	2019 £	2018 £
Raw materials	831,021	855,452
Work in progress	517,668	206,020
Finished goods	24,509	46,320
	<hr/>	<hr/>
	1,373,198	1,107,792
	<hr/>	<hr/>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £2,924,431 (2018: £1,815,593).

The write-down of stocks to net realisable value in the year amounted to £nil (2018: £nil). The reversal of write-downs amounted to £nil (2018: £nil). Changes in the stock provision are included in cost of sales.

Notes to the financial statements *(continued)*

14 Trade and other receivables

	2019 £	2018 £
Trade debtors	1,890,754	2,013,270
Amounts due from group companies	132,194	132,194
Prepayments and accrued income	582,085	192,497
	<u>2,605,033</u>	<u>2,337,961</u>

The amounts due from group companies are unsecured, interest free and repayable on demand.

15 Cash and cash equivalents

	2019 £	2018 £
Cash and cash equivalents	<u>828,451</u>	<u>1,262,823</u>

The company has an invoice discounting facility provided by Barclays Bank that enables the Company to borrow up to £3.0m against trade debtors. There were no borrowings at 31 May 2019 (2018: £nil).

16 Trade and other payables

	2019 £	2018 £
Trade creditors	709,526	686,100
Amounts due to group companies	6,064,251	10,788,737
Accruals	138,826	187,649
Other taxation/VAT	27,037	55,981
	<u>6,939,640</u>	<u>11,718,467</u>

The amounts due to group companies are unsecured, interest free and repayable on demand.

17 Deferred income

Deferred income classified as current consists of advanced billings to customers that will be recognised as income in the next year. Total deferred income at 31 May 2019 was £74,836 (2018: £84,587)

Notes to the financial statements *(continued)*

18 Provision

	Warranty provision £
At 1 June 2018	19,161
Amounts released unused	(15,000)
Used during the year	(4,892)
Charge for the year	19,892
	<hr/>
At 31 May 2019	19,161
	<hr/> <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.

	Dilapidation provision £
At 31 May 2018 and 31 May 2019	30,226
	<hr/> <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.

	2019 £	2018 £
Warranty provision	19,161	19,161
Dilapidation provision	30,226	30,226
	<hr/>	<hr/>
	49,387	49,387
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements (continued)

19 Financial liabilities

This note provides information about the contractual terms of the entity's interest-bearing bank loans and borrowings which are measured at carrying value.

	2019 £	2018 £
Bank loans – current	100,000	100,000
Obligations under finance leases – current	100,410	106,836
Total current financial liabilities	200,410	206,836
Bank loans – non-current	16,667	116,667
Obligations under finance leases – non-current	100,410	194,395
Total non-current financial liabilities	117,077	311,062
Total financial liabilities	317,487	517,898

Terms and debt repayment schedule

	Currency	Nominal interest rate	Date of maturity	Carrying amount 2019 £	Carrying amount 2018 £
Bank loan	GBP	7.6%	31 August 2020	116,667	216,667
Finance lease	GBP	4.1%	31 May 2021	200,820	301,231

Future minimum lease payments under finance leases, together with the carrying amount of lease obligations, are analysed as follows:

Finance lease	2019 £	2018 £
Less than one year	100,410	106,836
Between one and five years	100,410	194,395
	200,820	301,231

Notes to the financial statements *(continued)*

20 Called up share capital

	Allotted, called up and fully paid	
	2019	2018
	£	£
6,814,012 (2018: 6,814,012) ordinary shares of 1p each	68,140	68,140

21 Capital commitments

	2019	2018
	£	£
Capital expenditure contracted but not provided for in financial statements	129,891	-

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings	
	2019	2018
	£	£
Operating leases which expire:		
Less than one year	114,583	-
Within two to five years	489,583	-
After more than five years	583,334	-
	<hr/>	<hr/>
After more than five years	1,187,500	-

The Company leases a facility at Netpark in Sedgefield, County Durham where the business operates.

22 Ultimate parent undertaking

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

The largest and smallest group of undertakings for which the group financial statements are drawn up of which the Company is a member is Filtronic plc.

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.