

Filtronic Broadband Limited

Annual report and financial statements

Registered number 3398105

For the year ended 31 May 2021

SATURDAY



AAVQNA60

A10

15/01/2022

#211

COMPANIES HOUSE

Contents

Strategic report	1
Directors' report	5
Statement of directors' responsibilities in respect of the financial statements	7
Independent auditors' report to the members of Filtronic Broadband Limited	8
Income statement	11
Balance sheet	12
Statement of changes in equity	13
Notes to the financial statements	14

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 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 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 aerospace, defence, telecoms infrastructure and space 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, Morpheus, 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 lead 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 ("LEO") 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

FY2021 was a year of significant achievement despite dealing with a range of challenges including the Covid-19 pandemic. Turnover in the year decreased 12% to £12,542,891 (2020: £14,251,144) resulting in an operating profit of £1,274,373 (2020: £2,113,558) being 10% of turnover (2020: 15%). The business demonstrated resilience during the Covid-19 pandemic, and along with effective management, enabled the Company to maintain 24/7 operational capability throughout the UK national lockdowns as all customer commitments were met. Despite this, the measures we took to achieve this within a safe working environment for employees affected our ability to maintain productivity and efficiency levels, and thus our profitability was impacted.

Production of our 5G XHaul Morpheus transceiver products ramped during the year having migrated from the previous generation product, Orpheus, which took some time migrating to the next generation due to technical challenges which resulted in a period of production stoppage. This was the key driver for the revenue drop and resulted due to Covid as travel restrictions prevented travel to resolve the technical challenges quicker. We continue to seek other opportunities in the 5G XHaul markets for these products and are actively working on developing new design variants and configurations that meet the specification requirements and price points demanded by the telecoms market. We were also successful in winning a contract for low latency high speed links for private networks in the period under review.

In addition to the focus on our traditional core telecoms 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, LEO and trackside-to-train links.

The defence and aerospace product offering saw growth with a revenue increase to this market of 24% as the Company saw consistent volume output at expected capacity to supply microwave modules for use in aerospace radar systems. 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 is 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.

In line with the objectives of our strategy to broaden the customer base and markets we serve it was particularly pleasing to see good progress made in the year in broadening the customers we serve in multiple end-markets.

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 £1,316,435 (2020: £1,068,561) whilst capitalisation of development costs in the year was £27,506 (2020: £254,957).

Strategic report *(continued)*

Key performance indicators

	FY2021	FY2020	FY2019
Revenue (£m) The total amount the Company earns from the sales of products and services.	12.5	14.3	7.7
EBITDA* (£m) The Board recognises EBITDA as a key metric of the underlying health of the business.	2.1	2.7	1.3
EBITDA per employee (£k) Employees are a critical asset in our business and we monitor the EBITDA per employee to measure productivity.	22.5	27.2	18.5
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.	1.3	1.1	0.8

*Earnings before interest, tax, depreciation, amortisation and exceptional items

Principal risks and uncertainties

Introduction

The Company supplies microwave and mmWave products for the aerospace, defence, telecoms, 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.

Strategic report (*continued*)

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

17 December 2021

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 2021.

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 results and dividend

The results for the year are set out in the income statement on page 11. The position at the end of the year is shown on the balance sheet on page 12. 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.
- **Covid 19:** The Company aims to continue to mitigate the risk posed by the Covid-19 pandemic through its Business Continuity Team to implement safe working practices at minimal cost to operational efficiency, as well as controlling operational and capital expenditure to minimise the impact of further economic disruption.

Directors

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

M Tyerman
M Black
R Gibbs (appointed 3 December 2020)

Employees

The Company had 86 employees at 31 May 2021.

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 2021 the Company's current assets exceeded its current liabilities by £231,510 (2020: current liabilities exceeded current assets by £1,664,161), with cash at bank of £2,100,430 (2020: £1,518,218) and access to undrawn invoice discounting facilities of £3.0m. The cash and borrowing capacity therefore provide sufficient funds to meet the foreseeable needs of the Company.

As referred to in the Strategic report, the business continuity plans implemented during the Covid-19 pandemic have limited the adverse impact to date. Given the resilience of the business, the directors are confident they can continue to maintain full operational capability throughout the pandemic. Cash flow forecasts have been prepared to model various scenarios over a three-year period based on the Company's financial and trading position, principal risks and uncertainties and strategic plans. A downside scenario was modelled where programme curtailment may adversely affect forward looking demand to levels lower than those initially modelled in the base line scenario.

The scenarios modelled above demonstrate the Company has adequate cash and borrowing capacity for the next twelve months. The cash and borrowing capacity therefore provide sufficient funds to meet the foreseeable needs of the Company.

Other information

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

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

17 December 2021

Statement of directors' responsibilities in respect of 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, 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 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 also 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 2021 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, which comprise: the balance sheet as at 31 May 2021; the income statement and 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

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

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

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

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

Reporting on other information

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 May 2021 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 financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

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

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

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

Auditors' responsibilities for the audit of the financial statements (continued)

- discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- evaluation of management's controls designed to prevent and detect fraudulent financial reporting;
- testing accounting estimates that we deemed to present a risk of material misstatement, including assessing the data, methods and assumptions applied by management in the development of each estimate;
- identifying and testing journal entries using a risk-based targeting approach for unexpected account combinations or unusual words or phrases in the journal description; and
- reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

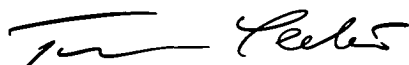
Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the 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
17 December 2021

Income statement
for the year ended 31 May 2021

	<i>Note</i>	2021 £	2020 £
Revenue	2	12,542,891	14,251,144
Cost of sales		(4,648,714)	(6,771,490)
Gross profit		<hr/> 7,894,177	<hr/> 7,479,654
Distribution costs		(2,222)	(2,713)
Administrative expenses		(6,693,619)	(5,357,346)
Other operating income/(costs)		76,037	(6,037)
Operating profit	3	<hr/> 1,274,373	<hr/> 2,113,558
Finance costs	7	(163,044)	(110,179)
Profit before taxation		<hr/> 1,111,329	<hr/> 2,003,379
Tax on profit	8	(407,225)	474,400
Profit for the financial year		<hr/> <hr/> 704,104	<hr/> <hr/> 2,477,779

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 2021

	Note	2021 £	2020 £
Non-current assets			
Intangible assets	9	325,069	418,406
Right of use assets	10	2,064,273	2,293,062
Property, plant and equipment	11	846,464	953,800
Deferred tax asset	12	479,127	1,032,526
		<hr/>	<hr/>
		3,714,933	4,697,794
Current assets			
Inventories	13	1,282,051	1,991,855
Trade and other receivables	14	2,630,713	4,123,276
Cash and cash equivalents	15	2,100,430	1,518,218
		<hr/>	<hr/>
		6,013,194	7,633,349
Current liabilities			
Trade and other payables	16	(5,152,007)	(7,767,455)
Deferred income	17	(183,635)	(562,446)
Provisions	18	(47,758)	(49,387)
Financial liabilities	19	(8,367)	(125,445)
Lease liabilities	20	(389,917)	(792,777)
		<hr/>	<hr/>
Net current assets/(liabilities)		231,510	(1,664,161)
		<hr/>	<hr/>
Total assets less current liabilities		3,946,443	3,033,633
Non-current liabilities			
Deferred income	17	(123,608)	-
Lease liabilities	20	(1,436,305)	(1,351,207)
		<hr/>	<hr/>
Net assets		2,386,530	1,682,426
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	21	68,140	68,140
Retained earnings		2,318,390	1,614,286
		<hr/>	<hr/>
Total shareholders' funds		2,386,530	1,682,426
		<hr/>	<hr/>

These financial statements on pages 11 to 30 were approved by the board of directors on 17 December 2021 and were signed on its behalf by:



M Tyerman
Director

Registered Number: 3398105

Statement of changes in equity
for the year ended 31 May 2021

	Called up share capital £	Retained earnings/ (accumulated losses) £	Total shareholders' funds/(deficit) £
Balance at 1 June 2019	68,140	(863,493)	(795,353)
Profit for the financial year	-	2,477,779	2,477,779
	<hr/>	<hr/>	<hr/>
Balance at 31 May 2020	68,140	1,614,286	1,682,426
Profit for the financial year	-	704,104	704,104
	<hr/>	<hr/>	<hr/>
Balance at 31 May 2021	<u>68,140</u>	<u>2,318,390</u>	<u>2,386,530</u>

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 FRS 101 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 2021 the Company's current assets exceeded its current liabilities by £231,510 (2020: current liabilities exceeded current assets by £1,664,161), with cash at bank of £2,100,430 (2020: £1,518,218) and access to undrawn invoice discounting facilities of £3.0m. The cash and borrowing capacity therefore provide sufficient funds to meet the foreseeable needs of the Company.

As referred to in the Strategic report, the business continuity plans implemented during the Covid-19 pandemic have limited the adverse impact to date. Given the resilience of the business, the directors are confident they can continue to maintain full operational capability throughout the pandemic. Cash flow forecasts have been prepared to model various scenarios over a three-year period based on the Company's financial and trading position, principal risks and uncertainties and strategic plans. A downside scenario was modelled where programme curtailment may adversely affect forward looking demand to levels lower than those initially modelled in the base line scenario.

The scenarios modelled above demonstrate the Company has adequate cash and borrowing capacity for the next twelve months. The cash and borrowing capacity therefore provide sufficient funds to meet the foreseeable needs of the Company.

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

IFRS 15 establishes principles for determining when and how revenue arising from contracts with customers should be recognised. Filtronic Broadband Limited recognises revenue when it transfers goods and services to a customer with an amount of consideration to which it expects to be entitled in exchange for fulfilling the performance obligations with the customer.

The Company reviews all income streams against the requirements of IFRS 15. Management undertakes an assessment of all contracts and revenue streams 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.

Limited revenue was recognised against development milestones in the current or prior financial year as most of the revenue is recognised at a point in time as a finished goods product sale.

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.

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 IAS 38, 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.

Right of use assets and lease liabilities

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

The lease is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. The lease liability is subsequently increased by the interest cost on the lease and decreased by payments made. In the event of a change in future lease payments, the lease liability will be remeasured and the difference recognised in the right of use asset. Lease liabilities are presented as a separate line in the consolidated statement of financial position.

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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

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.

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.

Notes to the financial statements *(continued)*

2 Revenue

An analysis of revenue by geographical market is given below:

	2021 £	2020 £
United Kingdom	4,693,419	4,760,985
Europe	4,177,870	7,966,876
Americas	1,184,257	1,059,361
Rest of World	2,487,345	463,922
	<u>12,542,891</u>	<u>14,251,144</u>

3 Operating profit

Operating profit is stated after charging/(crediting):

	2021 £	2020 £
Research and development costs before capitalisation of development costs of which £27,506 (2020: £256,430) has been capitalised.	1,316,435	1,068,561
Amortisation of development costs	137,049	88,735
Amortisation of other intangible assets	2,149	2,387
Depreciation of property, plant and equipment	203,373	230,065
Depreciation of right of use assets	498,906	234,372
Furlough income	(85,366)	-
Grant income	(37,499)	-
Foreign exchange loss/(gain)	236,278	(162,151)
	<u>236,278</u>	<u>(162,151)</u>

4 Auditors' remuneration

	2021 £	2020 £
Audit of financial statements	35,000	20,000
Additional fees relating to the prior year	15,000	-
Other services relating to taxation	1,000	-
	<u>51,000</u>	<u>20,000</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:

	2021 No.	2020 No.
Manufacturing	75	80
Research and development	15	14
Administration	1	2
Sales	3	2
	<hr/>	<hr/>
Average number of employees	94	98
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2021 £	2020 £
Wages and salaries	2,919,459	3,223,049
Social security costs	293,839	288,831
Contributions to defined contribution plans	165,983	162,915
	<hr/>	<hr/>
	3,379,281	3,674,795
	<hr/>	<hr/>

6 Directors' emoluments

	2021 £	2020 £
Directors' emoluments	-	20,640
	<hr/>	<hr/>

The emoluments of M Tyerman, M Black and R Gibbs are paid through other entities in the Group. It is not practical to split remuneration across the subsidiaries of the Group and therefore no separate emoluments are disclosed in these financial statements. The Director previously costed through Filtronic Broadband Limited in 2020 is no longer with the Company.

7 Finance costs

	2021 £	2020 £
Interest expense on loans for plant and equipment	5,889	18,657
Interest expense for lease arrangements	117,579	91,522
Minimum service costs and interest charges on invoice discounting facilities	39,576	-
	<hr/>	<hr/>
	163,044	110,179
	<hr/>	<hr/>

Notes to the financial statements (continued)

8 Tax on profit

	2021 £	2020 £
UK corporation tax		
Adjustments in respect of prior year – R&D tax credit	(146,174)	(79,400)
Total current tax credit	<u>(146,174)</u>	<u>(79,400)</u>
Deferred tax		
Origination and reversal of temporary differences	553,399	(395,000)
Total deferred tax charge/(credit)	<u>553,399</u>	<u>(395,000)</u>
Total tax charge/(credit)	<u><u>407,225</u></u>	<u><u>(474,400)</u></u>

Reconciliation of effective tax rate

The tax charge/(credit) for the year is higher (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%).
The differences are explained below:

	2021 £	2020 £
Profit before taxation	1,111,329	2,003,379
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19%	<u>211,153</u>	<u>380,642</u>
Effects of:		
Non-deductible items	139,599	121,358
Adjustment in respect of prior year R&D tax credit	(146,174)	(79,400)
Enhanced R&D tax credit	-	(333,000)
Recognition of deferred tax asset	-	(564,000)
Derecognition of deferred tax asset	202,647	-
Total tax charge/(credit)	<u><u>407,225</u></u>	<u><u>(474,400)</u></u>

The main rate of UK corporation tax is unchanged at 19% effective from 1 April 2017. On 3 March 2021, in the Budget, the UK government announced that the corporation tax rate will increase to 25% for companies with profits above £250,000 with effect from 01 April 2023, as well as announcing several other changes to allowances and treatment of losses. These changes were enacted on 24 May 2021. Deferred tax has therefore been measured at 25% in these financial statements to the extent that the temporary difference to which it relates is expected to reverse after 01 April 2023. Otherwise it is measured at 19%.

Notes to the financial statements *(continued)*

9 Intangible assets

	Computer software £	Development costs £	Total £
<i>Cost</i>			
At 1 June 2020	250,961	606,630	857,591
Additions	18,354	27,506	45,860
Disposals	(96,685)	(20,227)	(116,912)
	<hr/>	<hr/>	<hr/>
At 31 May 2021	172,630	613,909	786,539
	<hr/>	<hr/>	<hr/>
<i>Accumulated amortisation</i>			
At 1 June 2020	250,560	188,625	439,185
Charge for the year	2,149	137,049	139,198
Disposals	(96,685)	(20,228)	(116,912)
	<hr/>	<hr/>	<hr/>
At 31 May 2021	156,024	305,446	461,470
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 May 2021	16,606	308,463	325,069
	<hr/>	<hr/>	<hr/>
At 31 May 2020	401	418,005	418,406
	<hr/>	<hr/>	<hr/>

Notes to the financial statements *(continued)*

10 Right of use assets

	Property leases £	Equipment leases £	Total £
Cost			
At 1 June 2020	839,631	1,687,803	2,527,434
Additions	314,140	233,128	547,268
Disposals	-	(533,466)	(533,466)
	<hr/>	<hr/>	<hr/>
At 31 May 2021	1,153,771	1,387,465	2,541,236
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At 1 June 2020	86,065	148,307	234,372
Charge for the year	116,914	381,992	498,906
Disposals	-	(256,315)	(256,315)
	<hr/>	<hr/>	<hr/>
At 31 May 2021	202,979	273,984	476,963
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 May 2021	950,792	1,113,481	2,064,273
	<hr/>	<hr/>	<hr/>
At 31 May 2020	753,566	1,539,496	2,293,062
	<hr/>	<hr/>	<hr/>

The Company's lease commitments are made up of a property lease and plant and equipment under asset finance agreements at its site in Sedgefield, UK.

Notes to the financial statements *(continued)*

11 Property, plant and equipment

	Plant and equipment £
<i>Cost</i>	
At 1 June 2020	6,010,884
Additions	100,112
Disposals	(2,743,487)
	<hr/>
At 31 May 2021	3,367,509
	<hr/>
<i>Accumulated depreciation</i>	
At 1 June 2020	5,057,084
Charge for the year	203,373
Disposals	(2,739,412)
	<hr/>
At 31 May 2021	2,521,045
	<hr/>
<i>Net book value</i>	
At 31 May 2021	846,464
	<hr/>
At 31 May 2020	953,800
	<hr/>

Notes to the financial statements *(continued)*

12 Deferred tax asset

Deferred tax assets which have been recognised:

	2021 £	2020 £
At the beginning of the year	1,032,526	637,526
Tax losses recognised	(350,752)	564,000
Utilisation of tax losses	-	(169,000)
Derecognition of deferred tax asset	(202,647)	-
	<hr/>	<hr/>
At the end of the year	479,127	1,032,526
	<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:

	2021 £	2020 £
Depreciation in advance of capital allowances	1,517,000	499,000
	<hr/>	<hr/>
	1,517,000	499,000
	<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

	2021 £	2020 £
Raw materials	1,009,587	1,213,436
Work in progress	237,453	776,469
Finished goods	35,011	1,950
	<hr/>	<hr/>
	1,282,051	1,991,855
	<hr/>	<hr/>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £4,193,835 (2020: £6,609,298).

The write-down of stocks to net realisable value in the year amounted to £141,804 (2020: £nil). The reversal of write-downs amounted to £nil (2020: £nil). Changes in the stock provision are included in cost of sales.

Notes to the financial statements *(continued)*

14 Trade and other receivables

	2021 £	2020 £
Trade debtors	2,108,205	3,829,962
Amounts due from group companies	128,264	132,194
Prepayments and accrued income	363,032	151,628
VAT recoverable	31,212	9,492
	<u>2,630,713</u>	<u>4,123,276</u>

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

15 Cash and cash equivalents

	2021 £	2020 £
Cash and cash equivalents	<u>2,100,430</u>	<u>1,518,218</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. No amounts were drawn under that facility at 31 May 2021 (2020: £nil).

16 Trade and other payables

	2021 £	2020 £
Trade creditors	933,625	1,280,030
Amounts due to group companies	3,994,763	6,004,982
Accruals	223,619	482,443
	<u>5,152,007</u>	<u>7,767,455</u>

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

Notes to the financial statements *(continued)*

17 Deferred income

	2021 £	2020 £
Contract liabilities	146,136	431,198
Capital grant	37,499	131,248
Total current deferred income	183,635	562,446
Contract liabilities	67,359	-
Capital grant	56,249	-
Total non-current deferred income	123,608	-
Total deferred income	307,243	562,446

Notes to the financial statements *(continued)*

18 Provisions

	Warranty provision £
At 1 June 2020	19,161
Amounts released unused	(2,345)
Used during the year	(5,704)
Charge for the year	6,420
	<hr/>
At 31 May 2021	17,532
	<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 2020 and 31 May 2021	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 restored to its original condition. The dilapidation provision reflects management's best estimates and ability to measure the likely costs that may be incurred restoring the building to its original state.

Total provisions	2021 £	2020 £
Warranty provision	17,532	19,161
Dilapidation provision	30,226	30,226
	<hr/>	<hr/>
	47,758	49,387
	<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 amortised cost.

	2021 £	2020 £
Bank loans – current	-	16,667
Obligations under finance leases – current	8,367	108,778
Total current financial liabilities	8,367	125,445
Total financial liabilities	8,367	125,445

Terms and debt repayment schedule

	Currency	Nominal interest rate	Date of maturity	Carrying amount 2021 £	Carrying amount 2020 £
Bank loan	GBP	7.6%	31 August 2020	-	16,667
Finance agreements	GBP	4.1%	31 May 2021	8,367	108,778
Total Financial Liabilities				8,367	125,445

The finance agreement with a date of maturity of 31 May 2021 was settled on 1 June 2021.

Notes to the financial statements *(continued)*

20 Lease liabilities

	£	
At 1 June 2020	2,143,984	
New leases entered into during the year	456,510	
Payments made during the year	(497,121)	
Disposals	(277,151)	
Total lease liabilities at 31 May 2021	1,826,222	

	2021 £	2020 £
Lease liabilities payable in less than a year	389,917	792,777
Lease liabilities payable in more than a year	1,436,305	1,351,207
Total lease liabilities at 31 May 2021	1,826,222	2,143,984

The Company entered into a new lease arrangement in the year to expand its operational footprint at Sedgefield to execute on the company's growth plan whilst facilitating social distancing requirements throughout the pandemic in the short term.

The Company opted not to exercise an extension of a lease for plant and machinery, which was treated as a disposal, having previously recognised it over its full life.

21 Called up share capital

	Allotted, called up and fully paid	
	2021 £	2020 £
6,814,012 (2020: 6,814,012) ordinary shares of 1p each	68,140	68,140

22 Capital commitments

	2021 £	2020 £
Capital expenditure contracted but not provided for in financial statements	145,244	5,193

Notes to the financial statements *(continued)*

23 Ultimate parent undertaking

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

The largest and smallest group into which the results of the company are consolidated is that headed by Filtronic plc. Copies of the financial statements of Filtronic plc can be obtained from Filtronic plc, Filtronic House, Unit 3, Airport West, Yeadon, West Yorkshire, LS19 7ZA.