filtronic
Innovation in RF technology

Annual Report and Accounts 2021

Filtronic plc – Stock code: FTC

filtronic.com

Welcome to Filtronic

Filtronic plc is a designer and manufacturer of advanced RF communications products supplying a number of market sectors, including telecommunications infrastructure, aerospace and defence and critical communications.

Our objective is to grow profitably by being a trusted supplier to our customers of technically advanced products that deliver value to them. We focus on markets where we have a deep understanding of the sector and customer requirements and where we can leverage our know-how and IP portfolio.

Our strategy to achieve this objective is:

- To nurture close working relationships with our customers to understand their needs and requirements;
- To develop class leading products in our core technology areas of mmWave transceivers, filters, and tower top amplifiers;
- To develop sub-systems and solutions that meet customer specific and general market requirements;
- To expand our customer base within the markets we serve; and
- To widen the number of markets we serve.

The rapid deployment of 5G mobile telecommunications networks is leading to significant investment in high speed / high capacity backhaul infrastructure. Filtronic 5G backhaul transceivers are being deployed in leading 5G networks.

Investment in better connected emergency services around the world continues. The need for high quality voice and data networks that are secure and independent from commercial telecommunications systems has never been greater. The critical communications market demands high reliability equipment for its mission critical networks and Filtronic has become a trusted supplier to this sector.

Advanced RF technologies are essential in communication and radar systems utilised by today's defence forces. Filtronic offers design and manufacturing services at our UK facilities that are valued by leading defence contractors.

In addition to providing products and services to our established markets, Filtronic is at the vanguard of designing and supplying RF technology to emerging markets ranging from 5G test equipment, ultra-low latency RF connections for the financial services industry, gigabit internet connections to high-speed rail networks and long-range data links to high-altitude pseudo satellites ("HAPS").

Forward-looking statements

Certain statements in this Annual Report are forward-looking. Where the Annual Report includes forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Such statements are based on current expectations and are subject to a number of risks and uncertainties, including both economic and business risk factors that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, the Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

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Chairman's statement

There are clear signs of pent-up demand in our end markets, which we are well positioned to capitalise on given the recent investments we have made and the evolving market landscape.

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Chief Executive's review

I remain more convinced than ever regarding the strength of the business, the quality of the Filtronic brand, and our potential for growth by delivering innovative RF solutions.

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Market review

Filtronic's unique approach has allowed us to create a differentiated offering that provides our clients with significant flexibility, cost and, crucially, time to market advantages.

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Objective and strategy

We focus on markets where we have a deep understanding of the sector and customer requirements and where we can leverage our design know-how and IP portfolio.

Glossary

4G:	4th Generation mobile networks
5G:	5th Generation mobile networks
5G NR:	5G New Radio is the global standard for a unified, more capable 5G wireless air interface
Adjusted EBITDA:	EBITDA before exceptional items
Backhaul:	The portion of a hierarchical telecommunications network that comprises the intermediate links between the core network and the small subnetworks at the edge of the network
CAGR:	Compound Average Growth Rate
CY:	Calendar year
D-band:	130GHz to 175GHz
E-band:	71GHz to 86GHz
EBITDA:	Earnings Before Interest, Taxation, Depreciation and Amortisation
EMEA:	Europe, the Middle East and Africa
ETSI:	European Telecommunication Standards Institute
EW:	Electronic warfare represents the ability to use the electromagnetic spectrum - signals such as radio, infrared or radar - to sense, protect and communicate. At the same time, it can be used to deny adversaries the ability to either disrupt or use these signals
Fronthaul:	The portion of a C-RAN telecommunications architecture that comprises the intermediate links between the centralised radio controllers and the radio heads at the edge of a cellular network
FY:	Financial year
Gbps:	Gigabits per second
GHz:	Gigahertz: 10^9 Hertz
Gigabit:	10^9 bits
HAPS:	High Altitude Pseudo-Satellites
IP:	Intellectual Property
LEO:	Low Earth Orbit
LMR:	Land Mobile Radio
LTE:	Long-Term Evolution
MarCom:	Marketing communications
Midhaul:	The link in a telecommunications network between the controller or the radio head that feeds the next link in the network
mmWave:	Millimetre Wave
NRE:	Non-recurring engineering
NSA:	Non-Stand Alone. The non-standalone (NSA) mode of 5G that depends on the control plane of an existing 4G LTE network for control functions
ODU:	Outdoor Unit
OEM:	Original Equipment Manufacturer
P25:	Project 25: a suite of standards for digital mobile radio communications designed for use by public safety organisations
PoP:	Point of presence is the point at which two or more different networks or communication devices build a connection with each other
Q-band:	33GHz to 50GHz
RF:	Radio Frequency: a rate of oscillation in the range of around 3kHz to 300GHz
Rx:	Receive
SA:	Stand Alone 5G: the deployment of 5G without relying on the 4G LTE network
SiP:	System in package. This is a number of integrated circuits enclosed in one or more chip carrier packages that may be stacked package on package
STRAP:	Strategic Planning Process
TRM:	Transmit Receive Module
TTA:	Tower Top Amplifier
Tx:	Transmit
V-band:	40GHz to 75GHz
VoC:	Voice of the Customer
W-band:	92GHz to 115GHz
XHaul:	The common flexible transport solution for future 5G networks, integrating the fronthaul and backhaul networks with wired and wireless technologies in a common packet based transport network

Strategic report

Financial highlights

Revenue

£15.6m (-9%)

Adjusted EBITDA*

£1.8m (+50%)

Adjusted operating profit**

£0.6m (+50%)

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

** Adjusted operating profit is operating profit/(loss) before exceptional items.

Operational highlights

- Healthy cash position will be used to drive further organic growth in our served markets which are showing strong signs of recovery from the pandemic with a stronger order book, improved customer forecasts and increased opportunities.
- Awarded a contract to develop and supply battlefield radio communications equipment valued at £1.3m through a new channel to market.
- Our "best-in-class" Tower Top Amplifier supplied to the market leading Original Equipment Manufacturer in critical communications saw its first significant revenue recognition in Q4 of the financial year.
- Expansion of our direct and indirect sales channels in the USA, Europe and Asia through a mix of agents and distributors to expand our sales reach.
- Winner of the prestigious Queen's Award for Enterprise in International Trade 2021.

Cash at bank

£2.9m (+45%)

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

£1.9m (+375%)

Pictured: Wire bond pull test

Chairman's statement

Dear fellow shareholder

Welcome to the Filtronic plc Annual Report for the year ended 31 May 2021.

At the time of writing this report last year, we had just been through our first lockdown, and I was able to report the business had proved its resilience and met all customer commitments with minimal disruption to operational output. We entered FY2021 with cautious optimism, confident we could develop the business despite the global disruption from Covid-19. I am pleased to report the business has continued to demonstrate a strong level of robustness in the face of one of the most challenging environments most of us have ever faced. I must therefore take this opportunity to thank our employees for their efforts, strength of character and commitment shown over the last year. Whilst these strong character traits do not appear on the balance sheet, they have proved to be an invaluable asset to Filtronic as we have experienced another year of progress with material growth in adjusted earnings before interest, taxation, depreciation, amortisation and exceptional items ("adjusted EBITDA"), despite three periods of lockdown.

The key challenge presented by the pandemic has been new customer acquisition, as traditional selling channels have been constrained by travel restrictions. We have worked hard to counter this during the year by developing alternative methods to address the market through expansion of our agent and distribution network in a number of territories, revitalisation of the Filtronic brand and corporate identity and increased marketing communication to build brand awareness. These initiatives will serve us well as we look to satisfy key strategic objectives of revenue growth and on-boarding of new customers in the coming year.

Richard Gibbs, appointed CEO last September, has brought a renewed vigour and strategic vision to the business and as a board we are delighted with his progress to date. Under his leadership of the business, we took the opportunity to realign our strategic plans to exploit the strengths of our capability, technology and market positions that we have developed since the business was refocused in FY2020, following the sale of the Telecoms Antenna Operation.

We are looking to support this realignment with the recruitment of key engineering management to our Senior Leadership Team, who have strong links to both industry and research institutions in our served markets. They will be tasked with further development of the technology roadmap, expansion of the product portfolio and, together with our commercial team, broadening our customer base.

Financial performance summary

Group sales from continuing operations increased in the second half of the year by 20% to £8.5m (H1 FY2021: £7.1m) albeit sales for the full year reduced by 9% to £15.6m (2020: £17.2m) following the softer trading in H1 due to the impact of Covid. Quality of earnings continued to improve with an operating profit of £0.6m being achieved (2020: £0.2m operating loss). Adjusted EBITDA from continuing operations was £1.8m (2020: £1.2m) due to a stronger sales mix.

The Group was able to close the year with £2.9m of cash at bank (2020: £2.0m) giving healthy cash reserves in addition to our undrawn working capital debt facilities in the UK and USA which provide further headroom. The cash position grew as a consequence of improved operating cash generation from adjusted EBITDA. The Group had net cash when including all debt except right of use property leases, of £1.9m at the end of the financial year (2020: £0.4m). Net cash including right of use property leases was £0.8m (2020: £0.7m net debt).

Dividend

No dividend is proposed for the year (2020: £nil). The Board continues to be of the opinion that shareholders are better served by cash being retained in the business to fund future business development.

Board composition

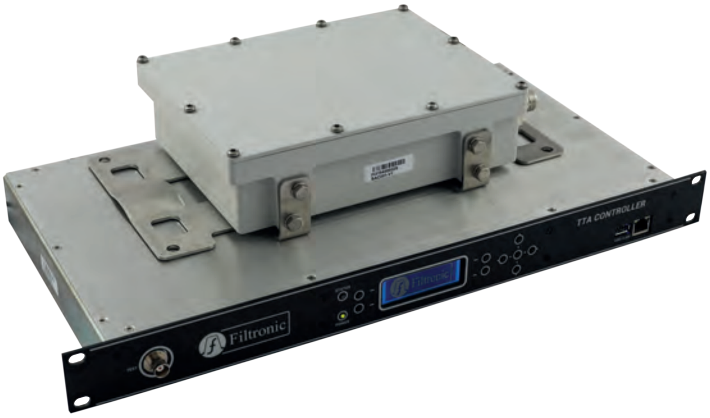
After 15 years as a Non-Executive Director, with the last six years as Chairman, I have advised the Board of my intention to step down and retire at the AGM in October 2021. The Company is now stronger and is well positioned to continue to build and grow, and I feel the time is right for me to retire from the Board in order to complete the Board and Executive refresh process and make way for a new Chairman bringing new perspectives. I have enjoyed my time with Filtronic immensely and would like to extend a deep personal thank-you to all staff and shareholders for their support, especially during some of those more difficult times, but I would especially like to thank my fellow board members, for whom I have the greatest respect. I wish you all every success for the future.

A process to appoint my successor is currently underway. The Board will provide a further update once an appointment has been made.

Outlook

The Board is encouraged by the progress made in developing the business over the course of the year and, combined with the prospect of improved trading conditions, we look forward with renewed confidence to continuing our growth in both revenue and profitability. There are clear signs of pent-up demand in our end markets, which we are well positioned to capitalise on given the recent investments we have made and the evolving market landscape. The key short-term risk to delivery will be the global semiconductor component shortage which is affecting all sectors and companies relying on embedded electronics components. It is already proving disruptive with significantly increased supplier lead times, but we will leverage our supply chain expertise, our engineering capability and our operational agility to minimise the impact of this.

Further investment is planned for new product development including W-band technology which will become a key frequency band in 5G telecoms and space applications as capacity within E-band is progressively consumed. These investments, along with further development of our core process technologies and channels to market will provide the building blocks for sustained growth in future years.



Pictured: Tower Top Amplifier and TTA Controller Unit

We started the new year with increased optimism based upon an improved opening order book over last year and a growing opportunity pipeline across a widening customer base.

Reg Gott
Chairman
2 August 2021

Strategic report

Strategy on a page model

The strategy on a page model is a tool for presenting Filtronic's strategy in a simplified format. At the centre of our strategy is our purpose, vision, and mission which form the foundations for all activities within the Group; why we exist, our future direction and how we deliver repeatable customer value.

This is enveloped by our three core values of integrity, respect, and excellence which are referenced in more detail on page 24. These values drive the behaviours that enable the execution of our strategic plan to develop and manufacture high-performance technologies across the RF spectrum.

Our core capabilities are transmitting, receiving, and conditioning of radio signals at frequencies between 300MHz and 300GHz whilst our technologies are applied within complex markets such as telecommunications infrastructure, aerospace and defence, critical communications, space, and adjacent markets. Our key skills and technologies are increasingly relevant and applicable as we adapt to global mega trends such as big data, multipolarity, climate change and social change.

Chief Executive's review

I am delighted to have the opportunity to write my first Chief Executive's Review after nine months at Filtronic. I have, of course, been aware of Filtronic throughout my career in the electronics industry, and during previous interactions with the Company I have always been impressed by the breadth of Filtronic's technology and the integrity of the Filtronic employees, both past and present. When presented with the chance to join the Filtronic team in September last year, I did not have to think too long and hard about taking up the opportunity. I am pleased to report that there have been no hidden surprises to date, and I remain more convinced than ever regarding the strength of the business, the quality of the Filtronic brand and our potential for growth by delivering innovative RF solutions.

FY2021 was a year of first half consolidation, followed by second half recovery and further adjusted EBITDA growth. After a slow start in the wake of a challenging market environment and the continuation of restrictions imposed by the global Covid pandemic, we had a more encouraging second half and finished the year with a strong order book and signs of confidence returning to our markets.

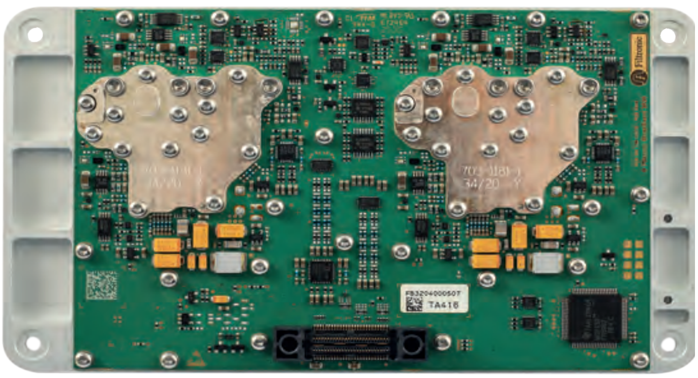
With the successful sale of the Telecom Antenna Operation in January 2020, the FY2021 trading results reveal the underlying strength and profitability of the core Filtronic business. Revenue is down slightly by 9% on prior year, mainly due to changes in customer schedules and delayed execution of critical communications programmes in the USA during the first half of the year. Adjusted EBITDA grew year-on-year by 51% based on increased operational efficiencies, coupled with consistent demand for higher margin products and strong demand for Filtronic engineering services.

The management team continue to ensure that Filtronic remains fully operational despite numerous lockdowns and disruption. We have modified our workspace and developed work procedures to the point where we can now accommodate all our employees back on site, and we are already starting to see the benefits of a strong collaborative team environment. This was in part, enabled by expanding our operational footprint at our largest site in Sedgefield which was key to maintaining a covid-safe environment, but it is also an important step to facilitate more space and capacity as we execute on our growth plans with additional headcount and increased operational capability. I would like to take this opportunity to recognise the resilience of the Filtronic team and thank them for their outstanding commitment and support during the last twelve months.

The most significant consequence of Covid-19 has been the impediment to business development and sales acquisition activities during the year. Our business development teams have not had the opportunity to visit customers, attend trade events, or host customer meetings at our facilities. To compensate, we have made considerable efforts to connect with customers via alternative channels. We have moved most of our marketing efforts online and made considerable enhancements to our website and social media presence. In doing so we have managed to significantly raise the profile of Filtronic in the market and improve the levels of lead generation. Voice of the customer ("VoC") feedback conducted during the year confirmed the strength of the Filtronic brand and our reputation for delivering innovative RF solutions. With a minor refresh we feel there is significant value in the Filtronic brand, and we will be working hard to promote this in the coming year.

The recent investments made in manufacturing automation in the facility at Sedgefield have resulted in significant improvements in capacity, productivity and quality, whilst offering enhanced capability to our customers. With well-executed inventory management, we have avoided supply chain issues and maintained a steady rate of production throughout the year, with excellent yields, and increasingly high levels of operational efficiency. This has given us the opportunity to respond quickly to fluctuating customer demand cycles and ensure that we remain on schedule with delivery commitments.

We made appropriate use of the UK and US government support schemes at various points throughout the year, and this allowed us to balance our cost base during the changing lockdown restrictions. Last financial year we consolidated manufacturing of critical communication products in the USA, to better support our customers and respond to an increased preference for onshoring and "buy America" products. This was well received by customers and enabled us to respond quickly as the critical communication market recovered, and federal stimulus packages began to positively impact spending.



Pictured: HAPS mmWave Transceiver Module

There are signs that large organisations are looking towards moving to western supply chains as geo-political issues persist. The onshoring project has positioned us well to be part of any early-stage movement on this if the appetite to do so comes to fruition.

Customers and markets

Our customers in the critical communications market have seen demand fluctuate over the last year. End users revised deployment plans and our customers were unable to make the expected progress with existing project completions. New procurement decisions have been delayed subject to revised spending plans. The impact of this has been a fluctuating level of order intake throughout the year, and a reluctance to commit to next generation programmes and new product introductions.

By contrast, the aerospace and defence market has been a strong and steady contributor this year. In July 2020 we received a long awaited £4.9m defence contract, which provides for a two-year manufacturing supply agreement, and justifies the recent investments made in the advanced hybrid manufacturing facility on the Sedgefield site.

Demand for our 5G transceiver products reached a peak at the end of FY2020 as the major customer accumulated inventory in readiness for the rollout of their backhaul product portfolio. Deployment of 5G networks themselves has proved challenging to forecast, due in part to the slow rate at which governments around the world release E-band licences, and the mix of backhaul solutions within a proposed system configuration. We have worked closely with our customers to align delivery schedules and managed to level-load the production schedules for FY2021 and FY2022.

We continue to see the High Altitude Pseudo-Satellites ("HAPS") and Low Earth Orbit ("LEO") telecom applications as an attractive market for our E-band technology and we became full members of the HAPS Alliance during the last year. Having undertaken several successful engagements with US technology companies that are pioneers in this field, we now believe that we have a strong portfolio for both stratospheric and LEO space platforms and will look to capitalise on this intellectual property ("IP") as the applications evolve.

We closed the year with the welcome news that we had been awarded the prestigious Queen's Award for Enterprise 2021. This was a fitting recognition of the efforts made to support the global telecoms market over the last few years, and a testament to the reputation of Filtronic as a flag carrier for British technology.

There have been several other notable achievements over the last 12 months, all of which set the potential for future revenues, to which end I would highlight the following:

- The award of two funded development contracts for defence products associated with next generation radar systems. An early indication of the UK Government's commitment to significant Electronic Warfare ("EW") platform upgrades and an opportunity for Filtronic to influence the ultimate Original Equipment Manufacturer ("OEM") design.
- The award of a £1.3m defence contract for the design, development, and low-rate production of battlefield communication products. This represents our first direct engagement with a defence agency, and it will utilise the expertise of our Leeds design centre.
- We have started to see volume sales for our "best-in-class" Tower Top Amplifier ("TTA") product with design wins for both system upgrades and new state-wide installations in the USA.
- After successful conclusion of the trials associated with our 10Gbps backhaul track to train transceiver product in Asia, we have received enquiries for initial production volumes and delivered transceiver units for the start of UK trials.
- We successfully delivered high performance E-band transceivers for use in two separate low latency private network applications associated with high frequency trading.
- We successfully transitioned from our Orpheus E-band transceiver product to the next generation Morpheus II product during Q2 FY2021. Shortly afterwards we passed the milestone of 50,000 installations for our market leading E-band modules.

Outlook

As the world emerges from the devastating impact of the Covid-19 pandemic, we will inevitably face a period of economic uncertainty, an example of this being the current disruption to semiconductor supply chains. However, we feel we have the resources and reserves necessary to navigate these headwinds and we look forward positively to the new trading period.

Filtronic's core markets of telecommunications infrastructure, critical communications and aerospace and defence, represent industry segments that have remained robust throughout the pandemic, and are well positioned to benefit from economic recovery and efforts to stimulate the economy. We can expect a renewed commitment to the roll out of 5G networks worldwide, and we believe that some of the delayed spending on critical communications infrastructure will begin to materialise.

Aerospace and defence programmes are naturally longer-term initiatives, but we see an increased appetite by the governments in the UK, USA and Europe to support investment in next generation EW technologies, commercial space programs and sovereign telecom supply chains, all of which plays to our strengths and provides potential growth opportunities for Filtronic.

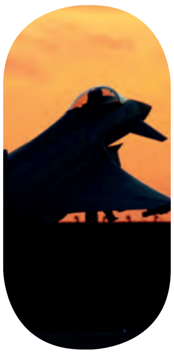
Business plans for FY2022 reflect the somewhat unpredictable nature of the economic recovery, and in support of this we have conducted a full Strategic Planning Process ("STRAP") to generate our technology roadmaps and identify additional growth opportunities. We have a culture that is proactive and highly motivated to create sustainable growth and diversification of our customer base, and we have put in place initiatives to further develop our capability and secure new business opportunities including:

- Development of next generation MMIC designs that will enable us to continue the evolution of our mobile telecom backhaul solutions, from E-band into the adjacent licence bands of V-band, W-band and ultimately D-band.
- Continued investment in our marketing organisation with an updated website platform and enhanced user content, a refresh of the Filtronic brand and a renewed commitment to respond to feedback from customers.
- Strengthening the sales organisation with the deployment of additional direct sales and business development resource in the UK and Western Europe.
- Establishing a Manufacturing Representative Network across the USA and Europe to enhance our sales reach, with a faster route to market through established sales channels without the high overhead cost incurred from enlarging our own sales team.
- Further investment in advanced equipment to continue the extension of our engineering design and test capability and incorporate higher-frequency higher-performance technologies.
- Aligning our business processes and equipping our facilities to achieve the accreditation necessary to undertake a higher security level of UK Defence programme work.

I am pleased with the progress we have made over the past year and I am excited by the potential that exists at Filtronic. We have come through the pandemic well, and there is an increasing need globally for our high-performance products and unique RF design capabilities. We have identified the specific market segments that we will pursue as the economy recovers and business constraints are removed and as a result we approach the new financial year with a renewed sense of optimism.

Richard Gibbs
Chief Executive Officer
2 August 2021

Our core markets



Aerospace & defence

Critical communications

Space

Telecommunications infrastructure

Test & measurement

Trackside to train

Market review

Filtronic serves several markets with advanced RF communications equipment, the main applications being telecommunications infrastructure ("XHaul"), critical communications networks and aerospace & defence. In addition to these markets, we have targeted adjacent sectors where we can add value through leveraging our IP and design expertise.

Telecommunications infrastructure (XHaul)

XHaul is a collective term that covers front, mid and backhaul representing the various connections between the edge of the network, base stations, remote radio heads and the core fibre network. XHaul is achieved through a combination of fibre and wireless links and traditionally, backhaul has employed licensed microwave bands (between 6GHz and 42GHz). However, as the data demands on networks increases, the capacity of XHaul links has had to adapt, by employing the significant extra bandwidth available with the lightly licensed mmWave bands, primarily E-band (71-76GHz / 81-86GHz) today with W-band (92GHz to 114.5GHz) and D-band (130 – 175GHz) possible for future ultra-high bandwidth requirements.

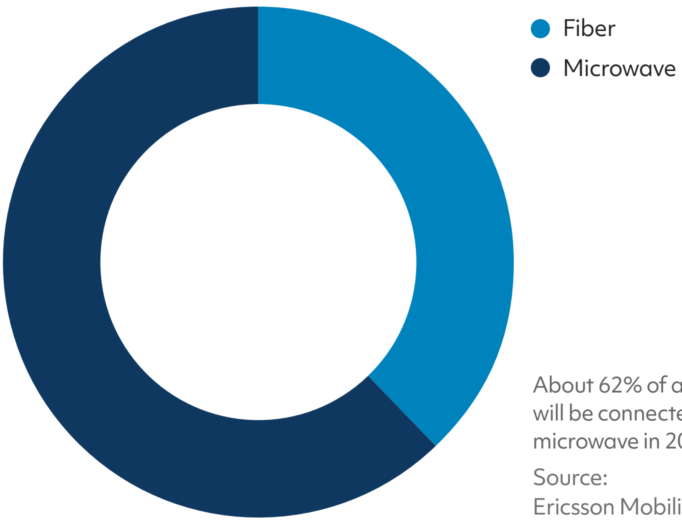
Mobile Network Operators have started to roll out their 5G networks in many countries. Initial deployment has been based on Non-Stand Alone ("NSA") technology whereby the existing 4G LTE network infrastructure is augmented by increasing capacity through carrier aggregation techniques, enabling the basic 5G New Radio ("5G NR") phase 1 performance requirements to be met. Later, Stand Alone ("SA") network rollouts are delivering full 5G NR phase 2 performance.

The full range of 5G performance requires the use of significantly higher capacity mmWave frequencies to the user. Higher frequencies typically result in shorter wireless link distances, and so more cell sites will be needed within the network. Consequently, the overall market size for wireless XHaul links connecting the cell sites back into the network, will increase.

Microwave transport is a well-established backhaul technology and has been used in mobile networks for decades. To a large extent, LTE's success has been built on the capacity, flexibility and short roll-out times that microwave links provide. The use of fibre optic links in networks has increased in recent years as the use of copper has declined, however, fibre and wireless have co-existed in networks for many years and will continue to do so as there are a number of factors to consider in deciding whether to deploy fibre or wireless:

- Fibre is not ubiquitously available, especially in suburban/rural areas. When a fibre Point of Presence ("PoP") is a few hundred metres away from the radio access point, the cost of adding new fibre may be significantly higher than adding a wireless link.
- In current mobile networks, wireless is used in more than 50 percent of cell sites. Replacing existing lower frequency wireless backhaul with fibre is not always economically viable and therefore upgrading to E-band microwave links is the most effective way to increase capacity.
- Whilst the cost of fibre cable itself may be reducing, this cost is a fraction of the cost to trench and install the cable, whereas the cost to supply and install wireless links continues to fall while performance continues to improve.
- E-band backhaul technology links meet 5G's current capacity requirements and can offer lower latency than that of a fibre cable of the same length, which makes it a more attractive solution for latency-critical applications.

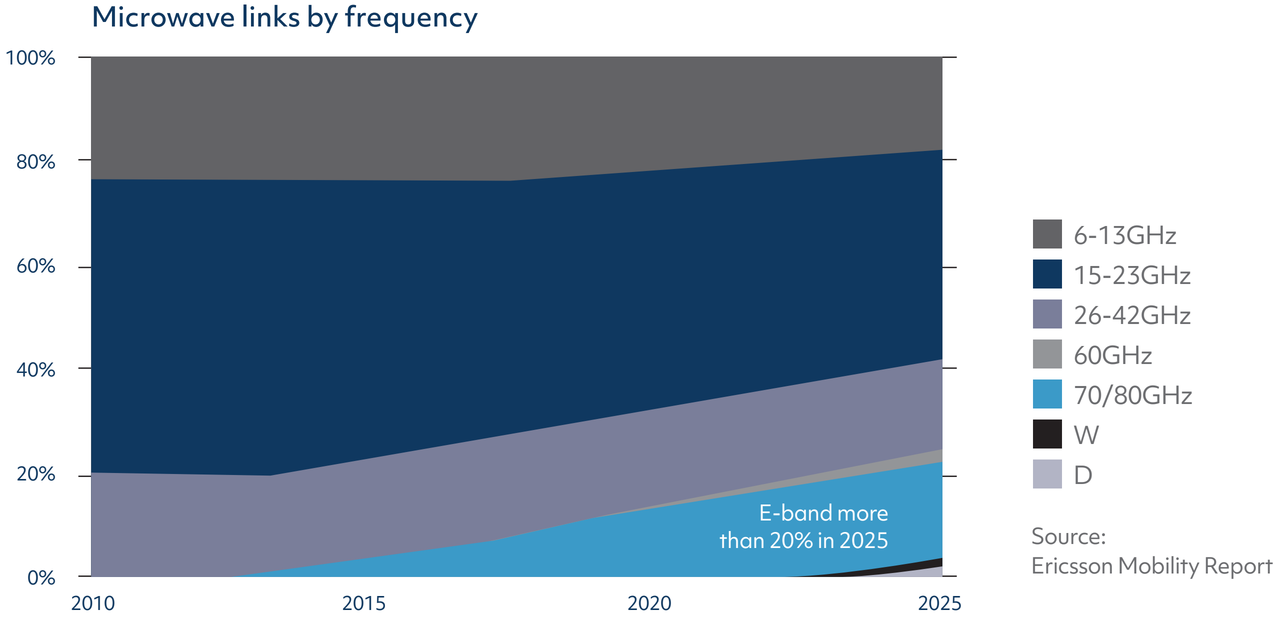
Global backhaul media distribution



About 62% of all radio sites will be connected by microwave in 2025.

Source:
Ericsson Mobility Report

Market review continued



In summary, the deployment of 5G networks is a major driver for the deployment of wireless, E-band XHaul products. Current market estimates are that 65% of installed base of backhaul links will be microwave by 2022. The majority of these links will be sub 42GHz frequency, with the approximately 20% anticipated to be E-band (71GHz-86GHz) frequency, typically deployed in areas of high traffic density such as airport, sports stadiums and city centres. The technical and economic advantages of microwave over fibre in many situations will underpin the continued growth of deployment of E-band wireless links in backhaul applications, and our intent is to become the independent "go to" partner of choice for these demanding mmWave applications.

Filtronic's approach to the 5G backhaul market

Filtronic differentiates itself from other players in the 5G backhaul market by offering highly integrated, fully calibrated transceiver modules which simply drop-in between the baseband modem module and the antenna. This plug and play architecture eliminates the need for customers to develop in-house mmWave expertise, enabling them to focus on their core competencies and results in significantly reduced time to market, lower overall development costs and minimised cost of quality (due to extremely high radio level yield).

Filtronic's new Morpheus II transceiver module, launched in FY2020, is a further update on our class leading Orpheus module which was introduced in 2016. Morpheus II has the advantage of being backwards compatible with Orpheus, enabling simple insertion, but is more compact, lighter in weight, lower in cost and higher in performance than Orpheus. Therefore, it offers customers a significant upgrade to both new and legacy designs. In addition, Morpheus II has an Enhanced Tx performance option which more than doubles the linear Tx power, significantly extending link range. Like Orpheus, Morpheus II incorporates our own design MMIC chipsets to ensure cost effective, class-leading module performance. However, we remain device agnostic and have considerable experience of working with clients to integrate their preferred chipset solutions into appropriate, high yielding module architectures.

Whilst some OEMs choose to develop their own in-house design and manufacturing capabilities, Filtronic's unique approach has allowed us to create a differentiated offering that provides our clients with significant flexibility, cost and, crucially, time to market advantages. Furthermore, our class-leading chipsets mean that our 5G XHaul products continue to offer significant performance advantages.

Critical communications networks

Critical communications networks are operated for the benefit of emergency services, federal agencies, defence installations and private security networks. Reliability, availability, and security are critical attributes for these services and for this reason they are normally provided over separate infrastructure, independent of commercial telecoms networks.

Filtronic has historically focussed on the North American

market which deploys the "P25" network standard and where market dynamics and the demand for higher resilience and longer range have allowed us to differentiate our products.

Overall expenditure on critical communications networks continues to grow as emergency services look to expand coverage, integrate services and continue to replace legacy FM analogue networks. The global land mobile radio ("LMR") market is forecast to grow at 9% CAGR between 2021-2025 based on an upgrade of analogue to digital networks combined with the convergence of LTE networks and LMR technology. Product life cycles in this industry tend to be significantly longer than in commercial mobile phone networks and therefore return on investment cases are more attractive for Filtronic.

Critical communications networks have historically been designed to supply high-quality, high-reliability voice communication and so these networks have tended to be narrowband. In recent years there has been a steady increase in the desire to exploit technologies such as body worn cameras to augment the on-scene voice communications. The market is therefore progressively developing hybrid solutions whereby the mission-critical voice communications will continue to run over the specialist critical communications networks whilst non-critical data communications will be carried over commercial grade mobile networks.

Filtronic's approach to the critical communications market

Filtronic has concentrated on supplying mission-critical filters and combiners to the North American P25 market and has established a strong relationship with the leading OEM in this sector. We embarked on a programme to expand our product offering to this sector and in FY2020 we launched a range of TTAs as the first of these new products. Although our TTA products have been designed to be OEM agnostic and will be marketed under our own brand, our lead client in this market who is in turn the USA P25 infrastructure market leader, has adopted our TTA range and declared it to have "best-in-class" performance. We are actively working with customers to develop and qualify additional products to expand our P25 network portfolio in the USA and launch solutions for the more fragmented European market. These products will be designed over the coming years recognising that the cycle for accreditation, approval and adoption associated with these products can be lengthy.

Filtronic took the decision in FY2020 to in-source and on-shored the manufacturing of our P25 public safety network products away from our Chinese subcontractor and into our own facility in Salisbury, Maryland, USA. This move was primarily designed to improve lead-times and customer response times, but it has also positioned us well as concerns increase relative to security of supply during the realigning of trade agreements between China and the USA.

The critical communications market continues to show good levels of investment at both the city and state level and private networks requiring secure communications not found with the public telecoms network. Our solutions are trusted, reliable and generally the product choice for system designers planning new installations and network upgrades. Filtronic's strategic objective is to maximise the opportunity in this sector by expanding our range of products, deepening existing customer relationships and building new ones by virtue of a nationwide network of representatives that can influence the design of Filtronic products into network proposals.

Aerospace and defence

Filtronic has long been a supplier of RF components and sub-systems to the aerospace and defence industry. In recent years we have significantly grown this part of the business through multi-year contracts to supply transmit and receive modules ("TRMs") for latest generation airborne radars. An attraction of this market is the critical role that radar plays in delivering an effective EW solution for the current range of fast jet programs. We also have the chance to deploy our RF design expertise in next generation radar systems as OEM's make efforts to maintain an "operational edge" and extend asset life-in-service results via performance upgrades and wear & tear replacement business.

Increasing geopolitical tensions are expected to lead to increased defence spending over the coming years and it is anticipated that the focus of this increased spending will be to provide enhanced capability and interoperability based on advanced radar systems utilising ever more sophisticated RF solutions. In November 2020, the UK government announced a £16.5bn spending increase over and above the existing four-year manifesto commitment. In March 2021, the Integrated Review of Security, Defence and Foreign Policy included the commitment to upgrading of the Typhoon radar system.

Market review continued

Filtronic's approach to the aerospace and defence market

Filtronic's target market in aerospace and defence is the manufacture of TRMs, filters and other RF components and sub-systems where our engineering, design and highly specialised manufacturing capabilities can add value. By focusing on TRMs and associated sub-systems Filtronic can leverage its accumulated design expertise, deep understanding of RF packaging and thermal management know-how and sovereign manufacturing capabilities.

This long-cycle business activity can involve up to several years of collaborative development with the end client before volume manufacturing commences. However, once in the field, these programmes normally enjoy many years of continuing supply and support revenues.

The UK aerospace and defence market relies on indigenous design and manufacturing capabilities and Filtronic have built a significant capability for the manufacture of RF hybrids together with the policy, and procedures necessary to support the defence industries need for traceability and control.

Whilst the market for land-based and naval radars is relatively small by comparison, they still require significant numbers of TRMs per system and so represent an attractive development market opportunity. Additionally, opportunities are also being sought with missile system manufacturers as these applications have similarly attractive attributes.

Other growth markets

We continue to seek and develop opportunities in other adjacent markets and in particular for mmWave applications. These include low-latency private networks for high-speed, high-capacity applications, track-to-train gigabit wireless links, mmWave test systems and HAPS systems.

Low-latency private networks

Filtronic has designed and supplied highly customised versions of Orpheus and Morpheus E-band links to customers supplying the financial services market. Private low-latency microwave networks are becoming recognised as an essential part in reducing transaction times in automated, high-frequency, financial trading systems. Other high power, low-latency applications under consideration including plant safety controls, security monitoring and autonomous vehicle controls.

mmWave test equipment

Increased usage of components operating at frequencies up to 55GHz creates challenges for test equipment manufacturers and offers an opportunity for Filtronic to design and manufacture mmWave solutions for use in automatic test equipment ("ATE"). In FY2020 we were awarded a project to design and deliver a mmWave sub-module as part of an "Over the Air" system for a leading USA RF equipment company. The design phase is due to complete in FY2022 with the supply of evaluation samples. It is hoped that production supply will commence in FY2023.

Track-to-train communication links

The provision of high-speed, high-capacity, high-reliability internet connections on rail journeys has become a strategic objective of both governments and rail operators around the world. However, the provision of such services on high-speed trains presents a number of interesting technical and commercial challenges. Filtronic has partnered with a few Out-Door Unit ("ODU") manufacturers to successfully complete demonstration projects in both Europe and Asia. A follow-on project of "Metro scale" is currently being planned for execution in CY2022 and it is hoped that commercialisation of an application nationwide will follow from CY2024 onward.

mmWave System in Package ("SiP") modules for proprietary high-frequency networks

Packaging expertise developed over ten years of supplying high-frequency mmWave devices for E-band transceiver has enabled Filtronic to develop a range of highly integrated, small footprint SiP Tx/Rx modules for third-party mmWave chip suppliers. Typically used in proprietary point-to-point networks these modules can optimise the performance of RF links and enable a rapid migration from prototype to high volume production of mmWave RF links.

High altitude pseudo-satellites ("HAPS") and low earth orbit satellites ("LEO")

In recent years there has been considerable work undertaken to develop airborne communications networks that overcome the limitations of terrestrial networks. A number of challenges exist in designing these systems, one of which is the development of communications transport links that deliver sufficient bandwidth and range to provide comprehensive internet services. There are currently over 40 HAPS programmes at various stages of development around the world and it is predicted that over 10,000 small satellites will be launched during the decade commencing 2020. The HAPS Alliance brings together technology providers and the leading telecom service providers in support of this emerging application. Filtronic was accepted as a member of the HAPS Alliance organisation in FY2021. Over the last four years, Filtronic has developed class-leading power combining technologies at mmWave and has supplied evaluation transceiver modules to a number of companies actively exploring this market. Commercial deployments of HAPS and LEO satellites for mobile internet applications may be a few years away , but with proven IP we are well positioned to participate in this market segment as part of a future growth strategy.

Objective and strategy

Filtronic is a designer and manufacturer of advanced RF communications products supplying several different market sectors, including telecommunications infrastructure, aerospace and defence and critical communications.

Our objective is to create value for our customers by enabling the future of RF technology including microwave and mmWave communications. We focus on markets where we have a deep understanding of the sector and customer requirements and where we can leverage our design know-how and IP portfolio.

By being a trusted supplier of technically advanced products in markets that place value on quality and reliability we can deliver sustainable growth and a positive return for our shareholders.

Our objectives within the strategy to achieve this are:

Objectives	Achievements in FY2021	Activities for FY2022
To nurture close working relationships with our customers to understand their needs and requirements	• Expanded our sales network including engagement with two USA rep companies. • Completed Voice of the Customer ("VoC") exercise. • Developed relationships with our key customers resulting in several smaller initial contract wins for next generation products.	• Cover 100% of USA and Europe with sales representatives. • Expand the direct business development organisation. • Key engineering management recruitment process with a brief to expand our relationships with technical leads in the markets we operate. • Build on our business processes to better serve defence, space and aerospace customers. • Expand our manufacturing capabilities to serve defence, space and aerospace markets.
To develop class-leading products in our core technology areas and to expand our areas of expertise	• Completed launch of critical communications TTA product portfolio. • Morpheus E-band transceiver platform released for adoption by our lead OEM customer in telecoms XHaul. • Completed full strategic planning process ("STRAP") to define opportunities for future growth.	• Execute on the core technology roadmap developed as part of STRAP programme. • Expand our capability to support the space and defence market. • Expand our capability to design System in Package ("SiP") solutions to reduce size, weight, and power in key markets. • Continue to develop our telecoms XHaul product portfolio exploring W-band and D-band frequencies.
To develop solutions to address both customer-specific and general market requirements.	• Completed launch of critical communications TTA product portfolio.	• Expand capabilities associated with design, qualification, test and manufacture of emerging compound semiconductor technology.
To grow our customer base within the market verticals we serve	• Customer dependency remained flat in the year as our plans to reduce this risk were hampered by the pandemic.	• Focus on adjacent market applications that have the potential for near-term growth. • Expansion of the customer base in our existing markets of interest.
To broaden the range of markets we serve	• VoC exercise to understand customer perception of Filtronic. • Redesigned website to market to a more diverse customer base.	• Continue to expand our marketing communications activities and build our sales channels. • Refresh and relaunch the Filtronic brand and promote our brand message to targeted markets. • Focus on building our position within the UK defence market.

Objective and strategy continued

Product and technology strategy

Filtronic designs, manufactures and supplies technically advanced RF products that transmit, receive and condition radio waves.

Our product range and wider technology capabilities are rich in IP and know-how. Our aim is to be an applied technology and capability leader in our markets but avoid the risk of being a research pioneer.

Filter and combiner products

Filtronic's filter products cover a range of product classes, with solutions to support a variety of legacy, current and future applications. Our filters and combiners are designed to meet exacting operating specifications and are designed for resilience in critical communications applications.

mmWave 5G transceiver products

Filtronic's mmWave transceiver products are based around our class-leading, high-capacity, E-band transceiver technology and have been optimised for 5G mobile backhaul and wireless link applications such as track-to-train and HAPS/LEO ground-to-air communication.

Tower Top Amplifiers

TTAs are used in many critical communications LMR systems to enhance the received signal strength and quality. This receive-only system consists of low-loss, high-rejection filters coupled to low noise amplifiers with a high level of built-in redundancy. Filtronic's solution employs a separate control unit that monitors overall system performance and distributes the received signal to multiple separate receivers.

Manufacturing process capability

The specialist manufacturing capability and know-how Filtronic has developed over many years of manufacturing its own products are highly valued by many companies in our market. Clients also ask us to manufacture and test their own, or third-party designed, products for them. This is not only an additional and valuable source of revenue and profit but it also provides an excellent vehicle for continued process development and investment that we can in turn apply to our own product portfolio.

Business ethos

Our aim is to be agile and responsive to customer needs. To achieve this, we provide an environment to our employees with a high degree of delegated authority and empowerment. We have established a framework of values and behaviours that guide our business ethos which can be found in the 'Our people' section of this Annual Report.

Organisational overview

Filtronic operates from three sites; Sedgefield and Leeds in the UK and Salisbury, Maryland in the USA.

Sedgefield, UK

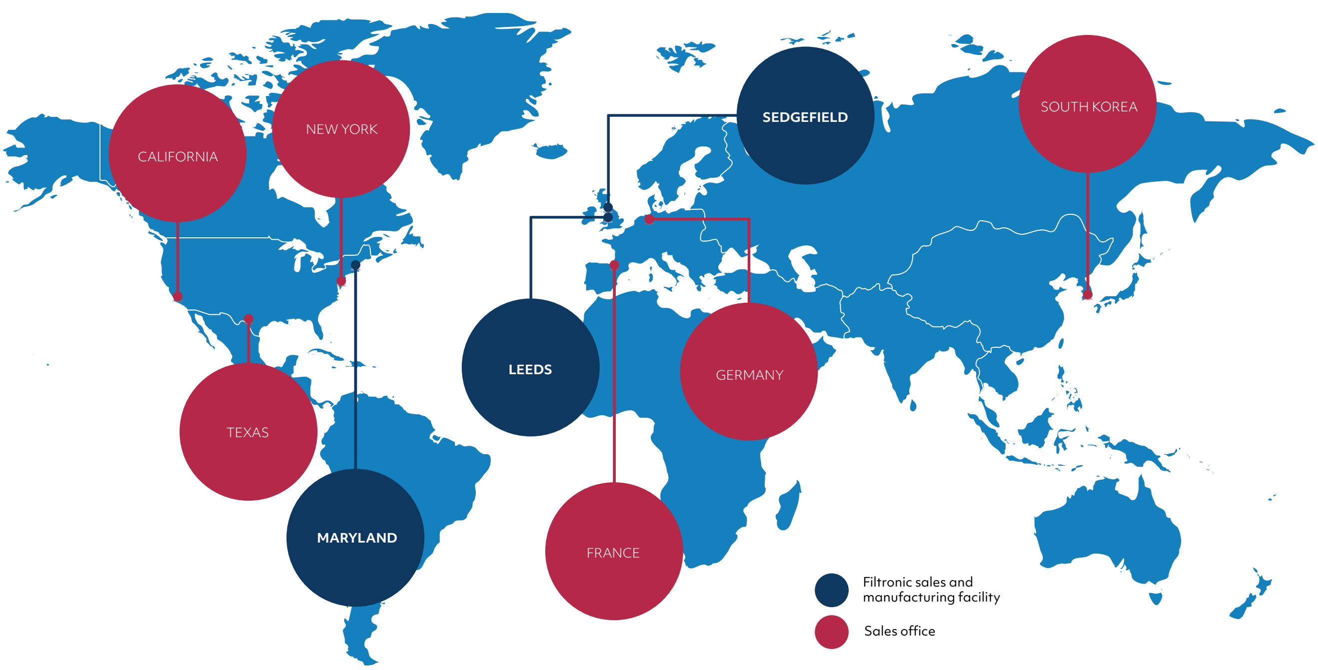
Transceiver and TRM manufacturing, microwave and mmWave engineering, sales (EMEA) and central services.

Leeds, UK

Engineering and development of filters, TTAs and associated RF systems and sub-systems.

Salisbury, MD, USA

North American sales, service, repair and manufacturing of critical communications products.



Financial review

Improved second half trading delivered strong adjusted EBITDA and a healthy cash position as the markets we serve recover from the impacts of the pandemic. The strength of the balance sheet will be used to support investment in revenue growth.

Filtronic achieved material adjusted EBITDA growth within the continuing operation for the third consecutive year thanks to a strong sales mix and controlled overhead spend. Adjusted EBITDA for the year rose to £1.8m (2020: £1.2m) with £1.2m being generated in the second half following an uplift in sales against the first half. Consequently, the balance sheet strengthened and cash generation of £1.0m (2020: £0.6m outflow) in the period has given an excellent platform to develop the business and invest in opportunities that offer a high rate of return and provide the building blocks for future growth.

Revenue

Sales revenue for the Group decreased in the year by 9% to £15.6m (2020: £17.2m) because of delays to key programmes in the first half and the impact of Covid on one of our key markets. Despite this, it was encouraging to see 20% revenue growth to £8.5m in the second half of the year over the first half (H1 FY2021: £7.1m) as markets recovered and spending on core communication programmes increased having seen funds diverted to sectors tackling the pandemic. Trading in the second half gives optimism that companies are keen to progress their deferred infrastructure projects, evidenced by the stronger order book we carry into the new financial year and an increase in the number of enquiries received.

5G XHaul sales decreased year-on-year as our lead customer had built buffer stocks in the prior year to capitalise on market opportunities as they arose. Consequently, the reduction in demand was anticipated but further exacerbated as the switch to the next generation, Morpheus product, was delayed due to technical challenges unrelated to our product. Sales of XHaul derivatives to adjacent markets including HAPS, 'over-the-air' equipment and trackside-to-train applications were in line with those generated in the prior year. However, several customer funded product developments offer an opportunity to not only lower customer dependency but are themselves significant players in their respective markets.

Sales of defence products saw year-on-year growth of 24% and we are now enjoying consistent output of the products, helped by the substantial investments we made in plant and machinery in the previous year. In addition to this, we have been working on a number of smaller engineering programmes as we seek to develop further opportunities within our existing customer base. Broadening our customer base has been a key strategic objective of the business for some time and it is pleasing to see conversion of numerous opportunities with other defence contractors which, whilst small, and early-stage developments, have the potential to grow into something more significant if adopted into a defence programme.

Critical communication markets suffered during the pandemic with reduced demand for product but sales in the second half of the year increased by 41% to give 7% growth year-on-year. Given order-flow and customer forecasts it appears the pent-up demand in the market is now flowing down the supply chain. It was especially pleasing to see the first significant sales of the newly launched TTA products in the final quarter of the year. These sales are an important milestone for the product as it gains prominence throughout the network of field engineers, and we can position ourselves better to participate in state-wide rollouts.

Operating costs and headcount

Operating costs increased in the year to £9.5m (2020: £9.3m). The Group's largest overhead is salary related costs which increased by £0.2m following recruitment of additional engineering resource and the reinstatement of a marketing function to support revenue growth.

We were also able to fund part of this by naturally reducing the size of our manufacturing team due to efficiency and yield improvements from the capex investment last year, which is now optimised. Consequently, we have been able to reduce the total number of employees which is reflected in the average headcount for the year decreasing to 130 (2020: 141).

An analysis of the Group's average continuing headcount is presented below:

	2021	2020
Manufacturing	**86**	99
Research and development	**24**	21
Sales and marketing	**5**	5
Administration	**15**	16
Total headcount	**130**	141

Costs have been managed tightly throughout the year and have included some consequential cost savings from the pandemic such as business travel and trade exhibitions which are not expected to continue in the long run. These are important expenses that facilitate customer engagement so we will be looking to take advantage of travel restrictions easing at the earliest opportunity.

We benefitted from the UK government's furlough scheme

Strategic report

Financial review continued

in the first half with £83k received following programme delays to a couple of key projects which offset overhead spend. This was offset against the salary cost in operating costs. In the USA, we secured $237k (£192k) of financial support through the Paycheck Protection Programme ("PPP") to retain staff during the pandemic. The loan was forgiven for repayment by the US government in the year and converted to a grant.

A large portion of our product development in the year was customer funded which maintains a healthy flow of cash during the project. Consequently, there was limited capitalisation of development costs as the costs are expensed in line with the revenue recognition. The impact of this was £0.6m more engineering costs being expensed than the prior year with only £0.1m capitalised (2020: £0.7m). Further commentary can be seen in the 'Research and development costs' section of this review.

Adjusted EBITDA and operating profit

The Group focuses on an alternative performance measure ("APM") to track performance of the business and a GAAP measure of operating profit. The APM is adjusted EBITDA as it measures the quality of earnings without the impact of exceptional items and non-cash expenses such as depreciation and amortisation. Operating profit was £0.6m (2020: £0.2m operating loss) whilst adjusted EBITDA was £1.8m (2020: £1.2m) representing a 50% increase. This was possible as the reduction in revenue was mitigated by a stronger sales mix. Gross profit increased considerably thanks to increased sales to the defence market where certain components are free issued by the customer and reduced sales into the telecommunications infrastructure market which is more price sensitive. Lower manufacturing overheads from reduced headcount and furlough payments more than offset the increased depreciation charge from the capital expenditure programme last year.

Given the operational gearing of our facility in the USA, where critical communications products are manufactured, increased volume enabled an uplift in the profitability of that site.

The full year impact of investments made last year in plant and machinery can be seen in the table below from an increased depreciation charge. Impairment of development costs previously capitalised was £45k as we mothballed a development due to concerns over successful commercialisation after further discussions with the customer. Amortisation has increased as we have started to amortise the Morpheus and TTA product developments.

Reconciliation of adjusted operating profit/EBITDA	2021 £000	2020 £000
Operating profit/(loss)	**642**	(188)
Exceptional items	**(64)**	569
Adjusted operating profit	**578**	381
Impairment of development costs	**45**	89
Depreciation	**941**	677
Amortisation	**209**	18
Adjusted EBITDA	**1,773**	1,165

Taxation

A tax charge of £0.2m (2020: £0.1m) has been recognised for the year. This is a result of the deferred tax position being reduced reflecting the usage in the year. This is a non-cash entry so payments will not be made of this value.

It is highly likely that governments around the world will increase their rates of corporation tax over the next few years to help pay for the cost of economic support during the pandemic. However, with substantial deferred tax assets, including those not recognised on the balance sheet, this is likely to have a minimal impact on cash.

Research and development costs ("R&D")

Total R&D costs in the year before capitalisation and amortisation of development costs were £1.7m (2020: £1.7m). The Group has utilised most of the engineering resource in the year on customer funded developments. This ensures we generate near-term revenue whilst there is an increased chance of commercialisation.

The Group remains committed to investment in R&D for the future growth of the business and consequently measures this as a KPI. Key areas of spend in the year included product development for markets spanning 5G XHaul, HAPS, 'over-the-air' mmWave equipment and defence. In addition to these, our stronger balance sheet gives us greater ability to invest in development of our own strategic technology roadmap to build long-term shareholder value in the years ahead.

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

Reconciliation of R&D costs	2021 £000	2020 £000
R&D costs in income statement	**1,845**	1,152
Capitalisation of development costs	**52**	678
Impairment of development costs	**(45)**	(89)
Amortisation of development costs	**(184)**	-
R&D cash spent	**1,668**	1,741

Capital expenditure and right of use assets

Capital expenditure was reduced in the year following substantial investment in the prior year. The total amount of capital committed was £0.4m (2020: £1.8m) mainly for engineering equipment at our site in Sedgefield which will be used to expand our capability at higher frequencies. The assets externally financed through asset finance agreements were subsequently classified as right of use assets.

Inventory provision

Inventory is valued at the lower of cost and net realisable value. It is the Group's policy to regularly review the carrying value of its inventories and to make a provision for excess and obsolete inventory. As at 31 May 2021, the inventory provision was £1.5m (2020: £1.5m).

Warranty provision

In line with industry practice, the Group provides warranties to customers over the quality and performance of the products it sells. The Group's policy is to make a provision, calculated as a percentage of cost of goods sold, after reviewing costs associated with faulty products returned. As at 31 May 2021, the warranty provision was £0.3m (2020: £1.1m). The Group paid the final instalment of a specific customer warranty settlement liability in the year of $0.5m (£0.4m) drawing the matter to a close.

Funding and cash flow

The Group recorded an increase in cash and cash equivalents to £2.9m (2020: £2.0m) at the year-end.

Cash generated from operating activities in the year was £2.5m (2020: £2.6m outflow) as solid adjusted EBITDA coupled with an unwind of the working capital position drove strong cash generation. The inventory position unwound in the second half following the successful conclusion of the onshoring project of critical communication products from China to the USA. It was essential to hold higher levels of inventory during this project whilst we developed and gained confidence in the new supply chain whilst in the UK higher levels of inventory were held as mitigation against any disruption from Brexit.

However, we are currently in the middle of a global shortage of electronic components. Therefore, we plan to increase our inventory position once again to ensure we have material availability to fulfil orders and capitalise on opportunities when our competitors are forced to extend their lead times.

Net cash of all lease obligations when including all debt except property leases at the end of the period was £1.9m (2020: £0.4m) whilst overall net cash including property leases was £0.8m (2020: £0.7m net debt). At a time when many sectors are struggling with liquidity it is very pleasing to move the business into a net cash position demonstrating the resilience of the business during a very difficult trading environment.

To provide additional cash headroom Filtronic has a £3.0m invoice discounting facility with Barclays Bank plc in the UK and a $4.0m invoice factoring facility with Wells Fargo Bank in the USA. Both facilities were undrawn at 31 May 2021 (2020: undrawn).

Going concern

In assessing going concern, the Board have considered:

- The principal risks faced by the Group which are discussed within the 'Risk management' section of the Annual Report.
- The financial position of the Group including forecasts and financial plans.
- The healthy cash position at 31 May 2021 of £2.9m (2020: £2.0m) and the additional headroom available through the undrawn invoice discounting facilities.
- The ongoing impact of Covid-19 as the business has maintained its operational capability throughout the pandemic and met all customer commitments. Whilst travel restrictions impacted on new contract wins in FY2021, the improvement in customer forecasts and increased order-flow give confidence there is pent-up demand in our markets and new opportunities are starting to present themselves.

Therefore, the Directors are satisfied that the Group has adequate financial resources to continue in operational existence for a period of at least 12 months from the date of this report. Accordingly, the going concern basis has been adopted in the preparation of the Annual Report for the year ended 31 May 2021.

Michael Tyerman
Chief Financial Officer
2 August 2021

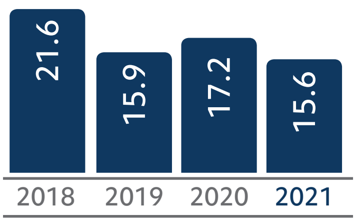
Pictured: Hercules mmWave Transceiver Module

Key performance indicators

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

Revenue (£m)

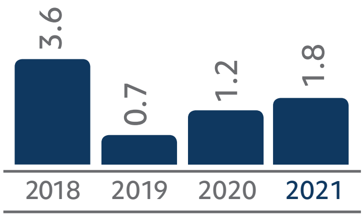
£15.6m



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

Adjusted EBITDA (£m)

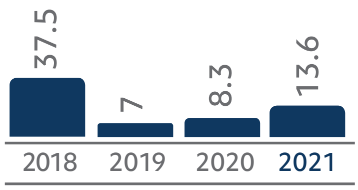
£1.8m



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

Adjusted EBITDA per employee (£k)

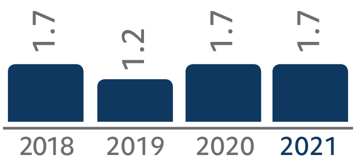
£13.6k



Employees are a critical asset in our business and we monitor the adjusted EBITDA per employee to measure productivity.

Research and development costs (£m)

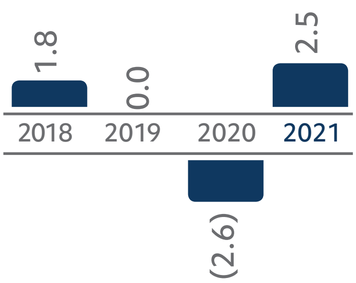
£1.7m



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

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

£2.5m



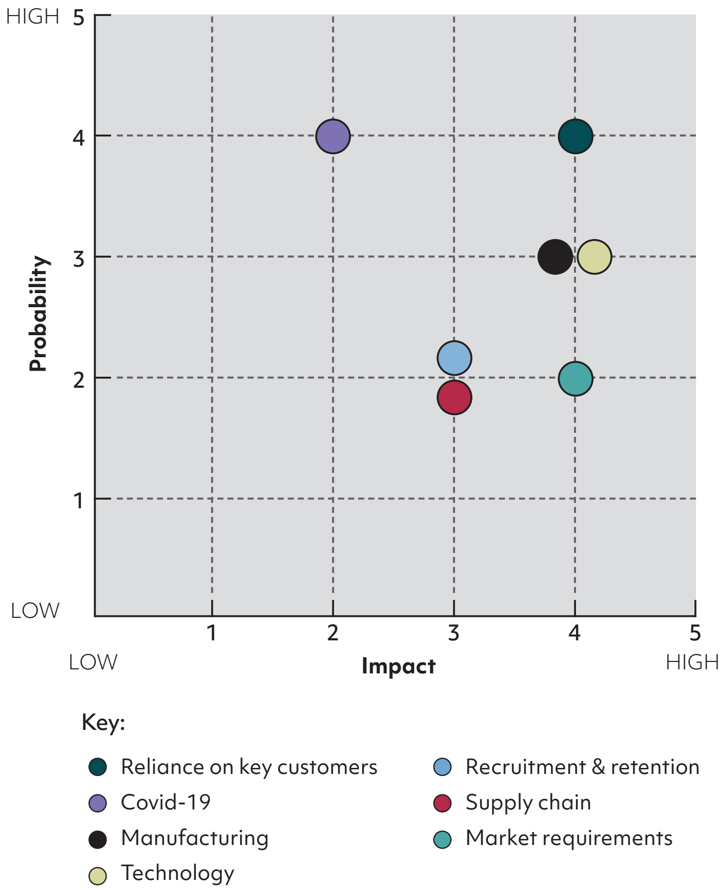
The Board recognises that cash flow from operating activities indicates whether the Group is able to generate sufficient positive cash flow to maintain and grow its operations, or it may require external funding for financing.

Risk management

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

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

Risk management within the Group is managed by senior operational management including the Executive Directors. The team is responsible for identifying, evaluating, reporting and managing the key risks in accordance with established processes under the Group's operational policies and controls. This includes regular review of the Group's risk register considering existing and emerging risks, risk scores and mitigation action plans prepared by risk owners to manage and reduce the risk. Reporting within the Group is structured so that key issues can be escalated rapidly through the management team to the Board where appropriate.



Risk	Risk description	Mitigation actions	Change in year
Failure to identify market requirements	With the rapid evolution of product technology and other corporate decisions, the size of our addressable market may be affected. Failure to forecast market movements correctly thus missing opportunities or wrongly predicting product longevity could impact on long-term revenue and profit.	In a market of rapid technology changes, it is imperative the Group chooses opportunities that will yield a good rate of return and have an extended product life. All new opportunities are appraised to ensure there is a good match between our capacity, capabilities and likely adoption in a growing market with a good rate of return. The appraisal process includes regular communication with our customers including key members of our engineering teams to ensure we are developing innovative products that deliver the technical solutions needed by the market. This process also assists in the formulation of the technology roadmap to ensure it is aligned to the needs of our customers which augments the work we undertake to develop our own market intelligence.	

Strategic report

Risk management continued

Risk	Risk description	Mitigation actions	Change in year
Inability to meet customer demand	Most of the products in production are demand-led and customers may vary their requirements at short notice which requires flexibility in capacity and effective inventory management.	We manufacture and assemble our products at our highly-automated facility at NETPark, Sedgefield, UK except for our critical communications product offering which is manufactured at our site in Salisbury, MD, USA, based on our core competencies. Where appropriate, we outsource non-core processes to suppliers who can offer advantages over internal supply. Investment in capital equipment and additional headcount has increased production capacity and capability enabling us to ramp existing customer projects and win new business. Consequently, single point dependency on key people and machinery has reduced. The supply chain throughout the Covid-19 pandemic has been resilient with no material shortages. The supply chain is regularly monitored whilst regular communication with key suppliers ensures lead times are managed.	
Competing technology and failure to deliver projects on time or to specification	Our product competitiveness is heavily influenced by technology choices at product concept stage and throughout the execution of design to product launch. The market is time-sensitive and opportunities may be lost if the technology we develop is inappropriate or fails to achieve customer specification or meet the timescales required to match market demand. For products in the production cycle, technology insertion is often required as a means of achieving price reductions, which underpin sales.	Our ability to remain competitive in terms of technology and product design is underpinned by retaining key staff, talent acquisition and effective design methodologies. We work closely with our customers and suppliers to gain a thorough knowledge of the technology being developed in the marketplace. We are also members of key forums such as The European Telecommunications Standards Institute (ETSI), the HAPS Alliance and the 5G Innovation Centre (5GIC). By staying close to the market, we position ourselves to react quickly to any technology changes that develop. When undertaking new product developments, we follow a process which facilitates a thorough review process of the engineering development at various milestones throughout the project. This methodology is designed to ensure the product has no design defects, meets the required specification and is on time to exploit the market opportunity. We have a project management team to ensure compliance with our engineering development process. In order to protect our intellectual property, we maintain and apply for patents when appropriate and actively encourage innovation in our engineering team through a reward process.	
Global electronic component shortage	There is currently a global electronic component shortage impacting all sectors and companies relying on embedded electronics components due to reduced supply and increased demand. An inability to source components or extended supplier lead times may prevent shipment of products to fulfil orders.	We work closely with our suppliers to understand key challenges as they present themselves. Our knowledge of the supply chain and engineering expertise can be utilised to find alternative sources or marginally different electronic product. Equally, strong communication to our customers highlighting risks to product lead times can trigger new sales orders from our customers to provide material commitment and availability ready for product supply when needed.	

Risk	Risk description	Mitigation actions	Change in year
Reliance on key customers	We supply a range of products to a small number of large OEM customers. The loss of any of these customers, material reduction in orders from any such customer or the timing of customer project roll-outs may have a material adverse effect upon Filtronic's financial condition.	The Group seeks to mitigate this risk by working closely with customers, at all levels, to ensure that we are designed into their products at an early stage, enabling us to develop products that meet their specifications and requirements. Filtronic aims to provide customers with a well resourced programme and a high level of service with a focus on product quality and delivery. This gives an advantage over our competitors that has facilitated new contract wins. The Group monitors its competitive position with regular competitor analysis and engagement with customers. Covid-19 has made it more difficult to acquire new business due to travel restrictions and cancellation of trade exhibitions which have been one of our more successful business development activities. To mitigate this, the sales and marketing teams have been strengthened in both direct and indirect channels to expand our presence, reach and access to new customers. We have also invested in marketing communication to address the market in an alternative way and have grown our rep network. Our existing customers are very successful large players in their respective markets, each with a long-established relationship with Filtronic. This represents the best near-term opportunity to win further contracts and our sales and engineering teams continue to actively engage with them on new opportunities.	No change
Talent retention and acquisition	The Group is reliant on the key skills and knowledge of its people in a range of areas especially in the engineering function which requires specialist skills. Failure to recruit, develop and retain an appropriate number of suitably qualified people in critical areas could affect our ability to design new products, meet our customers' needs and execute on our strategic growth plans. We have also benefited from a number of non-UK employees filling key roles within the business. Due to the highly technical nature of our activities, these skills are not always readily available within the UK and any restrictions on the employment of these people could have an adverse effect on the Group.	The Group has a competitive remuneration package that is reflective of market conditions for key roles and is under review as conditions change. The Group also operates a long-term incentive plan for key employees and SAYE schemes for all UK employees. We continue to invest in our engineering teams to ensure we have engineers with the right skills to execute our strategy. We provide regular communications to all employees through communication meetings in each of our business locations although social distancing restrictions has meant face-to-face updates have not been possible. The Board has recently refreshed its strategic plans following the appointment of Richard Gibbs as CEO. This was accomplished through an inclusive approach involving all management of the company, in both the UK and USA, to assist with the analysis, formulation and development of the plan. By giving our employees an understanding of our strategic direction and objectives, we believe it enables them to make meaningful contributions to the achievement of our goals and successful execution of the plan.	No change

Risk key

Increased risk   No change   Decreased risk

Our people

We firmly believe that it is our people who drive the success of our business. We have a diverse, experienced, and highly qualified team focused on delivering outstanding products and service to our customers.

Filtronic has a considerable depth of technology, engineering and operational management skills across its business operations. The Group operates in very specialised technical markets and can only effectively compete over the long term if it continually develops these capabilities through a comprehensive talent acquisition, development and retention strategy that nurtures aspiration and rewards achievement. We enable this by ensuring our ways of working are guided by respect, consistent management, fair remuneration and opportunities for growth.

Employee profile

Our headcount at 31 May 2021 was 117. The Group relies on highly skilled employees, who are critical to driving innovation, new technology and operational excellence. Our teams are made up of highly trained employees across all functions with strong educational backgrounds and formal qualifications, as highlighted in the graphs below.

Employee turnover

The total employee turnover rate was 3.0% in FY2021 (2020: 5.1%). Our turnover rates are low, which we believe is due to a great working environment created through challenging, but rewarding, work. This is further demonstrated by our length of service data, which is, on average, nine years.

Employee communication and engagement

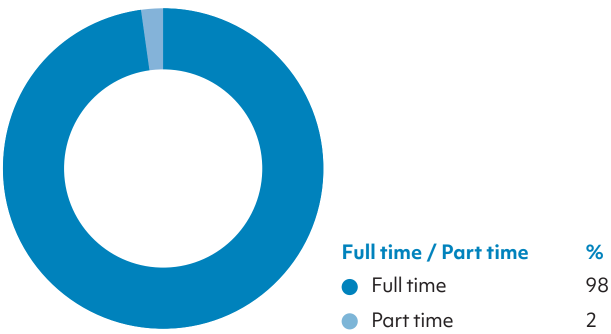
We strive to maintain a healthy employee relations environment in which dialogue between management and our employees, both directly and indirectly, where appropriate, is embedded in our work practices.

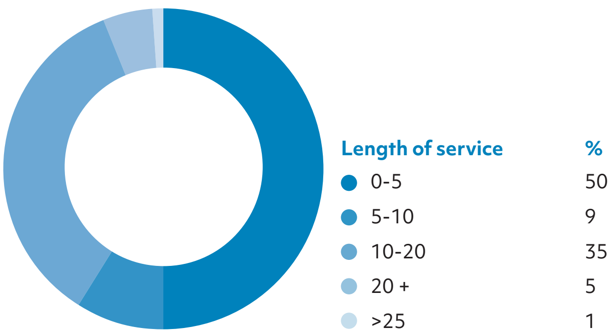
On a regular basis, management engages with our employees through a range of formal and informal channels, including briefings and memos from the Chief Executive Officer, team meetings, 1-2-1's, and online publications via various social media outlets.

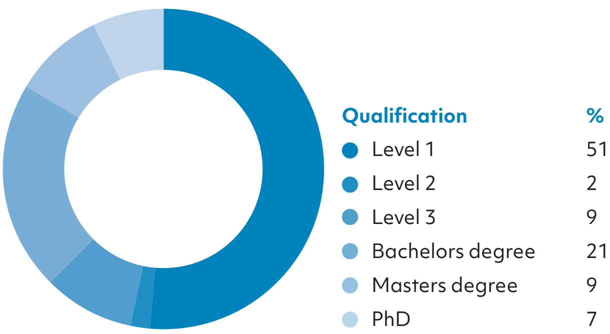
Additionally, we are in the process of defining an annual employee survey to elicit further employee views. This will be a recurring annual event as we strive to improve our employees' experience at work, measure commitment and identify trends and develop actions to address any gaps.

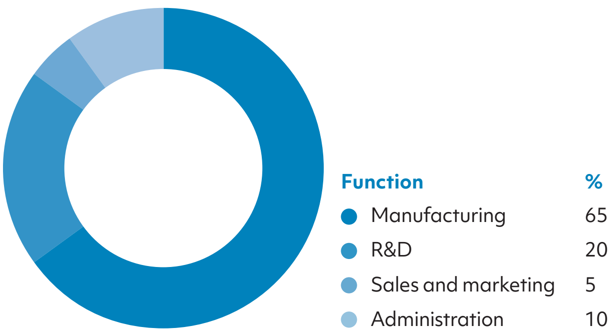
Employee engagement is especially important in maintaining business delivery in times of change, nevermore so acutely demonstrated than in this past year whilst managing through the Covid-19 pandemic. We have issued weekly bulletins, the Business Continuity

Current headcount metrics









Team, primarily made up of members of the Senior Leadership Team, have conducted weekly floor walks and feedback mechanisms have been established, so that any issues or areas of concern can be resolved in a timely manner.

Through our HR system we have also enabled surveys covering key aspects of employment such as onboarding. Voluntary leavers, are interviewed to provide an additional means of expressing their views which allows us to analyse data to address any issues or make improvements.

Equal opportunities, diversity and inclusion

Filtronic has equal opportunity policies to support our aim of providing opportunities for all without discrimination. These policies form part of the Group's core values which are expected of employees, suppliers and other stakeholders. Our policies and practices emphasise the importance of treating people in a non-discriminatory manner across the full employment life cycle including hiring, reward, development, promotions, mobility, and departure. In the event that an employee becomes disabled, the Group will make reasonable appropriate adjustments, and so far, as is practicable, will continue to provide employment.

All employees receive specific training on equality, diversity and inclusion in the workplace, to ensure that no individual is disadvantaged and to prevent discrimination on the grounds of gender, religion, belief, race, creed, age, disability, sexual orientation, ethnic origin, or marital status.

Our intention is to sustain a diverse workforce and inclusive environment, as we believe that diverse teams led by inclusive leaders are more engaged, whilst also allowing us to benefit from a wider external talent pool for recruitment purposes.

Rewarding employees

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

The market competitiveness of salaries across the company is assessed at local or national market level, dependent upon role, and reviewed annually. Whilst we are under no obligation to produce a Gender Pay Gap Report we are extremely mindful of equal pay, and any discrepancies in the difference in average earnings between women and men across the organisation are addressed via the annual salary review process.

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

In FY2021 we rolled out our Technology Leadership Recognition Policy. This policy aims to recognise and reward innovative thinking and professional personal development. It has been very well received and several engineers have received achievement awards for patent applications and technical publications.

Employee share plans

We have a number of share plans designed to align employees' interests with our performance through share ownership. For information on the share-based compensation plans for Executive Directors, see the 'Directors' remuneration report'.

Eligible employees of Filtronic plc in the UK have been able to participate in the UK Sharesave Scheme. Options have been granted over the Company's shares at the closing middle market price on the day before issue. These options vest after completion of a three-year savings period. The option price for the SAYE scheme implemented on 1 June 2021 was at a discount of 20% to market value giving an option price of 6.67p.

Culture and conduct

We have a responsibility to all of our stakeholders to act in accordance with our Code of Ethics. The code is designed to ensure that we conduct ourselves ethically and in accordance with Filtronic's policies and procedures as well as the laws and regulations that apply to us.

As well as our Code of Ethics the company culture is powered through our values and behaviours which are instrumental to everything we do.

Values and behaviours

The key values and behaviours of Filtronic were reviewed and refreshed this year following engagement with our customers, past and present, to understand what it is that they value from their relationship with Filtronic. The three values recognised as being key to our success and integral to the way we operate are:

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

These three key values underpin everything we do, throughout every area of the business, and are integral to the way we do business and interact with our colleagues, customers, suppliers and other stakeholders.

These values are fundamental to achieving the Group's vision of enabling the future of RF, microwave and mmWave communication and our mission of creating value for our clients though technology leadership.

In achieving these key values we expect our people to live certain key behaviours which can be seen overleaf:

Our people continued

Values and behaviours			
	Integrity	Respect	Excellence
Values	Act with integrity; being honest and fair, always keeping our promises.	Be respectful to all; it is the foundation of our culture.	Strive for excellence; it is what our clients and colleagues expect and what we endeavour to deliver.
Behaviours	Do the right thing, not the easy thing, speak up if it's not right.	Be inclusive, always respecting and valuing others.	Perform to the highest professional standards.
	Deliver on your promises.	Act how you want to be treated; being kind, considerate and respectful of others and their opinions.	Be innovative and pragmatic with problem solving.
	Be truthful, always being honest and open.	Be supportive and positive in all your working relationships.	Take pride in our work, paying attention to detail.
	Be fair and ethical in your work and decision making.	Value the importance of equality, diversity and inclusivity.	Be agile and flexible in your approach.
	Take responsibility for your own actions, learn from mistakes when they happen.	Be open-minded and upfront with people.	Be curious and challenge constructively to improve how we work.

We are committed to embedding these values and behaviours through employee engagement and communication as we look to live the values during FY2022 and beyond.

Digital HR

The core component of our digital HR drive has been the implementation of a cloud-based software platform for HR services covering the entire employee lifecycle, from onboarding and workflows to absence management and performance. The new system was rolled out in FY2021 and continues to be optimised to lay the foundation for future developments in line with changing business and employee needs.

Employer brand and recruitment

We have refreshed our careers portal, social media channels and recruitment campaigns, to focus more our on employer offering and authentic storytelling. A cross section of employees have shared their experiences and career stories which will hopefully help to attract new talent, by offering real life insight into the culture, work, projects, and people.

Covid-19

Responding to the challenges of Covid-19 showed our employees at their best; flexible, adaptable, and resilient, switching to remote working, where possible, almost overnight. Those staff who could not work from home were exemplary in their commitment to all Covid-19 related health and safety requirements.

Looking to the future - training development

Filtronic continues to work towards future-proofing the business to ensure we have the right skills to support business growth. Equipping our leaders with the skills to manage, lead and deliver on our growth strategy is a key focus for the Group. In FY2022 we will roll out our Leadership Academy; a bespoke programme offering a portfolio of leadership development training designed to provide the skills needed at each management tier within the business.

We remain committed to the recruitment of graduates to build our talent pool and will this year implement our Graduate Career Framework to complement our existing, broader, engineering framework.

What do you enjoy most about your job?

"Being part of a world class team based in the North East of England that provides leading technology solutions to some of the best known multinationals around."

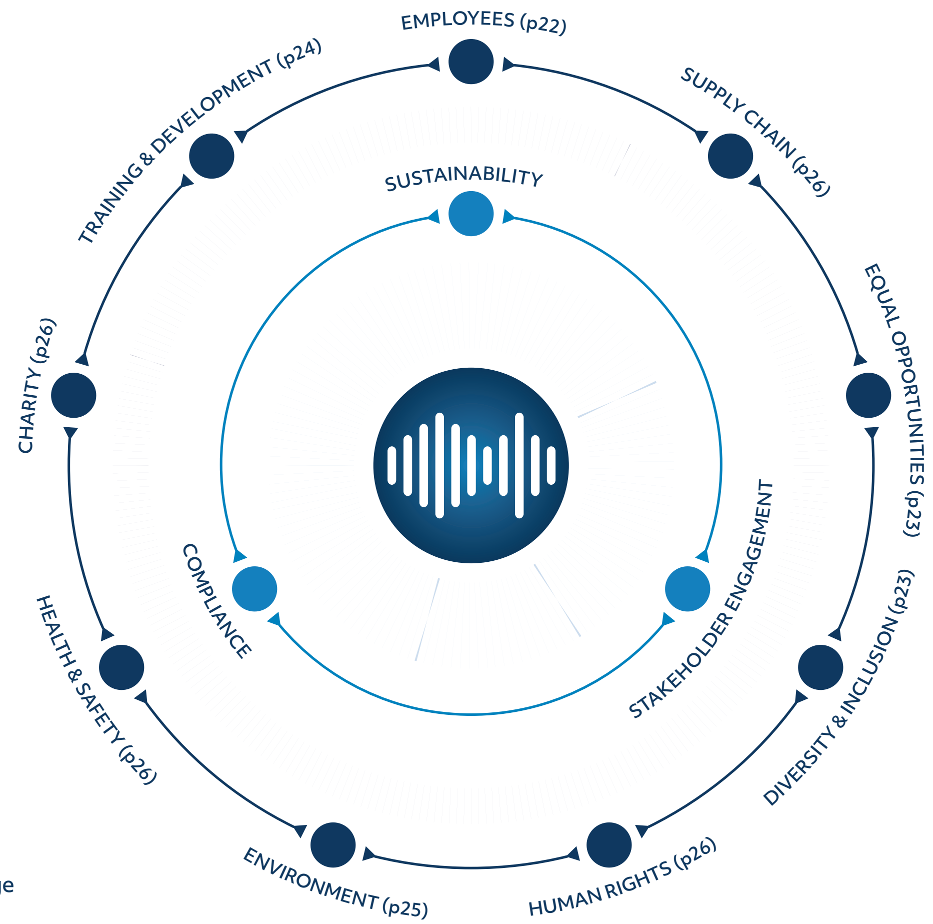
Dan Rhodes
Director Of Business Development – mmWave Technology

"It is easy to become normalised to the technology the Filtronic team create, but if you step back and look at the products we design and manufacture and the customers we serve, it's difficult to think of any other company that could offer such a cutting-edge adventure."

Andy Tucker
Design Engineering Manager

Corporate social responsibility report

We are committed to doing business ethically and sustainably in the interests of our stakeholders: shareholders, employees, the environment, customers, suppliers and the communities in which we operate. This report covers how we interact with our stakeholders, our approach to key issues and the aims for the future.



Sustainability and the environment

The Group is committed to protecting the environment through prevention of pollution and minimising our impact on natural resources. As well as operating in compliance with all relevant statutory and regulatory obligations, the Group strives to implement environmental best practices throughout our activities and continually improve our environmental management system to enhance our environmental performance.

During the year, as part of our activities and decision-making process, we:

- Continued to integrate environmental concerns and impacts into the design and manufacture of our products;
- Promoted environmental awareness among our employees, through gauging interest in our employees in participating in the cycle to work scheme and encouraging the use of the electric car recharging stations at our NETPark site; and
- Continued to minimise waste through re-use and recycling and promote efficient use of materials and resources; and
- Strive to prevent pollution and to continually improve our environmental performance.

The Group supports and trains its personnel to act responsibly in matters relating to the environment. Our principal manufacturing site in Sedgefield, County Durham is certified under the ISO 14001 Environmental Management Systems Requirement.

The Group takes account of relevant legislation and regulations and analyses its practices, processes and products to reduce their environmental impact, and works with our customers and suppliers to achieve a high standard of environmental stewardship. We look forward

Corporate social responsibility report continued

to receiving and implementing the UK government's flow down to industry of its net-zero carbon target which will involve measuring carbon emissions and implementing policies for carbon reduction or off setting the carbon that is released.

Health and safety ("H&S")

The Board is committed to ensuring the H&S of the Group's employees and applies high standards throughout the Group in the control and management of its operations. The Board regularly reviews the Group's arrangements for the planning, organisation and control of H&S matters. Global H&S meetings are held periodically with participants from each of the Group's three operational sites.

Human rights

Filtronic applies human rights considerations to the way it does business, for example through ethical sourcing and anti-bribery and anti-corruption policies, our code of ethics, which is an integral part of our management policies, our practices in relation to H&S, equal pay and employees' freedom to join trade unions. Filtronic is committed to ensuring transparency in our approach to tackling modern slavery through the flow down of our Modern Slavery Policy throughout our supply chain.

Charitable and community support

Over the course of the year, Filtronic employees have participated in and sponsored various events. The Group provides paid leave of one day per annum for staff who wish to undertake voluntary or charitable work.

Quality and supply chain management

The adoption of an advanced product life cycle management software system has allowed for group-wide management and control of our documentation to include product design, suppliers and change management as well as a module to address specific quality processes. Supply chain management is working to develop partnerships with our main suppliers to ensure they have systems in place that focus on quality, environment, corporate social responsibility and health and safety. The Group has adopted a specific policy on conflict minerals and works with our suppliers to ensure implementation including reporting on the use of conflict minerals throughout our supply chain.

The implementation of these management systems, which are designed to monitor and control processes such as quality, the environment and H&S, provide Filtronic with the confidence that each and every product that is delivered to our customers is at an appropriate level of quality, and has been designed and manufactured in a way that considers our impact on the environment and the ultimate H&S of our employees and our broader stakeholders who contribute to our success. We are continuing with the roll-out of a customer relationship management system in Filtronic that complements this approach.

Our Sedgefield site is working towards SC21 accreditation. SC21 (Supply Chains for the 21st Century) is an improvement programme designed to accelerate the competitiveness of the aerospace and defence industry by raising the performance of its supply chains.

The FY2021 Strategic report, has been reviewed and approved by the Board of Directors on 2 August 2021 and signed on its behalf by

Richard Gibbs
Chief Executive Officer
2 August 2021

Board of Directors

Executive Directors

Richard Gibbs (aged 62) : Chief Executive Officer

Appointed to the Board: 1 September 2020

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

Michael Tyerman (aged 42) : Chief Financial Officer

Appointed to the Board: 1 April 2016

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

Non-Executive Directors

Reginald (Reg) Gott (aged 64) : Non-Executive Chairman

Appointed to the Board: 13 July 2006, Non-Executive Chairman since 27 November 2015

Committees: Ⓐ Ⓝ Ⓡ

Reg was Chief Executive of Resource Group Limited until early 2016. From 2002 to 2008, he was an Executive Director of FKI plc, an international diversified engineering group, and from 2009 to 2012 he was Chief Executive of Nuaire Group. He has an extensive background in the machinery, automation and controls segments of the capital goods markets across Europe and North America.

Peter (Pete) Magowan (aged 53) : Senior Independent Non-Executive Director

Appointed to the Board: 19 November 2018

Committees: Ⓐ Ⓝ Ⓡ

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

John Behrendt (aged 60) : Independent Non-Executive Director

Appointed to the Board: 1 January 2021

Committees: Ⓐ Ⓝ Ⓡ

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

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

Governance report

Governance report

Dear Shareholder

On behalf of the Board, I am pleased to present the Filtronic plc Governance report for the year ended 31 May 2021.

The Board recognises the value of good corporate governance as the basis for promoting long-term growth and sustainability of the business for the benefit of our shareholders and stakeholders. As a business whose shares are quoted on the AIM market of the London Stock Exchange, we continue to apply the Quoted Companies Alliance Corporate Governance Code 2018 ("The Code"). With the exception of the period where I stepped in, on a temporary basis, to act as Executive Chairman while the Nominations Committee sought a replacement Chief Executive Officer ("CEO"), the Company has complied with the principles of the Code throughout the year. Richard Gibbs was appointed as CEO on 1 September 2020 and I reverted to being Non-Executive Chairman on 1 October 2020.

We keep our governance arrangements under constant review. The Board is aware that the tone and culture set by the Board will impact all aspects of the Group as a whole and the way our employees behave. We have a number of policies and procedures in place as well as initiatives in play to ensure the values and culture the Board wants to foster is embedded throughout the business. Our Executive team is currently exploring the best ways to communicate, implement and reward behaviours that best reflect our values throughout the business. This year, given our global reach and the increasing importance of defence contracts to delivering our strategic plan, we have refreshed our Export Control Policy and procedures to ensure that there is an appreciation, across all functions, of the importance of compliance with this policy.

Whilst there have been no significant corporate governance challenges this year, Covid-19 has brought operational challenges. However, the Group has worked towards delivering its agreed strategy through increased dialogue and consultation with its employees and exemplary co-operation from all staff in maintaining a Covid-safe environment. This increased focus on communication has been achieved through regular Business Continuity Team meetings composed of senior management from various functions across the Group. Additionally, we have provided regular updates to staff through weekly or fortnightly bulletins that directly addresses any staff concerns, inviting, receiving and responding to feedback from all employees, the results of which are frequently implemented immediately which helps build trust in management. These measures and the consciousness and dedication of our staff have allowed us to keep operational throughout the pandemic.

Maintaining a skilled, well-balanced and experienced board is of fundamental importance to the long-term success of the business. During the year there were a number of board changes referenced in the 'Nominations Committee report.' A formal board evaluation exercise was conducted again this year, the findings of which are being implemented. We continue to consider the balance of skills and experience on the Board to maximise the chances of successfully executing our agreed strategy.

As explained in the 'Chairman's Statement', after almost 15 years on the Board, including six as Chairman, I have decided that I will step down at this year's AGM. It has been a pleasure to serve for the last six years, during which period we have achieved a level of stability in the business and a focused strategy for future growth together with a strong Board and Senior Leadership Team capable of implementing it. There is a process underway to appoint my successor and an announcement will be made in due course.

Reg Gott, Chairman
2 August 2021

Corporate governance statement

Introduction

In this statement we explain the fey features of the Group's corporate governance framework and how it complies with the ten principles of the QCA Code.

Principle 1 – Delivering growth in the long-term

On his appointment in September 2020, Richard Gibbs immediately undertook a strategic planning review for the Group. Following the execution of a systematic planning process, a strategy was agreed upon that focusses on four key areas:

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

Information on our business model and how our agreed strategy is underpinned by the corporate framework is outlined below. Information on how it supports the delivery of growth and value in the long-term for shareholders is detailed within the strategic report.

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

The Board places great value on maintaining open relationships with shareholders and the primary point of contact in the Company for this function is the CEO, supported by the Chief Financial Officer ("CFO"). The CEO and CFO undertake an extensive programme of meetings with shareholders at least twice a year, following the announcement of the financial results. The Chairman is available to speak with shareholders at their request. The Senior Independent Director is also available as an alternative communication channel for shareholders who may wish to raise any concerns. Presentations are also made to analysts to present the Group's results. This assists with the promotion of knowledge of the Group in the investment marketplace and with shareholders and also helps the directors to understand the needs and expectations of shareholders. Please refer to the corporate governance section of our website for more details: www.filtronic.com/investors/corporate-governance.

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

Our stakeholder engagement recognises the materiality and impact of our stakeholders on the achievement of the Company's strategy. Please refer to Section 172 (1) Statement within the Governance report and the Corporate social responsibility report of the Strategic report.

Principle 4 – Risk management and internal controls

The directors acknowledge that they have overall responsibility for the Group's system of internal controls, which is designed to manage and mitigate rather than eliminate risk, and to review and monitor its effectiveness. The Group operates a series of controls which include the annual strategic planning and business planning process, short, medium and long-term cash monitoring. Additionally, the Executive Directors and senior managers provide monthly updates to the Board in the form of function reports to the Board which include the principal risks and controls across the group, as well as the roles and responsibilities of key management in managing those risks. These monthly reviews are augmented by quarterly risk management reviews both at the senior management level and at Board level. Please see the Risk management section for further information.

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

The Board is currently comprised of the Chairman (Reg Gott), two Executive Directors (Richard Gibbs, CEO and Michael Tyerman, CFO) and two Non-Executive Directors (Pete Magowan and John Behrendt). Pete Magowan is the Senior Independent Non-Executive Director and he, together, with John Behrendt are regarded by the Board as being independent Non-Executive Directors. The Board is supported and assisted by the Company Secretary and General Counsel (Maura Moynihan), who attends, contributes to and minutes each board meeting. All members of the Board have access to the advice and services of the General Counsel and Company Secretary and are able to take independent professional advice at the Company's expense in the discharge of their duties.

Following the resignation of the previous CEO in October 2019, Reg Gott agreed to act, on a temporary basis, as Executive Chairman while the Nominations Committee sought a replacement CEO. Richard Gibbs was appointed as CEO on 1 September 2020 and Reg Gott reverted to being Non-Executive Chairman on 1 October 2020. The Company has procedures to deal with directors' conflicts of interest and the Board is satisfied that these procedures operate effectively. There is a formal schedule of matters reserved for the Board which is summarised below. To enhance the Board's communication with management and achieve greater operational transparency the Chief Commercial Officer, Chief Operations Officer and Chief Technology Officer are regularly invited to the performance review section of the board meeting to present their reports to the Board.

Board meetings

The Board meets each month against a defined reporting timetable and at times in between the scheduled meetings when required. During the year, to comply with Covid-19 restrictions, the Board held most meetings remotely via electronic means. However, under normal circumstances, as far as is reasonably practical, board meetings are held at the Company's operational sites to enable local management teams to present operational and strategic programme progress to the Board. The Board believes this arrangement fosters greater transparency and enhanced relationships between the management and the Board. Since April 2021, board meetings have taken place in person at the Sedgefield site complying at all times with the measures we have put in place to maintain a Covid-safe environment.

Directors' attendance FY2021

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

	Meetings attended
Reg Gott	10
Richard Gibbs[1]	8/8
Michael Tyerman	9/10
Michael Roller[2]	4/4
Pete Magowan	10
John Behrendt[3]	5/5

[1] Richard Gibbs was appointed on 1 September 2020

[2] Michael Roller retired on 29 October 2020

[3] John Behrendt was appointed on 1 January 2021

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

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

Details of each director's skills and experience can be found in the directors' biographies section on page 27. The members of the Board bring a range of complementary skills and experience from across markets in which the Group operates.

Governance report continued

In September, the Board was delighted to welcome Richard Gibbs who joined as CEO and brought with him a wealth of relevant experience, as well as technology and sector credentials to position him well to provide the leadership required to deliver the next phase of our strategy. In January, we welcomed John Behrendt to the Board as a Non-Executive Director and as Chairman of the Audit Committee. John is a highly experienced finance specialist with considerable background in business growth development. His skills, expertise and insights will be of great benefit to the Company. Overall, the Board is satisfied that, between the directors, it has an effective and balance of skills and experience. Please see the Nominations Committee report for further details on how this principle is implemented.

Principle 7 - Performance and Performance Evaluation

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

The Chairman and the Company Secretary prepare an evaluation questionnaire reflecting the considerations of the Corporate Governance Code as well as significant events over the year. The performance of the Board, its Committees, and individual directors is assessed. Board members are asked to provide feedback for assessment by the Chairman in the first instance and to Pete Magowan ,Senior Independent Non-Executive Director, in respect of the Chairman. The combined feedback is discussed by the Board and actions agreed and progress on actions is monitored during the year. On joining, the Company Secretary arranges an induction session with each new director covering such matters as Group structure and organisation, Filtronic' s values and policies, an introduction to the AIM Rules for Companies, the QCA Code, Market Abuse Regulation ("MAR") and the terms of reference for the Board's Committees among other matters. Where specific training needs are identified, including as a result of the Board evaluation process and individual director appraisals, the Company will organise the relevant training. The Company Secretary supports the Chairman in addressing the training and development needs of directors. This year it has been identified through the evaluation process that further training on IFRS standards and ESG considerations is desirable and a programme will be devised to address this during the year.

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

At Filtronic, we believe in collaboration, we work with our technology leadership clients to solve their complex RF, Microwave and mmWave challenges. Our purpose and reason for being is to advance global communication through innovation. Innovation matters to us, we want to push the boundaries of what is possible with RF communication. Filtronic are long-term partners in aerospace and defence, telecommunications infrastructure and critical communications. These effective partnerships have grown from having a strong value-based culture, where all our employees are encouraged and supported to:

- Behave responsibly, respectfully and with total integrity;
- Nurture talent and share success;
- Be open, empower and collaborate;
- Commit to quality in everything we do; and
- Be innovative and creative.

The Board monitors and promotes its corporate culture assisted by its Senior Leadership Team ("SLT"). This team plays a vital role in disseminating the Company's shared values with its employees. The SLT holds monthly meetings and six of the seven members of the SLT are invited to sections of the Board meetings which helps the Board assess the Group's culture on an ongoing basis.

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

The Board is responsible for Group strategy, delivering results, risk management and ultimately business performance. The Board is run by the Chairman.

Remit of the Board

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

- Strategy and oversight of the management of the Group;
- Approval of the Company and consolidated financial statements;
- Approval of major corporate transactions and commitments;
- Succession planning (appointment/removal of directors, PDMRs and the Company Secretary);
- Approval of all terms of reference for the committees of the Board;
- Review of the Group's overall corporate governance arrangements including systems of internal controls and risk management; and
- Approval of the delegation of authority to the CEO or where appropriate to the relevant board committee.

Committees

The Board continues to operate with three committees: The Audit Committee, the Remuneration Committee and the Nominations Committee. Detailed written terms of reference for each committee are maintained and are available to view on the Company website. In addition to formal meetings, the Nominations Committee and Remuneration Committee meet informally during the year to review and discuss board composition and compensation.

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

The Company is committed to open communication with all its shareholders. Communication with members is driven primarily through the Company's website and the Annual General Meeting. All shareholders will receive a copy of the Annual Report and Accounts (hard copy or electronic depending on shareholder preference). The half-year results are published on the Company's website. The Company reports on the activities and responsibilities of the Audit Committee and the Remuneration Committee each year in the Annual Report and Accounts. Copies of historic annual reports and notices of general meetings for the last five years are available on the website.

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

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

Regular contact and an open-door policy are key to maintaining good and stable relations with our supply chain. The procurement department, aided by clear website sections, ensures that Filtronic's key policies and values, or their equivalent, are adopted by the supply chain including but not limited to its policies on bribery, modern slavery and conflict minerals. Engagement with suppliers is overseen by the Chief Operations Officer. The group policies were reviewed by the Board during the year and, as a priority for the business, were communicated, via management cascade, to all employees.

Stakeholder engagement

Section 172 (1) Statement on the Discharge of Directors' Duties

In compliance with the Companies Act 2006, the Board are required to act in accordance with a set of general duties. During the year ending 31 May 2021, the Board consider that they have individually and collectively acted in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole having regard to the six matters listed in s. 172 (1) (a) to (f) of the Companies Act 2006.

In order to achieve long term success for the benefit of all shareholders, the Board recognises the importance of building and maintaining relationships with key stakeholders as well as considering the likely consequences of its decisions in the long-term.

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

Throughout the year, the SLT updated the Board with information on important areas of business focus, in particular those relating to our key stakeholders. Each member of the SLT submit a report to the Board each month providing comprehensive operational updates and progress against strategic milestones. They are regularly invited to board meetings to present this information and update the Board on key points. This ensures the Board have a good understanding of the priorities of each stakeholder group to aid decision making.

Duty to promote the success of the Company

Filtronic's objective is to grow profitably by being a trusted supplier of technically advanced products that deliver value to our customers. Matters that impacted our key decisions and strategies towards meeting this objective during the year, are set out in the Strategic report. The Board's long-term objective is to serve markets that value our know-how, IPR, and culture of working in partnership with stakeholders to create better technical and commercial solutions that meet our customer requirements to lead to long-term profitable growth.

Board considerations and decisions

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

Employees and culture

- Decision to include all management tiers within the strategic planning process to ensure engagement and inclusion of key management employees.
- Implementation of a new SAYE scheme to incentivise and align the interests of employees with shareholders.
- Update on employee wellbeing during the Covid-19 pandemic and regular status updates of employees.
- Consideration of an employee wellbeing policy.
- Approval to develop a talent management strategy.

Strategy

- Approval of a revised strategic plan, initiated by Richard Gibbs, setting new strategic objectives and milestones and evaluation of the return on investment.
- Consideration of company performance against its strategy.
- Consideration of the technology roadmap and required investment.
- Update on new customer acquisition, strategic milestones and consideration of shareholder value.
- Update on MarCom investment and initiatives as well as agent network expansion to find alternative methods of customer engagement and new business acquisition.
- Consideration and approval of the FY2021 interim report.
- Consideration of and approval of the FY2022 business plan and long-range forecast.

Covid-19

- Consideration of Covid-19, the ability to meet customer commitments and the impact on business performance.
- Consideration of finding ways to engage with new customers given travel restrictions.
- Update on measures taken to protect the health and safety of our employees.
- Consideration to increase the operational footprint in Sedgefield by approving the signing of a lease for more space to facilitate both expansion of the business and social distancing.

Governance

- Agreed on the appointment of Richard Gibbs as CEO.
- Agreed on the appointment of John Behrendt as Non-Executive Director.
- Approval of group policies.
- Consideration of updated Export Control Policy and procedures.
- Update from shareholders in relation to strategy and remuneration matters.

Stakeholder engagement

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

Stakeholder	How we engage	Key outcomes
Customers	The Board receives feedback from its customer facing teams. Each key account has dedicated account management who act as "the voice of the customer". The Chief Commercial Officer briefs the Board each month as to how we are performing with each of our customers.	Increased level of engagement with customers at a strategic level. We have strengthened key customer relationships particularly as customers have worked more closely with existing supply chains during the pandemic. A greater understanding of both customer and market trend requirements better informs the development and refinement of our own strategy.
	The Executive Directors, along with senior members of the sales and engineering teams will attend meetings with strategic-level influencers within our customer's organisation.	Board-level engagement with our customers helps convey our commitment to understand and meet their business needs. During FY2021, these interactions have been limited to video conferencing, and whilst not ideal as we favour a more personalised approach and face-to-face meetings, the new technology has facilitated ongoing engagement. This has proved more challenging with new business acquisition as face-to-face interaction helps to nurture business relationships and site visits enables us to showcase our state-of-the-art capability at our facility in Sedgefield.
	We continually seek opportunities to collaborate at a product and technology strategy level with our key clients, but all collaborations are under Non-Disclosure Agreement ("NDA") and require director-level approval	Disclosure of our product development and technology roadmaps to customers increases the opportunity to align our mutual interests and demonstrate we are the 'go-to company' when it comes to leading technology; the NDA protects our intellectual property interests.
	Customer feedback is regularly sought and collected by the business through a wide range of channels. This information is processed and analysed as part of our business improvement initiatives.	Listening to the customer enables us to be more effective in pre-empting and meeting their evolving requirements. We undertook a Voice of the Customer ("VoC") exercise during the year where the Marketing Manager spoke to 35 existing and former customers to gain an understanding of their customer experience, the positives of working with Filtronic and areas where we could improve. The information was anonymised, collated and analysed to find trends to identify consistent feedback. This exercise proved invaluable enabling the Board to use the information to shape the strategic plans and develop the areas of the business where we are able to improve customer satisfaction.
	We regularly participate in a wide range of trade shows, conferences and symposia. They play an important role in our business development planning. Covid-19 prevented attendance at most events this year, including Mobile World Congress, IMS, European Microwave Week and APCO.	Trade show and conference attendance were, unfortunately, converted into virtual events during the pandemic and have not been as successful as physically attended events. We attended our first trade exhibition at the IMS Show in Atlanta in the USA in June 2021 since the start of the pandemic. Whilst attendance was not at full capacity our commercial team had useful engagements with potential customers. We will continue to attend shows now they have re-opened to engage with new clients.

Stakeholder engagement continued

Stakeholder	How we engage	Key outcomes
Employees	The Executive Directors communicate with employees through 'communication sessions' to update them on the performance of the business and progress on key initiatives. Employees are encouraged to ask questions in a Q&A session at the end of the meetings.	Wider and deeper communication leads to greater transparency throughout the business and facilitates a more engaged, motivated and effective team. Covid-19 made this more challenging, given restrictions on gatherings and social distancing, in FY2021 but alternative methods of engagement have been implemented and employees encouraged to submit questions with every question considered and answered. This is done through a range of communication channels including newsletters, discussion groups with management flow down to employees and informal factory floor-walks.
	The Group relies upon highly specialised skill sets that are in increasingly short supply. We are therefore actively developing a new talent management strategy.	The Group aims to become an attractive employer by providing a rewarding long-term personal development opportunity environment, recognising and rewarding those that have demonstrated strong performance. We have also funded a number of training initiatives to develop our employees and enhance the skills in the business.
	The Executive Directors are required to be actively visible across our sites to take the pulse of the business and offer an open-door policy to employees who would like to ask a question or offer a view.	A better informed and consulted workforce is more likely to be both better motivated and more effective. A strategic planning process took place during the year to formulate and embed a new strategic plan. This process has set the business on a renewed path and involved all the company's management in it's formulation and decision-making process. This inclusive approach, gave a large number of employees the chance to shape the future direction of the company and 'buy-in' to the plan having been involved.
	A Covid-19 Business Continuity Team ("BCT") was established early in 2020 to ensure the safety of our employees as a principal objective during the crisis. The BCT ensures that government guidance is adopted across the company and provides a two-way forum for ensuring staff concerns are heard and addressed.	We continue to maintain 24/7 operations during the pandemic with minimal Covid-19 related sickness and no deterioration in overall sickness and absenteeism. We met all customer delivery targets. Employees regularly ask questions of the BCT through a T-card system. Comments are shared with the Board by the Executive Directors to get a good sense of employee feedback.
	Participation in the Company Sharesave scheme.	Share scheme participation has aligned the interests of employees with shareholders giving staff the opportunity to hold a stake in the company.
Investors	The Chief Executive Officer and Chief Financial Officer hold analyst and investor meetings throughout the year both on request and specifically following the release of the annual and half year results. Feedback from these meetings is shared with the Board. Major shareholders are regularly engaged to hear their views on a range of issues such as strategy, remuneration and corporate governance.	A wide range of communication channels are used to engage with investors during the year. Feedback from investors has informed the Board's discussions and decisions on the Company's strategy. All material information that is worthy of investor announcement is made available simultaneously to both shareholders and potential shareholders. Meetings with shareholders and potential investors were held by video conference during the year.
	The Annual General Meeting is our primary method of engagement with private investors along with the Annual Report. We encourage investors to attend and ask questions they may have. At the end of the meeting, the Board engage in an open and informal forum with attendees.	We value the opportunity to meet with our shareholders and engage in an exchange of views and ideas and, post AGM, we review the feedback we have received. Unfortunately, we were not able to welcome investors at the 2020 AGM given government restrictions.

Stakeholder	How we engage	Key outcomes
Investors (continued)	The Group's Annual Report and Accounts is available to shareholders in both hard copy form and online. All announcements and presentations are available on the Company's website whilst we also engage on social media platforms such as LinkedIn.	We respect that not everyone is "on-line" and continue to provide shareholders with a choice to receive a hard copy of the report.
	The Company's broker, finnCap, provides briefings to the Board on shareholder opinions and independent feedback from investor meetings. Their views are sought on all market related matters or announcements.	Regular and frequent interaction between the Company and our broker ensures we receive regular guidance and remain aligned on our engagement with the investment community. A report collated by finnCap, after the business results investor roadshow, giving shareholders feedback from each meeting is shared with the Board.
Suppliers	Meetings are held with key suppliers at both their facilities and ours. This ensures a more intimate knowledge of each other's capabilities and objectives and leads to closer alignment of values.	The Group's supplier base is a key part of the company's ecosystem and effective relationships with our suppliers are essential to the delivery of Group performance. We engage with our suppliers through our engineering and operations teams and we work closely with key suppliers to ensure we take advantage of innovative technical and commercial solutions in the supply chain in order to secure a competitive advantage. Unfortunately, meetings with our overseas suppliers has not been possible in the year given travel restrictions but we have been able to visit our UK suppliers.
	Our Group policies are flowed down to our supply chain to ensure compliance with social responsibility and good governance policies	We minimise our exposure to supplier related risks by requiring them to adhere to our group policies and for them to confirm they are not in conflict with these policies before or during engagement.
	Supply contracts of material significance to the Group are subject to internal controls with a summary of the key terms being provided to the Executive Directors for approval.	Supplier gating processes ensure management is kept abreast of supplier risks, opportunities and governance matters and able to act promptly when required. The Board receives regular updates, from the Chief Operations Officer, regarding key supplier performance metrics and any issues under review.
	The Group aims to play fair with is suppliers and pay in line with the contractual payment terms.	By playing fair with our suppliers we gain their respect, support and commitment to meeting our own business objectives.

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

Standards of business conduct

The Board is committed to a culture of integrity and openness and this year has adopted a set of ten Group values that embody the essence of Filtronic's ethos. These values are being actively promoted amongst our staff. The Board is confident that through our people, our values, our policies and processes we are fostering the right culture to make a positive impact on the business, our employees, our customers, suppliers, the environment and the communities in which we operate. The Board is committed to identifying other means to drive further positive impact through our products, processes and foremost our people, all of which will contribute to the success of the Company.

Nominations Committee report

Membership

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

	Meetings attended
Reg Gott (Chairman)	3/3
Pete Magowan	3/3
John Behrendt[1]	2/2
Michael Roller[2]	1/1

[1] John Behrendt was appointed on 1 January 2021.

[2] Michael Roller retired on 29 October 2020.

Roles and responsibilities

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

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

Dear Shareholder

I am pleased to present the Nominations Committee Report on behalf of the Board.

This year, the Nominations Committee has continued to focus on board composition and succession planning, including reviewing the skills, experience and personal qualities required for robust and sustainable leadership for the Board, its committees, and the wider management team.

The composition of the Board evolved during the year. As previously reported, we welcomed Richard Gibbs as Chief Executive Officer on 1 September 2020. In October 2020, at the AGM, Michael Roller stepped down as a Non-Executive Director and as Chair of the Audit Committee. He was replaced by John Behrendt who joined the Board on 1 January 2021.

Following Michael Roller's retirement, Pete Magowan is the Senior Independent Non-Executive Director. Pete is currently leading the process to appoint a replacement Chair following the announcement that I will be retiring from the Board and not seeking re-election at the AGM in October 2021.

In identifying suitable candidates for board appointment, the Committee uses the services of external advisers to facilitate the search and considers candidates on merit and against objective criteria. The Committee recognises the value of a diverse board and will consider all candidates with the necessary capabilities in accordance with the Company's policies including considerations of equality and diversity. The Nominations Committee takes account of the results of the annual board evaluations exercise in its succession planning and the appointment of new board members.

The Committee plays a key role in ensuring the effectiveness of the Board and its ability to deliver long term success for the Company, including having the appropriate balance of knowledge, skills and experience to reflect the changing needs of the business and prepare for the future.

Reg Gott
Chairman, Nominations Committee
2 August 2021

Activities of the Nominations Committee during the year

The Nominations Committee discharged its responsibilities during the year by:

Area of review	Activities undertaken
Board appointment	• Richard Gibbs appointed as CEO. • John Behrendt appointed as a Non-Executive Director and Audit Committee Chairman. • Pete Magowan acknowledged as the Senior Independent Director.
Governance	• Review of the Committee's terms of reference. • Considered the size and composition of the Board.

Audit Committee report

Membership

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

	Meetings attended
John Behrendt (Chairman)[1]	2/2
Reg Gott	3/3
Pete Magowan	3/3
Michael Roller[2]	1/1

[1]John Behrendt was appointed on 1 January 2021.

[2]Michael Roller retired from the Board on 29 October 2020.

Roles and responsibilities of the Audit Committee

The Audit Committee operates within a framework of approved terms of reference which are reviewed annually along with its effectiveness with recommendations made to the Board of any changes required from the review. The terms of reference are available on the Filtronic website, and include the following roles and responsibilities:

- Monitor and make recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;
- Advise the Board on whether the Committee believes the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy;
- Monitor and make recommendations to the Board in relation to the Company's internal financial controls and financial risk management systems;
- Consider the need for an internal audit function, determine the scope of outsourced internal audit activities, appoint a provider, agree fees and review the results of these activities;
- Make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approve the remuneration and terms of engagement of the external auditor;
- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration the relevant UK professional and regulatory requirements;
- Monitor the extent to which the external auditor is engaged to supply non-audit services; and
- Ensure that the Company has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

Dear Shareholder

On behalf of the Board, I am pleased to present my first report as Chairman of the Audit Committee following my appointment as Committee Chairman replacing Michael Roller who retired at the Company's 2020 AGM.

The Audit Committee consists of the Non-Executive Directors who the Board considers to be independent and collectively have the skills and experience required to discharge their duties effectively whilst the Chairman of the Committee is required to have recent and relevant financial, accounting and general business experience.

The Audit Committee meets at least three times a year generally immediately prior to a board meeting to facilitate immediate and efficient reporting to the Board, with additional meetings where necessary. The Executive Directors may attend the meeting by invitation, whilst the Company Secretary is required to attend to act as the Secretary to the Committee. The external auditors attend when requested as do the internal audit providers.

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

The normal pattern of meetings follows the public reporting and audit cycle, with meetings to consider the external audit plan; the half year announcement together with the external auditors' review of those results; the full year Annual Report and Accounts, again with the external auditors' observations and opinions; and the review of the internal audit that has taken place in the year.

Outside of the public reporting cycle the Committee meets to consider matters such as internal controls, risk and governance matters.

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

The main activities of the Audit Committee in the year are presented on the next page.

John Behrendt
Chairman, Audit Committee
2 August 2021

Audit Committee report continued

Activities of the Audit Committee during the year

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

Area of review	Activities undertaken
Financial reporting	• Review the Annual Report and Accounts, Interim Report and interim management statements prior to board approval. • Consideration of whether the Annual Report and Accounts is fair, balanced and understandable. • Review the external auditor's detailed report to the Committee on the annual financial statements. • Review of accounting policies and significant accounting judgements and estimates. • Review of changes in accounting standards and their impact. • Review of the going concern basis of preparation of the financial statements.
External auditors	• Review of the external auditor's plan for the audit of the Group's financial statements, including the identification of key risks. • Review and approval of the external auditor's terms of engagement, remuneration and independence. • Review of the external auditors' compliance with ethical and professional guidance on audit partner rotation. • Assessment of the effectiveness of the audit process. • Recommendation regarding reappointment of the external auditors.
Risk management and internal controls	• Review of the Group's internal financial controls operated in relation to the business and assessment of the effectiveness of those controls in minimising the impact of key risks. • Review the need for an internal audit function and determine what aspects of the Group's operations should be subject to outsourced internal audit scrutiny.
Governance	• Review of the Committee's terms of reference.

Key accounting matters

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

- Group - Going concern and cashflow
- Group – Inventory valuation; and
- Group - Goodwill impairment
- Parent Company – Carrying value of the investment in the subsidiary.

These issues were discussed with management and the auditor, in particular at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

Going concern and cashflow:

To assess the appropriateness of the going concern assumption, the Committee has reviewed the Group's cash position and the availability of funding alongside the cash requirements of the Group. The Group has demonstrated resilience throughout the Covid-19 pandemic so the likelihood of the business needing to close for any period of time is very unlikely having maintained full operational capability throughout numerous lockdowns in the UK and USA. Therefore, the forecasts prepared by management have not considered the impact of lockdown in any of the downside scenario tests. However, economic uncertainty, risk of programme curtailments and the impact of delayed new business acquisition has been considered.

The base case forecast of future cash flows was prepared for review by the Committee for a three-year period. The paper set out the views and considerations in support of preparing the financial statements on a going concern basis which was based on the Group's financial and trading position, principal risks and uncertainties and strategic plans. The viability was further tested by applying some plausible downside scenarios along with mitigating actions that could be implemented. The Committee concluded the going concern basis should be adopted.

A second paper was presented by management that assessed an additional downside scenario where the pandemic adversely affected forward-looking demand to levels significantly lower than those initially modelled. It stress-tested the model further by assuming the loss of a key customer programme. The Committee concluded that the Group still had sufficient cash and headroom through debt facilities to agree with the management's recommendation to adopt a going concern basis of preparation.

Inventory valuation

Filtronic operates in an industry where developments in product technology and the highly customer specific nature of some inventory may result in inventory becoming slow-moving or obsolete. This in turn may mean that inventory cannot be sold or sales prices for such inventory are discounted to less than the relevant inventory's book value.

The Committee considered a paper from management analysing this inventory by customer and looking at projected future usage relative to current inventory on hand. It reviewed the provision for excess and obsolete inventory and noted that the level of provision and the methodology applied were appropriate and consistent.

Carrying value of goodwill and the investment in the subsidiary:

The Committee considered the judgements made in relation to the value in use methodology adopted by management and the model inputs used. These are set out in notes 16 and 17 to the financial statements.

The Committee agreed with the judgements made by management and concluded that no impairment of the carrying value of the investment in the subsidiary in the Parent Company accounts was necessary.

External auditor

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

As part of the review of auditor independence, PwC has confirmed that it is independent of the Company and has complied with applicable auditing standards. PwC has held office as auditor for three years and therefore the Audit Partner is in accordance with professional guidelines of serving no longer than five years to maintain independence.

In assessing the auditor's effectiveness, the Committee:

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

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

Fair, balanced and understandable

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

After careful consideration of the advice of the Audit Committee, the Board has concluded that the 2021 Annual Report and Accounts is fair, balanced and understandable and provides the necessary information for the Company's shareholders to assess the Group's risks, performance, business model and strategy.

Directors' remuneration report

Membership

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

	Meetings attended
Pete Magowan (Chairman)[1]	3/3
Reg Gott	3/3
John Behrendt[1]	2/2
Michael Roller[2]	1/1

[1] John Behrendt was appointed on 1 January 2021.

[2] Michael Roller retired from the Board on 29 October 2020.

The Remuneration Committee compromises the Non-Executive Directors, including the Chairman.

Role of the Remuneration Committee

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

Dear shareholder

On behalf of the Board, I am pleased to present the Filtronic Directors' remuneration report for the year ended 31 May 2021. The report explains the work of the Remuneration Committee during the year and sets out the payments and awards made to directors.

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

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

The main activities of the Committee in FY2021 are set out in the table below which includes setting the remuneration of Richard Gibbs following his appointment as CEO in the year.

Pete Magowan
Chairman, Remuneration Committee
2 August 2021

Activities of the Remuneration Committee during the year

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

Area of review	Activities undertaken
Executive Directors' and senior management remuneration	• Set the remuneration package and the terms of the employment contract for Richard Gibbs on his appointment as CEO. • Set the remuneration for the CFO and senior management as part of the annual pay review. • Set the remuneration for John Behrendt on his appointment as a Non-Executive Director. • Assessed the FY2021 bonus outcomes. • Reviewed and approved the FY2022 bonus scheme.
Share incentive plans	• Approved the grant of share options under the Employee Share Option Plan ("ESOP") for Richard Gibbs. • Approved the grant of SAYE options, open to all employees. • Reviewed employee share schemes. • Approved the exit terms for a good leaver from senior management.
Governance	• Engaged with shareholders on the implementation of a new share ESOP plan. • Considered and approved the Annual Report and Accounts on remuneration. • Review of the Committee's terms of reference.

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

Name period	Executive service agreement appointment date	Key current terms	Notice
Richard Gibbs Chief Executive Officer	Appointed to the Board on 1 September 2020	Base salary £184,500 Car allowance Annual bonus Health insurance	6 months
Michael Tyerman Chief Financial Officer	Appointed to the Board on 1 April 2016	Base salary £123,000 Car allowance Annual bonus Health insurance Pension	6 months

Name period	Role	Non-Executive terms of appointment date	Fee	Notice
Reg Gott	Chairman and Nominations Committee Chairman	Appointed to the Board on 13 July 2006	£60,000	6 months
Pete Magowan	Remuneration Committee Chairman	Appointed to the Board on 19 November 2018	£40,000	3 months
John Behrendt	Audit Committee Chairman	Appointed to the Board on 1 January 2021	£40,000	3 months

Certain sections constitute the audited part of the reports of the remuneration report.

Total single figure of remuneration for directors - audited

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

	Salary or fee		Bonus		Benefits		Long-term incentive		Total remuneration excluding pension contributions	
£000	FY2021	FY2020	FY2021	FY2020	FY2021	FY2020	FY2021	FY2020	FY2021	FY2020
Executive Directors										
Richard Gibbs[1]	135	-	42	-	15	-	7	-	199	-
Michael Tyerman	120	102	38	76	8	8	-	19	166	205
Rob Smith	-	246	-	52	-	15	-	-	-	313
Non-Executive Directors										
Reg Gott[2]	100	133	14	71	-	-	-	-	114	204
Pete Magowan	40	40	-	-	-	-	-	-	40	40
John Behrendt[3]	17	-	-	-	-	-	-	-	17	-
Michael Roller[4]	17	40	-	-	-	-	-	-	17	40
Total	429	561	94	199	23	23	7	19	553	802

[1]Richard Gibbs was appointed to the Board on 1 September 2020.

[2]Reg Gott served as Executive Chairman from 1 November 2019 to 30 September 2020, at which time he was paid an annual salary of £180,000. Reg reverted to his role as Non-Executive Chairman on 1 October 2020.

[3]John Behrendt was appointed to the Board on 1 January 2021.

[4]Michael Roller retired on 29 October 2020.

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

Taxable benefits

Taxable benefits in kind were unchanged in FY2021 and comprised car allowance and private health insurance. In addition to these taxable benefits, the Executive Directors are provided with life assurance.

Incentive outcomes for FY2021

The Executive Directors were rewarded during the year, including Reg Gott during his time as an Executive Director, for delivering profit targets aligned to the FY2021 business plan.

Directors' remuneration report continued

Annual performance-related bonus plan

An annual performance-related bonus plan has been introduced for the year ending 31 May 2022 which will reward the Executive Directors and key management cash bonuses for delivering stretching adjusted EBITDA profit targets aligned to the FY2022 business plan and achievement of personal objectives that support the growth and development of the business.

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

Total single figure of pension benefits for directors - audited

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

£000	Pension contributions FY2021	Pension contributions FY2020
Michael Tyerman	**11**	8
Rob Smith	**-**	5
Total	**11**	13

Contributions were made to the Company's defined contribution scheme. Richard Gibbs elected not to join the Company's pension scheme.

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

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

The interests of the directors, who were serving as at 31 May 2021, in the Company's ordinary shares, which excludes interests under the share option schemes, are set out below:

	2021		2020	
	Shares	**%**	Shares	%
Richard Gibbs	225,000	0.1%	-	-
Michael Tyerman	339,478	0.2%	339,478	0.2%
Reg Gott	455,369	0.2%	455,369	0.2%
Pete Magowan	750,000	0.4%	750,000	0.4%
John Behrendt	60,000	0.0%	-	-
	1,829,847	0.9%	1,544,847	0.8%

The above shareholdings include holdings of directors' connected parties.

Management share options scheme - audited

The Executive Directors who were serving at 31 May 2021 held the following options over the ordinary shares of the Company:

	Plan	Exercise period	Option price	2021	2020
Richard Gibbs	ESOP	25/09/2023—24/09/2030	8.00p	**750,000**	-
Michael Tyerman	ESOP	01/03/2019—28/02/2026	5.37p	**300,000**	300,000
				1,050,000	300,000

The ESOP scheme awarded to Michael Tyerman and key management in 2016 awarded share options for delivering a significant increase in the share price, this performance condition was met and the option vested. There are no performance conditions attached to the ESOP options granted to Richard Gibbs other than remaining in employment with Filtronic for three years. The Remuneration Committee is able to adjust the outcome at its discretion to ensure it is fair and appropriate, taking into account the overall performance of the Group.

The closing middle market price on 31 May 2021 was 9p, and on 31 May 2020 it was 10p. The range of middle market share prices during the year ended 31 May 2021 was 11p—7p.

There were no changes in directors' interests between 31 May 2021 and 2 August 2021. The Company's register of directors' interests, which is open to inspection at the Registered Office, contains full details of directors' shareholdings.

Richard Gibbs and Michael Tyerman were granted further ESOP share options in June 2021 of 245,448 and 479,988 respectively at 11.12p with a vesting date in three years' time against revenue growth performance criteria. The Company also opened a seventh Sharesave Scheme (SAYE) in June 2021 for all UK employees which both Executive Directors opted to partake with Richard Gibbs granted 35,622 options and Michael Tyerman 58,290 share options at an exercise price of 6.67p in three years' time.

Directors' report

The directors present their report together with the audited consolidated financial statements for the year ended 31 May 2021.

Going concern

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

The revenue, trading results and cash flows are explained in the Financial review on page 15.

After a review of forecasts including projections of profitability and cash flows for the year to 31 May 2022 and a further two years, the directors believe that the Group has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and Company financial statements. The basis of preparation, in note 1, provides more detail on this. The Group undertook a review of the potential impact of Covid-19 over a three year period by modelling a severe downside scenario to form this view.

Directors and their interests

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

Richard Gibbs (appointed 1 September 2020)
Michael Tyerman
Reg Gott
Michael Roller (retired 29 October 2020)
Pete Magowan
John Behrendt (appointed 1 January 2021)

Details of directors' interests in the share capital of the Company are set out in the remuneration report on page 42.

Reg Gott, having served on the Board for more than nine years, retires by rotation and has decided not to offer himself for re-election at the Annual General Meeting.

John Behrendt, having been appointed to the Board on 1 January 2021, offers himself for election at the Annual General Meeting.

Directors' indemnity

The Company has in place directors' and officers' liability insurance on behalf of its directors and officers in accordance with the provisions of the Companies Act. In addition, certain directors benefit from an indemnity from the Company, to the extent not prohibited by law, in respect of losses incurred as a result of the discharge of their duties in the management or supervision of any Company in the Group. The indemnity does not automatically terminate when the indemnified person ceases to be a director.

Directors' conflicts of interest

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

Research and development expenditure

Research and development costs in the year before capitalisation and amortisation relating to continuing operations were £1.7m (2020: £1.7m), of which £0.1m was capitalised (2020: £0.7m). Amortisation/impairment of development costs in the year was £0.2m (2020: £0.1).

Financial results and dividend

The results for the year are set out in the income statement on page 51. The position at the end of the year is shown in the balance sheet on page 53.

The directors are not recommending payment of a dividend (2020: £nil).

Significant events and future developments

There have been no significant events since the reporting date. The Group's future developments for FY2021 are disclosed in the Strategic Report on pages 3 to 26.

Share capital

The Company's share capital consists of 0.1p ordinary shares. The rights and obligations attached to each share are equal. Each share carries the right to one vote at the Annual General Meeting of the Company and carries no right to fixed income. There are no limitations on holding or transfer of the shares. The Board has no powers to issue or buy back the Company's shares, other than those approved by the shareholders at the Annual General Meeting held in October 2020.

Substantial shareholdings

Up to 31 May 2021, the Company had been notified, by shareholders, in accordance with chapter 5 of the disclosure and transparency rules, of the voting rights they held as shareholders of the Company. An analysis of shareholders as at 31 May 2021 (as disclosed by shareholders via TR1) is set out in the table below. As at 31 May 2021, the Company had issued share capital of 214,415,083 ordinary shares of 0.1p each.

Top Investors

Rank	Investor	31 May 2021	%
1	Mark and Diana Dixon	50,000,000	23.3
2	Canaccord Genuity Group Inc.	22,490,000	10.5
3	David and Monique Newlands	17,110,000	8.0
4	River and Mercantile Asset Management LLP	11,333,451	5.3

Directors' report continued

Political and charitable contributions

No contributions were made for political purposes (2020: £nil). The Group made charitable donations of £nil in the year (2020: £404).

Treasury policy

The Group's treasury policy aims to manage the Group's financial risk and to minimise the adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group. Note 38 sets out the particular risks to which the Group is exposed, and how these are managed.

Annual General Meeting

The Annual General Meeting of the Company will be held on 28 October 2021 at 11am at
Plexus,
Thomas Wright Way,
Netpark,
Sedgefield,
County Durham,
TS21 3FD.

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

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

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

Directors' confirmations

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

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

Independent auditors

PricewaterhouseCoopers LLP has expressed a willingness to continue in office as the auditor and a resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Maura Moynihan
Company Secretary
2 August 2021

Independent auditors' report to the members of Filtronic plc

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 May 2021 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 May 2021; the consolidated income statement and consolidated statement of comprehensive income, the consolidated and company cash flow statements, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Audit scope

- Three full scope audit components have been identified alongside the Company. This approach provided 100% coverage over the Group's revenue.
- All full scope audits were performed by the Group engagement team.
- Analytical review procedures were performed by the Group engagement team over all out of scope components.

Key audit matters

- Carrying value of goodwill and non-current assets (Group)
- Going concern incorporating the impact of Covid-19 (Group and parent)
- Carrying value of investments (parent)

Materiality

- Overall Group materiality: £155,560 (2020: £171,810) based on 1% of revenue.
- Overall Company materiality: £141,700 (2020: £120,570) based on 1% of total assets.
- Performance materiality: £116,670 (Group) and £106,275 (Company).

The scope of our audit

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

Key audit matters

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

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

Independent auditors' report to the members of Filtronic plc continued

Discontinued operations, which was a key audit matter last year, is no longer included because of the completion, in the prior year, of the disposal of the Telecoms Antenna operation. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Carrying value of goodwill and non-current assets (Group) We focused on this area due to the material goodwill balance held on the consolidated balance sheet and the estimates and judgements required to determine recoverable amount.	We considered the carrying value of goodwill and non-current assets by reference to the 'value in use' model prepared by management, which was based on discounted cash flows. We assessed management's determination of CGUs against technical guidance and considered whether the impairment assessment was performed at the appropriate level, considering management's own internal reporting for monitoring of goodwill. We tested the inputs to the model to Board approved budgets, which included growth rates and capital expenditure forecasts. We also tested the integrity of the model and its mathematical accuracy. We determined that the calculations were most sensitive to growth and discount rate assumptions and calculated the degree to which these assumptions would need to move before any impairment was required. We engaged with our valuation experts in order to assess the discount rate applied by reference to both the Group's weighted average cost of capital and a comparator group. We assessed both the short term and long term growth rate assumptions against available market data for the telecommunications infrastructure sector. We also read the disclosures provided in the financial statements regarding goodwill impairment testing, and the associated disclosure of the critical accounting estimates, and found these to be appropriate. Based on the procedures we performed we were able to obtain sufficient audit evidence in respect of the carrying value of goodwill and non-current assets.
Going concern incorporating the impact of Covid-19 (Group and parent) As explained in Note 1 to the financial statements, the Covid-19 pandemic has not had a significant impact on the Group's profitability and cash flow for the 2021 financial year, but it has increased the level of uncertainty in the market and future outlook of the business. In considering going concern, it has been necessary for management to consider the impact of a number of uncertain future events, such as programme curtailment and any further impact of the pandemic, on the Group's balance sheet, cash flows, liquidity and accordingly its ability to continue as a going concern. In order to conclude that it is appropriate for the financial statements to be drawn up on a going concern basis, management have prepared a detailed 'base case'	We tested the mathematical accuracy and integrity of management's model and challenged management on the key assumptions included in the scenarios, which included short and long term growth rates, working capital assumptions and the discount rate. We evaluated the downside scenarios and found these to be appropriately severe but plausible. We assessed the mitigating actions included in the downside scenarios and determined that these reflected actions within management's control. We also considered the levers available to management to mitigate the impact on the Group's and Company's liquidity should the severe but plausible downside scenarios arise.

Going concern incorporating the impact of Covid-19 (Group and parent) (continued)

cashflow model and applied various sensitivities in order to model severe but plausible downside scenarios given the continued uncertainty in the macroeconomic environment.

Management have a reasonable expectation that the Group and Company will have adequate resources to continue in operation and have therefore adopted the going concern basis of accounting in preparing the financial statements.

We have reviewed the trading results for the year to 31 May 2021 and for previous periods and 'looked back' to compare them with management's original budget, to consider historical forecasting accuracy when assessing forecast results for future periods.

We evaluated management's disclosures in relation to going concern and found them to be consistent with the stress test scenarios performed and the accounting framework.

Based on the procedures performed we found management's assessment of and conclusions over the going concern basis of preparation to be appropriate.

Carrying value of investments (parent)

We focused on this area due to the material investments balance held on the Company's balance sheet and the judgement required to determine whether or not there has been an impairment trigger and, where there is an impairment trigger, the estimates required to assess the recoverable amount of investments.

The investment relates to the filter related business linked to Filtronic Wireless Ltd and Filtronic Wireless Inc, as held by Isotek (Holdings) Limited.

We evaluated whether an impairment trigger was present in accordance with the accounting framework and concluded that it was appropriate for management to prepare an impairment assessment to consider the recoverable amount of investments.

We obtained management's impairment assessment, which was based on discounted cash flows related to the filters business to determine value in use.

We tested the inputs to the model by assessing forecast cash flows against recent performance of the filters business and comparing to approved budgets. We also tested the integrity of the model and its mathematical accuracy.

We obtained and reviewed industry and analyst commentary on the future filters-related market against which to assess the reasonableness of management's assumptions.

We determined that the calculations were most sensitive to growth and discount rate assumptions and calculated the degree to which these assumptions would need to move before any impairment was required.

As noted above, we engaged with our valuations specialists to assess the discount rate applied in the discounted cash flow model.

Based on the procedures we performed we were able to obtain sufficient audit evidence in respect of the carrying value of the investments balance.

How we tailored the audit scope

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

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

Filtronic plc is also subject to a full scope audit of its financial information, due to the separate presentation of these financial statements within this report. All audit work supporting the Group opinion was performed by the PwC UK engagement team, with the exception of testing of physical inventory which was performed by a PwC team in the US.

Independent auditors' report to the members of Filtronic plc continued

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£155,560 (2020: £171,810).	£141,700 (2020: £120,570).
How we determined it	1% of revenue	1% of total assets
Rationale for benchmark applied	Based upon the Group's trading performance in the year, revenue is considered to be the most stable and appropriate benchmark in appraising financial performance, and is a generally accepted auditing benchmark.	We believe that as a holding Company, the most appropriate benchmark for materiality is total assets which is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £110,000 and £145,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £116,670 for the Group financial statements and £106,275 for the Company financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £7,780 (Group audit) (2020: £8,600) and £7,085 (Company audit) (2020: £6,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Assessment of management's base case and severe but plausible downside cash flow forecasts, as summarised in the Key Audit Matters section included above; and
- Consideration of the disclosures provided in the financial statements with respect 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 Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 May 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 Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
2 August 2021

Consolidated income statement

for the year ended 31 May 2021

		Group	
Continuing operations	Note	**2021 £000**	2020 £000
Revenue		**15,556**	17,181
Adjusted earnings before interest, taxation, depreciation, amortisation and exceptional items		**1,773**	1,165
Amortisation	17	**(209)**	(18)
Impairment of development costs	17	**(45)**	(89)
Depreciation	18, 19	**(941)**	(677)
Adjusted operating profit		**578**	381
Exceptional items	5	**64**	(569)
Operating profit/(loss)	4	**642**	(188)
Finance costs	11	**(431)**	(277)
Finance income	12	**-**	36
Profit/(loss) before taxation		**211**	(429)
Taxation	13	**(151)**	(89)
Profit/(loss) for the year from continuing operations		**60**	(518)
Loss for the year from discontinued operations	14	**-**	(1,437)
Profit/(loss) for the year		**60**	(1,955)
Basic earnings/(loss) per share	15	**0.03p**	(0.93p)
Diluted earnings/(loss) per share	15	**0.03p**	(0.93p)

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

The notes on pages 58 to 85 form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 May 2021

	Note	Group 2021 £000	2020 £000
Profit/(loss) for the year		**60**	(1,955)
Other comprehensive (expense)/income			
Items that are or may be subsequently reclassified to profit and loss:			
Transfer to income related to business disposal	30	-	117
Currency translation movement arising on consolidation	30	**(98)**	(111)
Total comprehensive expense for the year		**(38)**	(1,949)

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

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

The notes on pages 58 to 85 form part of these financial statements.

Consolidated balance sheet

as at 31 May 2021

	Note	Group 2021 £000	2020 £000
Non-current assets			
Goodwill and other intangible assets	17	**1,716**	1,847
Right of use assets	18	**2,268**	2,685
Property, plant and equipment	19	**1,014**	1,124
Deferred tax	20	**1,218**	1,868
		6,216	7,524
Current assets			
Inventories	21	**2,190**	2,945
Trade and other receivables	22	**3,294**	4,848
Cash and cash equivalents		**2,906**	2,028
		8,390	9,821
Total assets		**14,606**	17,345
Current liabilities			
Trade and other payables	23	**2,380**	3,463
Provisions	24	**397**	1,110
Deferred income	25	**184**	568
Financial liabilities	26	**63**	177
Lease liabilities	27	**542**	662
		3,566	5,980
Non-current liabilities			
Deferred income	25	**128**	-
Financial liabilities	26	**76**	144
Lease liabilities	27	**1,478**	1,867
		1,682	2,011
Total liabilities		**5,248**	7,991
Net assets		**9,358**	9,354
Equity			
Share capital	28	**10,795**	10,794
Share premium	29	**11,039**	11,000
Translation reserve	30	**(650)**	(552)
Retained earnings	32	**(11,826)**	(11,888)
Total equity		**9,358**	9,354

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

Company number 2891064.

The notes on pages 58 to 85 form part of these financial statements. These financial statements have been approved by the Board on 2 August 2021 and signed on its behalf by

Richard Gibbs
Chief Executive Officer
2 August 2021

Consolidated statement of changes in equity

for the year ended 31 May 2021

	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 June 2019	10,789	10,715	(558)	(9,933)	11,013
Loss for the year	-	-	-	(1,955)	(1,955)
New shares issued	5	285	-	-	290
Currency translation movement arising on consolidation	-	-	(111)	-	(111)
Transfer to income related to business disposal	-	-	117	-	117
Balance at 31 May 2020	10,794	11,000	(552)	(11,888)	9,354
Profit for the year	-	-	-	60	60
New shares issued	1	39	-	-	40
Currency translation movement arising on consolidation	-	-	(98)	-	(98)
Share-based payments	-	-	-	2	2
Balance at 31 May 2021	**10,795**	**11,039**	**(650)**	**(11,826)**	**9,358**

Company statement of changes in equity

for the year ended 31 May 2021

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 June 2019	10,789	10,715	(5,001)	16,503
Loss for the year	-	-	(5,440)	(5,440)
New shares issued	5	285	-	290
Balance at 31 May 2020	10,794	11,000	(10,441)	11,353
Loss for the year	-	-	(728)	(728)
New shares issued	1	39	-	40
Share-based payments	-	-	2	2
Balance at 31 May 2021	**10,795**	**11,039**	**(11,167)**	**10,667**

The notes on pages 58 to 85 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 May 2021

	Group	
	2021 £000	2020 £000
Cash flows from operating activities		
Profit/(loss) for the year from continuing operations	**60**	(518)
Loss for the year from discontinued operations	**-**	(1,437)
Gain on sale of the Telecoms Antenna Operation	**-**	(671)
Taxation	**151**	100
Finance income	**-**	(36)
Finance costs	**431**	280
Operating profit/(loss) including discontinued operations	**642**	(2,282)
Share-based payments	**2**	-
Depreciation	**941**	677
Amortisation of intangible assets	**209**	18
Impairment of intangible assets	**45**	89
Movement in inventories	**626**	(731)
Movement in trade and other receivables	**1,489**	85
Movement in trade and other payables	**(1,026)**	(1,054)
Movements in provisions	**(712)**	(1,155)
Change in deferred income	**(255)**	488
Tax received	**495**	1,227
Net cash generated from/(used in) operating activities	**2,456**	(2,638)
Cash flows from investing activities		
Capitalisation of development costs	**(52)**	(678)
Acquisition of other intangible assets	**(69)**	(27)
Acquisition of plant and equipment	**(177)**	(384)
Acquisition of right of use assets	**(106)**	(154)
Proceeds on sale of the Telecoms Antenna Operation - net of sale costs	**-**	3,652
Proceeds on sale of assets	**12**	-
Net cash (used in)/generated from investing activities	**(392)**	2,409
Cash flows from financing activities		
Interest paid	**(225)**	(258)
Proceeds from bank loans	**131**	192
Repayment of bank loans	**(209)**	-
Exercise of employee share options	**40**	290
Repayment of lease liabilities	**(666)**	(375)
Repayment of interest-bearing borrowings	**(104)**	(202)
Net cash used in financing activities	**(1,033)**	(353)
Movement in cash and cash equivalents	**1,031**	(582)
Currency exchange movement	**(153)**	(15)
Opening cash and cash equivalents	**2,028**	2,625
Closing cash and cash equivalents	**2,906**	2,028

The notes on pages 58 to 85 form part of these financial statements.

Financials

Company balance sheet
as at 31 May 2021

	Note	Company 2021 £000	2020 £000
Non-current assets			
Investments in subsidiaries	16	**6,551**	6,551
Intangible assets	17	**58**	28
		6,609	6,579
Current assets			
Trade and other receivables	22	**7,403**	5,286
Cash and cash equivalents		**158**	192
		7,561	5,478
Total assets		**14,170**	12,057
Current liabilities			
Trade and other payables	23	**3,503**	704
Total liabilities		**3,503**	704
Net assets		**10,667**	11,353
Equity			
Share capital	28	**10,795**	10,794
Share premium	29	**11,039**	11,000
Loss for the year	32	**(728)**	(5,440)
Share based payments	32	**2**	-
Retained earnings	32	**(10,441)**	(5,001)
Total equity		**10,667**	11,353

Company number 2891064.

The notes on pages 58 to 85 form part of these financial statements. These financial statements have been approved by the Board on 2 August 2021 and signed on its behalf by

Richard Gibbs
Chief Executive Officer
2 August 2021

Company cash flow statement

for the year ended 31 May 2021

	Company	
	2021 £000	2020 £000
Cash flows from operating activities		
Loss for the year	**(728)**	(5,440)
Finance costs	**1**	60
Operating loss	**(727)**	(5,380)
Amortisation of intangibles	**19**	12
Impairment of investments in subsidiaries	**-**	4,013
Share-based payments	**2**	-
Movement in trade and other receivables	**(2,117)**	862
Movement in trade and other payables	**2,812**	289
Net cash used in operating activities	**(11)**	(204)
Cash flows from investing activities		
Acquisition of intangible assets	**(49)**	(21)
Net cash used in investing activities	**(49)**	(21)
Cash flows from financing activities		
Proceeds from exercise of share options	**40**	290
Payment of lease liabilities	**(13)**	(9)
Interest paid	**(1)**	(60)
Net cash generated from financing activities	**26**	221
Movement in cash and cash equivalents	**(34)**	(4)
Opening cash and cash equivalents	**192**	196
Closing cash and cash equivalents	**158**	192

The notes on pages 58 to 85 form part of these financial statements.

Financials

Notes to the financial statements

for the year ended 31 May 2021

1 Accounting policies

Reporting entity

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

Basis of preparation

The consolidated financial statements for the year ended 31 May 2021 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act.

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

At 31 May 2021, the Group had cash at bank of £2.9m and access to undrawn invoice discounting facilities of £3.0m and $4.0m in the UK and US respectively. Details of these facilities can be found in note 38.

As referred to in the Strategic report, the business continuity plans implemented during the Covid-19 pandemic have limited the adverse impact experienced by many other businesses. The Board recognises the uncertain macroeconomic environment that the world faces and has reviewed the business outlook to reflect this uncertainty. Cash flow forecasts have been prepared to model various scenarios over a three-year period based on the Group's financial and trading position, principal risks and uncertainties and strategic plans. A downside scenario was modelled where programme curtailment may adversely affect forward-looking demand to levels lower than those initially modelled in the base case scenario.

The scenarios modelled above demonstrate the Group has adequate cash and borrowing capacity for the next twelve months. Therefore the directors continue to adopt the going concern basis to prepare the accounts.

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

The accounting policies have been applied consistently throughout the Group.

Basis of consolidation and foreign currency translation

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

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

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

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

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

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

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

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

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

1 Accounting policies (continued)

Discontinued operations

A discontinued operation is a component of the Group's business, of which the operation and cash flows can be clearly distinguished from the rest of the Group and which:

- Represents a separate major line of business; and
- Is part of a single co-ordinated plan to dispose of a separate major line of business.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale under IFRS 5. When an operation is classified as a discontinued operation, the comparative income statement and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

Revenue

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

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

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

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

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

Revenue relating to finished goods product

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

Revenue relating to consignment inventory

A customer was supported by holding inventory in a third-party location near to the customer's production facility. This arrangement ceased during the financial year as we leveraged our position as a domestic USA supplier. Revenue was recognised when the goods were collected by the customer and a consumption advice was provided.

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

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

Share-based payments

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

Notes to the financial statements continued

for the year ended 31 May 2021

1 Accounting policies (continued)

Exceptional items

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

Investments in subsidiaries

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

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets is measured at cost less accumulated impairment losses. Goodwill, which is allocated to cash-generating units, is tested for impairment at least annually and when there is an indication of impairment. The goodwill carrying value is written down to its recoverable amount. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Internally-generated intangible assets

All research costs are expensed as incurred.

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

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

Development costs incurred on projects are capitalised where:

1) The technical feasibility can be tested against relevant milestones,
2) The probable revenue stream foreseen over the life of the resulting product can support the development, and
3) Sufficient resources are available to complete the development.

These capitalised costs are amortised on a straight-line basis over the expected life of the associated product.

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

Other intangible assets

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

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

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

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

- Software licence 4 to 5 years

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

Impairment charges

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

1 Accounting policies (continued)

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

Right of use assets and lease liabilities

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises the weighted average cost of materials and components. Net realisable value is the estimated selling price less estimated costs of completion and sale.

Trade and other receivables

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

Cash and cash equivalents

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

Notes to the financial statements continued

for the year ended 31 May 2021

1 Accounting policies (continued)

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

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

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

Deferred taxation
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Consolidated Statement of Financial Position and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

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

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

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

Share capital
Ordinary shares issued are classified as share capital in equity.

Dividends
Interim dividends are recognised in equity in the period they are paid. Final dividends are recognised in equity in the period they are approved by shareholders.

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

1 **Accounting policies** (continued)

Accounting developments and new standards

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

New standards effective from 1 June 2020:

- Amendments to IAS 1 and IAS 8 Definition of Material;
- Amendments to IFRS 3 Definition of a Business;
- Amendments to IFRS 17, IFRS 9 and IAS 39 Interest Rate Benchmark Reform Revised Conceptual Framework for Financial Reporting;
- UK IFRS departure from EU IFRS on Brexit; and
- Amendment to IFRS 16 Covid-19 - related rent concessions.

There are no new standards that have become effective in the year that affect the Group.

Notes to the financial statements continued

for the year ended 31 May 2021

2 Accounting estimates and judgements

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

The estimates and judgements that have a significant effect on the financial statements are considered below.

Investments in subsidiaries

Investments in subsidiaries are tested for impairment by reference to the expected cash generated by the business unit to which the investment relates. This is deemed to be the best approximation of value, but is subject to the same uncertainties as the cash flow forecast being used.

The sensitivity analysis in respect of the recoverable amount is presented in note 16.

Goodwill and other intangibles—impairment

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

The sensitivity analysis in respect of the recoverable amount of goodwill is presented in note 17.

Capitalisation of development costs

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

The recoverable amount of each technology development project has been determined based on value in use calculations, using cash flow projections in line with the expected useful economic life of each asset. The value in use calculations are based on management approved risk-adjusted cash flow forecasts for each project and have been discounted using a discount rate of 12%.

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

Deferred tax asset

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

Deferred tax assets have been recognised within a number of UK and USA trading subsidiaries so a change to forecast customer demand in either of these subsidiaries would impact on the amount of deferred tax asset recognised. A 10% forecast reduction in the profitability of these subsidiaries would see deferred tax asset recognition reduce by an additional £107,000.

3 Segmental analysis

Operating segments

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

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

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

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

The Group has three customers representing individually over 10% of revenue each and in aggregate 87% of revenue. This is split as follows:

- Customer A - **35%** (2020: 27%)
- Customer B - **33%** (2020: 44%)
- Customer C - **19%** (2020: 16%)

Geographical information

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

	Continuing operations		Discontinued operations		Total	
Revenue by destination	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
United Kingdom	**4,693**	4,764	**-**	-	**4,693**	4,764
Europe	**4,178**	7,985	**-**	-	**4,178**	7,985
Americas	**4,197**	3,945	**-**	65	**4,197**	4,010
Rest of the world	**2,488**	487	**-**	991	**2,488**	1,478
	15,556	17,181	**-**	1,056	**15,556**	18,237

Split of non-current assets by location	2021 £000	2020 £000
United Kingdom	**5,293**	6,329
Americas	**923**	1,195
	6,216	7,524

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

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Notes to the financial statements continued

for the year ended 31 May 2021

4 Operating profit/(loss) from continuing operations

	2021 £000	2020 £000
Revenue from goods and services	14,375	16,954
Revenue from non-recurring engineering ("NRE") projects	1,181	227
Revenue	15,556	17,181
Material cost of goods sold	5,462	8,079
Wages and salaries	5,576	5,325
Social security costs	543	518
Pension costs	280	276
Share-based payments	2	-
Furlough payments received	(83)	-
Exceptional redundancy and resignation costs	-	417
Staff costs	6,318	6,536
Impairment of development costs	45	89
Amortisation	209	18
Depreciation	941	677
Depreciation, amortisation and impairment	1,195	784
Other operating income	(345)	(5)
Non-salary related exceptional items	(64)	152
Other expenses	2,348	1,823
Total operating costs	9,452	9,290
Operating profit/(loss)	642	(188)

Development costs of £52,000 were capitalised in the year (2020: £678,000).

5 Exceptional items

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

Operating costs are stated after (crediting)/charging exceptional items as follows:

	2021 £000	2020 £000
Costs relating to the FTAO business disposal	-	145
Restructuring costs	-	184
Directors' resignation	-	240
Historic claim	(64)	-
	(64)	569

A provision relating to an historic claim is no longer required which has been credited to the income statement.

6 Operating items

	2021 £000	2020 £000
Operating profit/(loss) is stated after charging/(crediting):		
Depreciation	**941**	677
Research and development costs in the income statement excluding amortisation	**1,663**	1,152
Amortisation of development costs (R&D)	**182**	-
Amortisation of other intangible assets	**27**	18
Foreign exchange losses/(gains)	**205**	(235)

7 Auditor's remuneration

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

	2021 £000	2020 £000
Company auditor:		
Audit of the Group and Company financial statements	**28**	25
Company auditor and their associates:		
Audit of subsidiaries' financial statements pursuant to legislation	**75**	49
Additional fees relating to prior year audit	**15**	-
Other services relating to taxation	**1**	17
	119	91

8 Employees

The average number of employees comprised:

	Continuing operations		Discontinued operations		Group	
	2021 Number	2020 Number	2021 Number	2020 Number	2021 Number	2020 Number
Manufacturing	**86**	99	-	9	**86**	108
Research and development	**24**	21	-	14	**24**	35
Sales	**5**	5	-	1	**5**	6
Administration	**15**	16	-	2	**15**	18
	130	141	-	26	**130**	167

Financials

Notes to the financial statements continued

for the year ended 31 May 2021

9 Compensation of directors

Details of the remuneration, pension entitlements and share options of the individual directors are set out in the Directors' remuneration report on pages 40 to 42. The compensation of the directors was:

	2021 £000	2020 £000
Salary or fees	429	561
Bonus	94	199
Benefits	23	23
Long term incentives	7	19
Total remuneration excluding pension contributions	553	802
Pension contributions	11	13
	564	815

The Directors' remuneration is paid through the Company.

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

10 Related party transactions

Identity of related parties

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

Transactions with subsidiaries

The main transactions between the Company and its subsidiaries are management administration recharges to its subsidiaries of £935,000 (2020: £432,000) and a royalty charge of 1% of filters product sales to Filtronic Wireless Limited of £30,000 (2020: £40,000). These intercompany transactions are eliminated on consolidation.

The Company also acts as a central service to distribute money around the Group to ensure subsidiaries are adequately funded to meet obligations and to invest funds from subsidiaries where surplus cash exists. The total figures for these transactions along with the management and royalty charge can be seen in notes 22 and 23 through the movement in the Company's intercompany receivables and payables.

Transactions with key management personnel

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

11 Finance costs

	2021 £000	2020 £000
Interest expense on loans for plant and equipment	6	18
Interest expense for lease arrangements	136	118
Minimum service costs and interest charges on invoice discounting facilities	82	125
Revaluation of foreign currency denominated intercompany balance	207	16
	431	277

12 Finance income

	2021 £000	2020 £000
Revaluation of foreign currency denominated intercompany balance	-	36
	-	36

13 Taxation

Recognised in the income statement	2021 £000	2020 £000
Current tax charge/(credit)		
Overseas taxation in the period	(15)	25
Adjustment in respect of prior year — R&D tax credit	(371)	240
R&D tax credit	-	(310)
Total current tax credit	(386)	(45)
Deferred tax charge		
Origination and reversal of temporary differences	537	145
Total deferred tax charge	537	145
Income tax charge	151	100

Income tax charge is attributable to:	2021 £000	2020 £000
Continuing operations	151	89
Discontinued operations	-	11
	151	100

The reconciliation of the effective tax rate is as follows:

	2021 £000	2020 £000
Profit/(loss) before tax from continuing operations	211	(429)
Loss before tax from discontinued operations	-	(2,097)
Profit/(loss) before taxation	211	(2,526)
Profit/(loss) before taxation multiplied by standard rate of corporation tax in the UK (19%)	40	(480)
Disallowable items	213	286
Deferred tax asset not recognised	213	598
Enhanced R&D tax credit	(176)	(630)
Adjustment in respect of prior year R&D tax credit	(371)	240
Foreign tax not at UK rate	(15)	25
Derecognition of deferred tax asset	247	61
Taxation	151	100

The main rate of UK corporation tax for the financial year was 19% whilst the US federal corporate tax rate is 21%. The deferred tax assets recognised in the year have been calculated at the rates expected to be in existence in the period of reversal.

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 1 April 2023, as well as announcing several other changes to allowances and treatment of losses. These changes were enacted on 24 May 2021.

Notes to the financial statements continued

for the year ended 31 May 2021

14 Discontinued operations

The Group sold the Filtronic Telecoms Antenna Operation ("FTAO") for an initial consideration of $5.5m (£4.1m) to Microdata Telecom Innovation Stockholm AB on 2 January 2020. This may rise based on contingent consideration arising on an equal share of the gross profit that outperforms the mutually agreed gross profit targets of $3.0m in the calendar year 2021. The directors have opted not to recognise a fair value for this consideration in the results for the year. The gross profit target for 2020 was not met; the directors had not recognised a fair value for this consideration.

	2021 £000	2020 £000
Revenue	-	1,056
Material cost of goods sold	-	903
Wages and salaries	-	936
Social security costs	-	169
Pension costs	-	141
Staff costs	-	1,246
Exceptional items	-	724
Other expenses	-	277
Total operating costs	-	2,247
Operating loss	-	(2,094)
Finance costs	-	(3)
Loss before taxation	-	(2,097)
Taxation	-	(11)
Loss for the year from operating activities	-	(2,108)
Gain on sale of discontinued operations	-	671
Loss for the year from discontinued operations	-	(1,437)

Details of the gain on sale of discontinued operations

	2021 £000	2020 £000
Consideration received	-	4,146
Carrying amount of net assets sold	-	(2,864)
Costs directly associated with the sale of FTAO	-	(494)
Currency translation adjustment	-	(117)
Gain on sale of discontinued operations	-	671

Cash flows generated from/(used in) discontinued operations

	2021 £000	2020 £000
Net cash used in operating activities	-	(1,937)
Net cash generated from investing activities	-	3,652
Net cash used in financing activities	-	(3)
Net cash flows for the year	-	1,712

15 Earnings/(loss) per share

	Continuing operations 2021 £000	Continuing operations 2020 £000	Discontinued operations 2021 £000	Discontinued operations 2020 £000	Total Group 2021 £000	Total Group 2020 £000
Profit/(loss) for the year	**60**	(518)	**-**	(1,437)	**60**	(1,955)

	'000	'000	**'000**	'000	**'000**	'000
Basic weighted average number of shares	**213,397**	211,021	**213,397**	211,021	**213,397**	211,021
Dilution effect of share options	**897**	-	**897**	-	**897**	-
Diluted weighted average number of shares	**214,294**	211,021	**214,294**	211,021	**214,294**	211,021
Basic earnings/(loss) per share	**0.03p**	(0.25p)	**-**	(0.68p)	**0.03p**	(0.93p)
Diluted earnings/(loss) per share	**0.03p**	(0.25p)	**-**	(0.68p)	**0.03p**	(0.93p)

16 Investments in subsidiaries

	Company investments in subsidiaries £000
Cost	
At 1 June 2019, 31 May 2020 and 31 May 2021	**21,110**
Impairment	
At 1 June 2019	(10,546)
Impairment in the year	(4,013)
At 31 May 2020 and 31 May 2021	**(14,559)**
Carrying amount at 31 May 2020 and 31 May 2021	**6,551**

Value in use was determined by discounting the future cash flows generated from the continuing use of the cash generating unit ("CGU") to which the investment relates. The calculation of the value in use was based on the following key assumptions:

- Budgets incorporating post-tax cash flows have been prepared to 31 May 2022 based on past experience, actual operating results, known future cash flows and estimates of future cash flows;
- Cash flows for a further four years have been prepared based on the long range plan, of the investment together with cost inflation and additional overhead assumptions. A perpetuity factor has been applied based on the year to 31 May 2026. A long-term growth factor of nil was applied to the perpetuity cash flows; and
- The Group's discount rate of 12% (2020:12%) was applied in determining the recoverable amount of the investment being the estimated weighted average cost of capital for the CGU.

The investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. The calculation used to determine the carrying value of the investment is based on the model and assumptions referenced above. There is substantial headroom within the calculation that a material change of any of the key estimates and judgements in the model would not impact a change in the carrying value.

Notes to the financial statements continued

for the year ended 31 May 2021

16 Investments in subsidiaries (continued)

The Company's subsidiaries are related parties.

The subsidiaries at 31 May 2021, which were owned by Filtronic plc, were as follows:

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

[1] Filtronic House, 3 Airport West, Lancaster Way, Yeadon, Leeds, West Yorkshire, LS19 7ZA, UK

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

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

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

* Isotek Limited was dissolved on 20 July 2021.

17 Goodwill and other intangible assets

	Goodwill £000	Other intangibles (core technology) £000	Group Software costs £000	Development costs £000	Total £000	Company Software costs £000
Cost						
At 1 June 2019	974	10,884	542	350	12,750	76
Additions	-	-	27	678	705	21
Exchange differences	-	-	4	-	4	-
At 31 May 2020	974	10,884	573	1,028	13,459	97
Additions	-	-	69	52	121	49
Disposals	-	-	(305)	(65)	(370)	(19)
Exchange differences	-	-	(14)	-	(14)	-
At 31 May 2021	**974**	**10,884**	**323**	**1,015**	**13,196**	**127**
Amortisation						
At 1 June 2019	-	10,884	517	102	11,503	57
Provided in the year	-	-	18	-	18	12
Impairment of intangible assets	-	-	-	89	89	-
Exchange differences	-	-	2	-	2	-
At 31 May 2020	-	10,884	537	191	11,612	69
Provided in the year	-	-	27	182	209	19
Disposals	-	-	(305)	(65)	(370)	(19)
Impairment of intangible assets	-	-	-	45	45	-
Exchange differences	-	-	(16)	-	(16)	-
At 31 May 2021	**-**	**10,884**	**243**	**353**	**11,480**	**69**
Carrying amount at 31 May 2020	974	-	36	837	1,847	28
Carrying amount at 31 May 2021	**974**	**-**	**80**	**662**	**1,716**	**58**

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

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

- Budgets incorporating post-tax cash flows have been prepared to 31 May 2022 based on past experience, actual operating results, known future cash flows and estimates of future cash flows;
- Cash flows for a further four years have been prepared based on the Company's long range plan together with cost inflation and additional overhead assumptions. A perpetuity factor has been applied based on the year to 31 May 2026. A long-term growth factor of nil was applied to the perpetuity cash flows; and
- The Group's discount rate of 12% (2020:12%) was applied in determining the recoverable amount of the unit, being the estimated weighted average cost of capital for the CGUs.

An impairment was made to a product development in the year of £45,000. Based on the testing above the directors do not consider any of the remaining goodwill or intangible assets to be impaired, even allowing for a reasonable degree of sensitivity to the underlying assumptions, including the discount rate.

Notes to the financial statements continued

for the year ended 31 May 2021

18 Right of use assets

	Property leases £000	Plant and equipment £000	Total £000
Cost			
Opening balance recognised on adoption of IFRS 16	1,327	-	1,327
Additions	-	1,727	1,727
Exchange differences	6	-	6
At 31 May 2020	1,333	1,727	3,060
Additions	330	233	563
Disposals	-	(533)	(533)
Exchange differences	(37)	(5)	(42)
At 31 May 2021	1,626	1,422	3,048
Depreciation			
Provided in the year	226	149	375
At 31 May 2020	226	149	375
Provided in the year	285	393	678
Disposals	-	(256)	(256)
Exchange differences	(16)	(1)	(17)
At 31 May 2021	**495**	**285**	**780**
Carrying amount at 31 May 2020	1,107	1,578	2,685
Carrying amount at 31 May 2021	**1,131**	**1,137**	**2,268**

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

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

19 Property, plant and equipment

	Group: Fixtures and fittings £000	Group: Plant and equipment £000	Group: Computer hardware £000	Group: Total £000	Company Plant and equipment £000
Cost					
At 1 June 2019	**191**	**6,101**	**304**	**6,596**	**-**
Additions	27	357	-	384	-
Disposals	-	(17)	(34)	(51)	-
Exchange differences	2	17	-	19	-
At 31 May 2020	**220**	**6,458**	**270**	**6,948**	**-**
Additions	98	79	-	177	-
Disposals	(22)	(2,716)	(99)	(2,837)	-
Exchange differences	(4)	(55)	(1)	(60)	-
At 31 May 2021	**292**	**3,766**	**170**	**4,228**	**-**
Depreciation					
At 1 June 2019	**129**	**5,230**	**207**	**5,566**	**-**
Depreciation	20	258	24	302	-
Disposals	-	(17)	(34)	(51)	-
Exchange differences	-	7	-	7	-
At 31 May 2020	**149**	**5,478**	**197**	**5,824**	**-**
Depreciation	25	218	20	263	-
Disposals	(21)	(2,704)	(99)	(2,824)	-
Exchange differences	(3)	(46)	-	(49)	-
At 31 May 2021	**150**	**2,946**	**118**	**3,214**	**-**
Carrying amount at 31 May 2020	71	980	73	1,124	-
Carrying amount at 31 May 2021	**142**	**820**	**52**	**1,014**	**-**

20 Deferred tax

	Group 2021 £000	Group 2020 £000
Deferred tax assets		
Opening balance	**1,868**	1,982
Tax losses recognised	**74**	61
Utilisation of tax losses	**(290)**	(206)
Derecognition of capital allowances	**(322)**	-
Exchange differences	**(112)**	31
	1,218	1,868

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

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

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Notes to the financial statements continued

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20 Deferred tax (continued)

Deferred tax assets which have not been recognised:	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Depreciation in advance of capital allowances	1,732	1,077	455	455
Tax losses carried forward	11,724	11,336	9,772	9,638
Share options deferment	80	80	80	80
	13,536	12,493	10,307	10,173

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.

21 Inventories

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Raw materials	3,126	2,851	-	-
Work in progress	480	1,038	-	-
Finished goods	133	513	-	-
	3,739	4,402	-	-
Inventory provision	(1,549)	(1,457)	-	-
Inventories are stated net of provision	2,190	2,945	-	-

Raw materials, consumables and changes in finished goods and work in progress recognised in cost of sales in the year amounted to £5,129,000 (2020: £8,982,000).

The amount charged to the income statement in the year in respect of write-downs of inventories is £162,000 (2020: £358,000). The amount credited to the income statement in the year in respect of reversals of write-downs of inventories is £56,000 (2020: £nil).

22 Trade and other receivables

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Trade receivables	2,737	4,147	-	-
Group receivables	-	-	7,372	5,221
Other receivables and prepayments	557	701	31	65
	3,294	4,848	7,403	5,286

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

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

23 Trade and other payables

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Trade payables	1,299	1,562	70	33
Group payables	-	-	2,784	-
Other payables and accruals	1,081	1,901	649	671
	2,380	3,463	3,503	704

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

24 Provisions

Warranty provision	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Opening balance	**1,053**	2,205	**-**	-
Used during the year	**(526)**	(1,188)	**-**	-
Released unused during the year	**(116)**	(274)	**-**	-
Charge for the year	**11**	301	**-**	-
Exchange differences	**(80)**	9	**-**	-
	342	1,053	**-**	-

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	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Opening balance	**57**	60	**-**	-
Released unused during the year	**-**	(5)	**-**	-
Exchange differences	**(2)**	2	**-**	-
	55	57	**-**	-

The Group leases physical facilities at three sites in the UK and USA with each of these leases requiring the site to be restored to its original condition. The dilapidation provision reflects management's best estimates and ability to measure the likely costs that may be incurred restoring the building to its original state.

Total provision	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Warranty provision	**342**	1,053	**-**	-
Dilapidation provision	**55**	57	**-**	-
	397	1,110	**-**	-

25 Deferred income

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Contract liabilities	**146**	437	**-**	-
Capital grant	**38**	131	**-**	-
Total current deferred income	**184**	568	**-**	-
Contract liabilities	**73**	-	**-**	-
Capital grant	**55**	-	**-**	-
Total non-current deferred income	**128**	-	**-**	-
Total deferred income	**312**	568	**-**	-

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

A capital grant was secured in the prior year to assist with the purchase of plant and machinery to support the production ramp of our 5G XHaul products. The grant is being amortised over a period of four years with a remaining life of 2.5 years.

Notes to the financial statements continued

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26 Financial liabilities

This note provides information about the contractual terms of the Group's interest-bearing bank loans and borrowings which are measured at amortised cost.

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Bank loans—current	**55**	65	**-**	-
Obligations under finance agreements—current	**8**	112	**-**	-
Total current financial liabilities	**63**	177	**-**	-
Bank loans—non-current	**76**	144	**-**	-
Total non-current financial liabilities	**76**	144	**-**	-
Total financial liabilities	**139**	321	**-**	-

Terms and debt repayment schedule - Group

	Currency	Nominal interest rate	Date of maturity	Carrying amount 2021 £000	Carrying amount 2020 £000
Bank loan	GBP	7.6%	31 August 2020	**-**	17
Bank loan	USD	1.0%	31 December 2022	**-**	192
Bank loan	USD	1.0%	10 February 2026	**131**	-
Total bank loans				**131**	209
Finance agreements	GBP	4.1%	31 May 2021	**8**	112
				139	321

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

The bank loan with a maturity date of 31 December 2022 for $237,000 (£192,000) was a US Government loan as part of the Paycheck Protection Programme ("PPP") to secure jobs in the USA during the Covid-19 pandemic. The Company successfully applied to have the loan forgiven which was settled by the US Government in the year, recognised in Other Operating Income.

The Group secured another loan of $186,000 (£131,000) from the US Government as part of PPP 'Round 2' to provide further security for jobs in the USA during the Covid-19 pandemic, is included in the table above as a bank loan. Companies are required to start repaying the loan after 6 months for a two year period at a low rate of interest. The US Government have indicated they may forgive repayment and turn the loan into a grant if recipients retain their employees the funds were secured for.

Debt reconciliation - Group	Bank loans £000	Finance agreements £000	Total £000
Balance at 1 June 2019	**117**	**232**	**349**
Acquisition of finance agreements	192	-	192
Interest paid	(12)	(6)	(18)
Repayment of borrowings	(88)	(114)	(202)
Balance at 1 June 2020	**209**	**112**	**321**
Proceeds from bank loans	131	-	131
Repayment of borrowings	(17)	(104)	(121)
Repayment of PPP bank loan	(192)	-	(192)
Balance at 31 May 2021	**131**	**8**	**139**

Other banking facilities

At 31 May 2021, the Group had an undrawn (2020: undrawn) invoice discount facility with Barclays Bank of £3.0m which enables it to borrow up to 70% of the debtor book in the UK. In addition to the facility with Barclays Bank, the Group has a facility with Wells Fargo Bank of $4.0m enabling it to borrow up to 85% of the US debtor book which was undrawn (2020: undrawn).

27 Lease liabilities

	Group 2021 £000	Group 2020 £000
Opening lease liability	2,529	1,327
New leases entered into during the year	457	1,572
Payments made during the year	(666)	(375)
Disposal of lease	(279)	-
Exchange differences	(21)	5
	2,020	2,529

	2021 £000	2020 £000
Lease liability payable in less than a year	542	662
Current lease liabilities	542	662
Lease liability payable in one to five years	1,070	1,578
Lease liability payable in more than five years	408	289
Non-current lease liabilities	1,478	1,867
Total lease liabilities	2,020	2,529

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

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

28 Share capital

	Group and Company ordinary shares of 0.1p each	
	Number '000	£000
At 1 June 2019	208,129	10,789
Exercise of share options	5,569	5
At 31 May 2020	213,698	10,794
Exercise of share options	717	1
At 31 May 2021	214,415	10,795

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

29 Share premium

	Group and Company £000
At 1 June 2019	10,715
Exercise of share options	285
At 31 May 2020	11,000
Exercise of share options	39
At 31 May 2021	11,039

Notes to the financial statements continued

for the year ended 31 May 2021

30 Translation reserve

	Group £000
At 1 June 2019	(558)
Transfer to income related to business disposal	117
Currency translation movement arising on consolidation	(111)
At 31 May 2020	(552)
Currency translation movement arising on consolidation	(98)
At 31 May 2021	**(650)**

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

31 Dividends

The directors are not proposing to pay a dividend for the year ended 31 May 2021 (2020: £nil).

32 Retained earnings

	Group £000	Company £000
At 1 June 2019	(9,933)	(5,001)
Loss for the year	(1,955)	(5,440)
At 31 May 2020	(11,888)	(10,441)
Profit/(loss) for the year	60	(728)
Share-based payments	2	2
At 31 May 2021	**(11,826)**	**(11,167)**

33 Share options

Sharesave plans

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

Sharesave Plan—Scheme 6	Weighted average exercise price 2021	Number of options 2021	Weighted average exercise price 2020	Number of options 2020
Outstanding at the beginning of the year	5.2p	-	5.2p	5,827,465
Exercised during the year	5.2p	-	5.2p	(4,419,469)
Cancelled during the year	5.2p	-	5.2p	(470,954)
Lapsed during the year	5.2p	-	5.2p	(937,042)
Outstanding at the end of the year	5.2p	-	5.2p	-
Exercisable at the end of the year	5.2p	-	5.2p	-

The sixth sharesave scheme offered to employees in June 2016 is now closed.

33 Share options (continued)

Sharesave Plan—Scheme 7

A seventh sharesave scheme was offered to employees on 1 June 2021 with options granted of 2,117,319 at an exercise price of 6.67p.

Management incentive plans

The options granted in the year have no specific performance targets attached to them. The exercise price for an option was the middle market closing price of Filtronic plc's ordinary shares as derived from AIM on the dealing day prior to issue.

The following options under this scheme were outstanding at 31 May 2021:

Ordinary shares of 0.1p	Date granted	Earliest date exercisable	Latest date exercisable	Exercise price
1,633,334	01/03/2016	01/03/2017	28/02/2026	5.4p
300,000	11/04/2016	11/04/2017	10/04/2026	8.5p
200,000	28/03/2018	28/03/2019	27/03/2028	9.0p
200,000	11/02/2020	11/02/2021	11/02/2030	9.3p
750,000	24/09/2020	24/09/2023	24/09/2030	8.0p
3,083,334				

The weighted average price of options of the outstanding options under this scheme at 31 May 2021 was 6.80p (2020: 6.82p)

	Number of share options 2021	Number of share options 2020
Outstanding at the beginning of the year	**3,839,584**	5,483,584
Granted during the year	**750,000**	200,000
Cancelled during the year	**(789,583)**	(694,000)
Exercised during the year	**(716,667)**	(1,150,000)
Outstanding at the end of the year	**3,083,334**	3,839,584
Exercisable at the end of the year	**2,133,334**	3,503,584

Financials

Notes to the financial statements continued

for the year ended 31 May 2021

34 Share-based payments

	Group and Company 2021 £000	Group and Company 2020 £000
Share options expense	2	-
	2	-

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

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

	Group and Company 2021	Group and Company 2020
Number of share options granted	750,000	200,000
Weighted average share price	8.00p	9.25p
Expected volatility	50%	50%
Expected life	3.0 years	3.0 years
Risk-free interest rate	0.8%	0.1%
Weighted average fair value	2.2p	3.1p

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

35 Pension costs

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Defined contribution schemes	280	417	41	32

36 Capital expenditure commitments

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	147	9	-	-

37 Analysis of net cash/(debt)

	1 June 2020 £000	Cash flow £000	Other changes £000	31 May 2021 £000
Cash and cash equivalents	2,028	1,059	(181)	2,906
Bank loans	(209)	73	5	(131)
Lease liability - plant and machinery	(1,381)	411	135	(835)
Net cash when including all debt except property leases	438	1,543	(41)	1,940
Lease liability - property lease	(1,148)	255	(292)	(1,185)
	(710)	1,798	(333)	755

37 Analysis of net cash/(debt) (continued)

Reconciliation of cash flow to movement in net cash/(debt)

	2021 £000	2020 £000
Movement in cash and cash equivalents	1,059	(582)
Movement in bank loans	78	(92)
Movement in lease liability - plant and machinery	546	(1,381)
Movement in lease liability - property lease	(39)	(1,148)
Exchange differences	(181)	(15)
Movement in net cash/(debt)	1,463	(3,218)
Opening net (debt)/cash	(710)	2,508
Closing net cash/(debt)	753	(710)

Cash at bank earns interest at floating rates based on daily bank deposit rates. There are no restrictions on the availability of the cash and cash equivalents at 31 May 2021 (2020: £nil)

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

38 Financial instruments

Fair value

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

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

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

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

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

Liquidity risk

The Group has cash at bank of £2.9m whilst the Company has cash at bank of £0.2m.

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

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

The sales invoicing facility with Barclays Bank allows the Company to borrow 70% of the UK entities' debtors denominated in US dollars and sterling up to a value of £3.0m. The facility is due its next formal review in September 2021, although this can be reviewed at Barclays discretion at any time.

The sales invoice factoring facility with Wells Fargo Bank allows the Company to borrow 85% of the US entities' debtors denominated in US dollars up to a value of $4.0m. The facility matures on 12 July 2022 when it will be due for renewal.

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

Credit risk

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

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

Notes to the financial statements continued

for the year ended 31 May 2021

38 Financial instruments (continued)

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

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

	Group	
	2021 £000	2020 £000
Customer one	**979**	2,293
Customer two	**902**	1,415
Customer three	**629**	286
Other customers	**227**	153
	2,737	4,147

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

	Group	
	2021 £000	2020 £000
Not past due	**2,709**	3,699
Past due less than three months	**28**	424
Past due more than three months	**-**	24
	2,737	4,147

No trade receivables have been provided for in either FY2021 or FY2020.

The Company has no trade receivables.

Interest rate risk

Cash is generally held on short-term bank deposits which earn interest at variable money market deposit rates. At 31 May 2021, there was £nil held on short-term deposit. The remaining cash in the Group is held in very low interest rate accounts. Sterling interest rates are very low and therefore interest rate risk is considered to be low.

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

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

38 Financial instruments (continued)

Foreign currency risk

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

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

The Group has generated a surplus of US dollars during the year due to an increasing number of projects being supplied in US dollars. Whilst the Group aims to maintain a natural hedge, it is not adequate to offset the exposure on currency risk. Therefore, the Group has used forward foreign exchange contracts to reduce the currency risk from surplus US dollars. The nature of the Group's businesses means there is limited visibility of the currency required in US dollars. Therefore, when forward contracts are used to reduce currency risk, they are usually only for short periods of no more than six months. If the US dollar were to weaken significantly, this could materially reduce the Group's revenue and operating profit. There were no forward contracts in place at 31 May 2021 (2020: £nil).

Cash is mainly held in sterling and US dollars.

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

	Group					
	2021			2020		
	EUR £000	RMB £000	USD £000	EUR £000	RMB £000	USD £000
Cash and cash equivalents	**1**	**27**	**1,148**	165	6	890
Trade receivables	**9**	**-**	**1,738**	10	-	2,702
Trade payables	**(54)**	**-**	**(234)**	(400)	(54)	(253)
Net exposure	**(44)**	**27**	**2,652**	(225)	(48)	3,339

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

If the US dollar had been 1% stronger/weaker against sterling throughout the year ended 31 May 2021, then the Group operating profit would have been £60,000 higher/lower. The impact of other currencies is not material.

Capital management

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

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

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

Company information

Directors
(All at Filtronic House, 3 Airport West,
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West Yorkshire, LS19 7ZA, UK)

Richard Gibbs - Chief Executive Officer

Michael Tyerman - Chief Financial Officer

Reg Gott - Non-Executive Chairman

Pete Magowan - Non-Executive Director

John Behrendt - Non-Executive Director

Company Secretary
Maura Moynihan

Company number
2891064

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Financial public relations
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Registrars
Link Group
Enquiries regarding shareholdings, change of address or similar particulars should be directed in the first instance to our Registrars, Link Group whose address is:

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

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

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

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

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