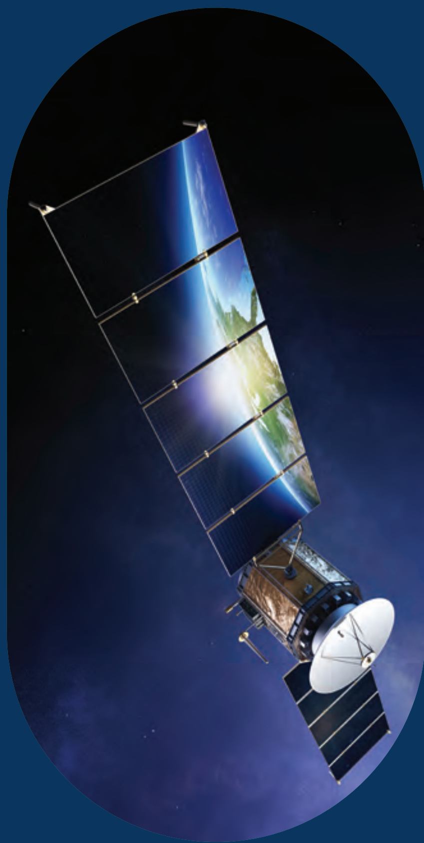
filtronic
Innovation in RF technology



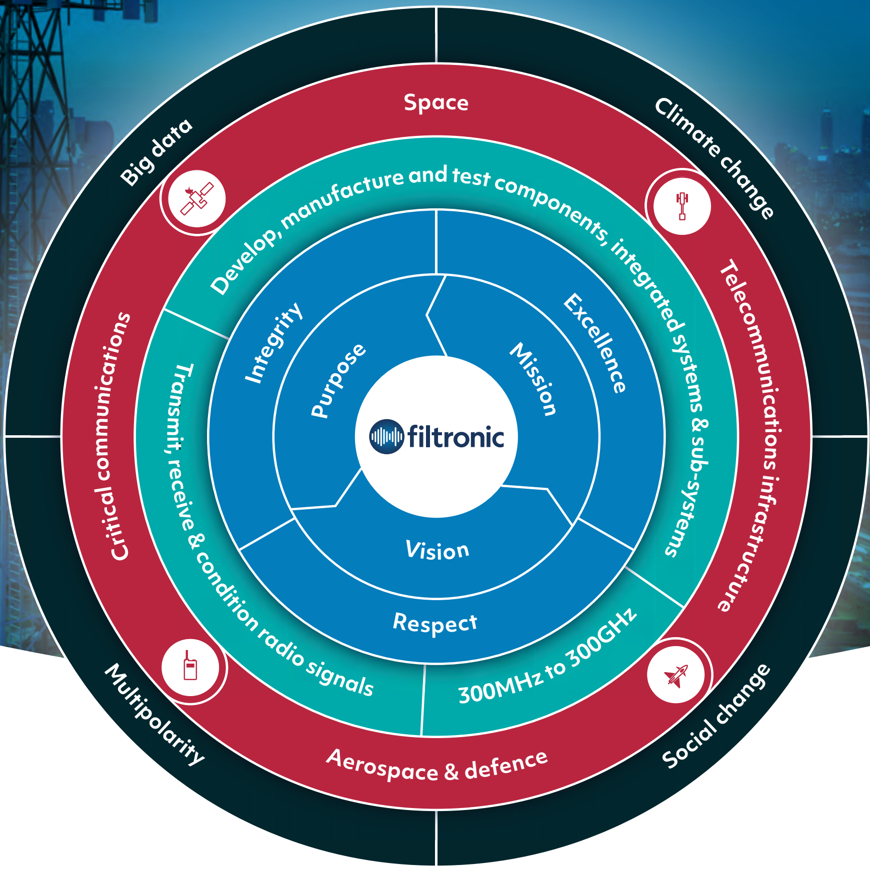
Annual Report and Accounts 2022

Filtronic plc – Stock code: FTC

2021

filtronic.com

Our strategy:



Our values:

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

Our purpose

To be the trusted provider of innovative RF solutions.

Our vision

Enabling the future of RF, Microwave and mmWave communication.

Our mission

Creating value for our clients through technology leadership.

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"Being a trusted supplier of technically advanced products in markets that place value on quality and reliability enables us to differentiate ourselves from competition and deliver profitable growth and a positive return for our shareholders."

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"A year of continued progress delivering revenue growth and another year of successive adjusted EBITDA growth… providing a solid platform from which we will invest in the future of the business."

History of Innovation

1970

1977 Company founded by Professor David Rhodes at Leeds University.

1979 First employees recruited

1980

1989 Filtronic components receive a Queens award for technology. Wireless infrastructure business established.

1990

1992 Filtronic Comtek established to focus on 2G – global systems for mobile communications (GSM).

1994 Filtronic Comtek plc listed on the UK stock exchange.

1999 Acquisition of Fujitsu Silicon plant in Newton Aycliffe to produce GaAs (Gallium arsenide) wafers.

2000

2002 Triton chipset, transmit and receive multi-function MMICs developed for mobile backhaul.

2003 Company reorganises into three divisions: Wireless Infrastructure, Handset Products and Integrated Products.

2010

2011 Development of mmWave capabilities, including Neptune, Proteus and later versions including Theseus, Orpheus and Morpheus II.

2013 Headquarters relocate to NETPark science park in Sedgefield, County Durham.

2015 Company listing moves to the AIM stock market.

2017 Launch of contract manufacturing services, principally for defence and aerospace.

2020

2020 Launched Morpheus II, market leading transceiver product and Tower Top Amplifier range.

2021 Awarded Queens Award for Enterprise: International Trade.

2022 Launched Hades E-band Active Diplexer and extended range of Cerus high-power amplifiers.

THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2021

Strategic report

Financial highlights

Revenue

£17.1m (10%)

Adjusted EBITDA*

£2.8m (58%)

Adjusted operating profit**

£1.6m (174%)

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

** Adjusted operating profit is operating profit before exceptional items.

Operational highlights

- Healthy cash position provides a platform for continued investment in growth initiatives.
- Delivered on existing development contracts and secured initial production orders.
- Built our channels to market, strengthened the order book, improved customer engagement and developed the opportunity pipeline with a number of growth opportunities.
- Sales of our "best-in-class" Tower Top Amplifier supplied to the market leading Original Equipment Manufacturer ("OEM") in critical communications surpassed £1m in the financial year.
- Series of recent contract wins, totalling £1.9m across a diverse range of new customers, demonstrating the execution of our objective to broaden our client base.
- Successfully managed the ongoing headwinds from global semiconductor shortages, ensuring continuity of supply to our customers, and generated new opportunities as a consequence.
- Margin improvement from a stronger sales mix leading to stronger adjusted EBITDA.
- Strengthened our engineering and business development teams with active recruitment campaign.

Cash at bank

£4.0m (38%)

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

£3.1m (62%)

Chairman's statement

Dear fellow shareholder

Welcome to the Filtronic plc Annual Report for the year ended 31 May 2022. I have written previously of the long-term potential of the business that attracted me to join the Board of Filtronic plc ("Filtronic") and I am pleased to report that good progress continues to be made on this overarching aim.

We have delivered revenue growth, and another successive year of adjusted earnings before interest, taxation, depreciation and amortisation ("adjusted EBITDA") growth. This has strengthened our cash position and balance sheet providing us with the opportunity to further invest in the business for continued growth and sustainable value.

The Markets

The Group's key addressable markets continue to benefit from long-term growth drivers. The aerospace & defence and security markets have traditionally long sales cycles but retain strong spending trends both domestically and overseas particularly given current events. Our capability, products and know-how are very relevant in this sector, and with greater emphasis on security sourced from domestic or allied supply for government or original equipment manufacturer ("OEM") contracts, it is an opportunity for growth and diversification of our existing customer base.

In the telecommunications market 5G rollouts continue to gather pace as the drive to build infrastructure capacity continues with an increasing number of governments licencing their E-band spectrum to enable this. Whilst there is always price pressure on established technologies as they mature, the emergence of important new frequencies and technologies remain strong opportunities for growth.

The space market is an area that is becoming increasingly important as global investment has gathered pace over the last few years. Satellites in low earth orbit ("LEO") are ideal for enabling high-speed, low-latency communication. Approximately 60 to 70 percent of space-company investment is now directed at LEO endeavours. Filtronic has products and know-how derived from our high-altitude pseudo satellite ("HAPS") projects that offer strong potential for us to play a significant role in these important communications sectors for both ground and flight platforms.

In the USA, the critical communications sector has shown some recovery post covid as domestic spending has been re-prioritised. However, this sector remains under pressure on the demand side, due to semiconductor supply impacting the availability of non-Filtronic system components.

At a macro-economic level, we face the same cost pressures of energy, cost of living and continued component cost increases and lead times as other businesses. The Company has worked well to adapt, innovate and mitigate these challenges where possible, whilst continuing to invest and find growth.

Our core ability to design and produce high performance technology demonstrators to a high-quality which are manufacturable at scale volume, continues to be a critical competitive differentiator. The ability of our clients to customise our products to their particular requirement, further strengthens our proposition in our markets.

Financial performance summary

Group sales increased in the year by 10% to £17.1m (FY2021: £15.6m).

A strong sales mix improved the quality of earnings giving adjusted operating profit of £1.6m (2021: £0.6m), operating profit of £2.0m (2021: £0.6m) and adjusted EBITDA growth of 55% to £2.8m (2021: £1.8m).

The Group closed the year with £4.0m of cash at bank (2021: £2.9m) in addition to the availability of undrawn working capital debt facilities in the UK and USA.

The Group's net cash position, when including all debt except right of use property leases, was £3.1m at the end of the financial year (2021: £1.9m). Net cash including right of use property leases was £2.2m (2021: £0.8m).

Dividend

As with previous years, the Board continues to believe shareholders are better served by cash being retained in the business to fund future business development. Consequently, no dividend is proposed for the year (2021: £nil).

Board and Senior Management

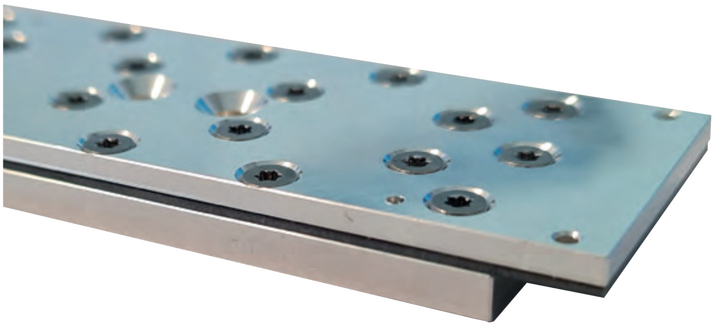
FY2022 has seen a couple of changes to Filtronic's board composition. Reg Gott retired as Chairman in October 2021, which caused the Board to undertake a rigorous search process resulting in my appointment to the Board as Chairman in November 2021.

Maura Moynihan, the Group's Company Secretary took the decision to retire in May 2022 having served the business well for over 20 years. On behalf of the Board, I would like to thank Maura for her significant and sustained contributions. She leaves a legacy of a strong governance framework. Her duties as Company Secretary have been adopted by the Group's Chief Financial Officer, Michael Tyerman, who will fulfil both functions which we will keep under review in accordance with the QCA governance code.

Outlook

We have successfully strengthened our sales and engineering organisations in the year with the intention of addressing the growth opportunities that we believe exist in these markets as well as diversifying our customer base.

The technology we offer and the markets we serve align closely with the sovereign capability requirements of both the UK and US governments. Advances in telecommunication high frequency technology and commercial satellite constellations are growth markets in which we have relevant capability and whilst there are evidently continuing factors producing turbulence, affecting many markets, there are also opportunities in the radio frequency and microwave domain. The Group remains well placed in the market to deliver revenue growth supported by a healthy order book and balance sheet.

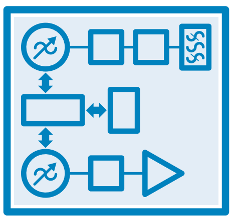


Pictured: Hades active E-band mmWave diplexers

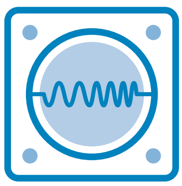
Jonathan Neale
Chairman
1 August 2022

What we specialise in:

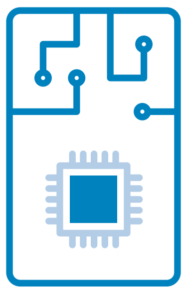
Mission critical communications



Customised RF Sub-systems



300MHz to 300GHz design, manufacture & test



Hybrid manufacturing services

Chief Executive's review

I am pleased to report that sustained growth in our vertical markets over the last twelve months has resulted in a solid set of financial results for FY2022. With year-on-year revenue growth of 10%, and a third year of adjusted EBITDA growth, based on increased operational efficiencies and demand for higher margin products, we see momentum in the business continue to build as we make good progress with our long-term strategic objectives.

Customers in our core markets of aerospace, defence, 5G, telecommunications infrastructure and critical communications have strong underlying demand for their products and services, and remain committed to investing in new technology and emerging markets. Radio frequency ("RF") design is a notoriously complex engineering discipline, but with our global reputation, combined with over 40 years of iterative IP development in the field, we continue to see demand from multinational corporations wanting to engage our services in the design and manufacture of next generation RF products.

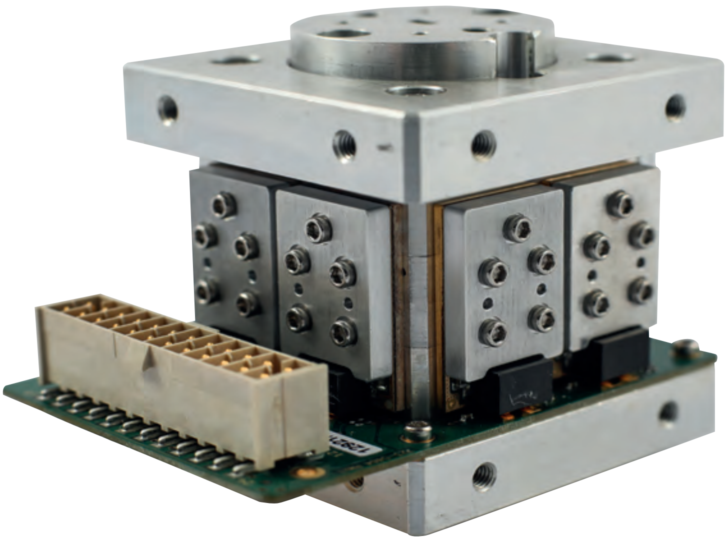
Despite the lingering impact of the Covid pandemic, and constraints on the supply chain caused by the global shortage of critical semiconductor components, the first half of FY2022 continued the gradual recovery we experienced at the close of the prior year. The second half of FY2022 was stronger still, with customers in critical communication and telecommunications infrastructure delivering on delayed project implementations, and the benefit of new, higher margin, product introductions in the defence and test instrument market. Once again, our trading results reveal the underlying strength and profitability of the Filtronic business despite unprecedented levels of business uncertainty. Our cash at bank at year end of £4.0m (May 2021: £2.9m) affords us the ability to make the investments we need to address new adjacent markets and provision for future supply chain challenges, whilst maintaining a robust balance sheet.

In addition to our established markets, there is now a significant interest in RF communication solutions for low earth orbit ("LEO") space, and high-altitude pseudo satellites ("HAPS"), where our existing E-band technology can be adapted for use in the converging terrestrial and non-terrestrial telecommunication networks. Our growing family of E-band backhaul telecommunications products, developed over 10 years have the benefit of being compact, highly integrated, and extremely reliable. They are also manufactured in commercial volumes, at a competitive price, which allows LEO space equipment manufacturers to get solutions to market quickly, at cost not usually associated with custom developed space products.

The healthy balance sheet has enabled us to continue to build on investments made at our Sedgefield manufacturing site. The addition of state-of-the-art equipment for rapid process and product development has significantly enhanced our ability to bring new products to market. The ability to develop engineering prototypes and create new manufacturing processes without the need to disrupt the volume manufacturing lines has greatly improved delivery of engineering programmes and eased the transition from prototype into production.

Talented people remain at the heart of our ability to deliver leading edge products and future business growth. We have made significant efforts this year to find and recruit the specialist engineering and marketing skills required to realise our growth ambition. To further penetrate the UK aerospace and defence market we have strengthened our business development team with the addition of seasoned industry experts who have a strong track-record of sales delivery. In FY2023 we will open a new engineering design office in Manchester having recruited a high-calibre team of RF engineers in the region specifically to address the emerging space and telecommunication market.

The most significant management challenge of the last few years has been Covid, and the associated restrictions placed on engaging directly with customers which we previously communicated as our biggest challenge of the pandemic. The strengthening of our marketing team has yielded great results since the national lockdowns and brand awareness has been raised in the markets we serve. However, the welcome return of tradeshows, conferences and a willingness of customers to accept face to face meetings and site visits to Filtronic facilities in a normalised business development environment is a critical factor for



Pictured: Cerus E-band power amplifier.

our future growth prospects.

In 2020 we made the decision to consolidate manufacturing of critical communication products in the USA, to better support our customers, and respond to an increased preference for onshoring and "buy America" sentiment. This move has been well received by customers and enabled us to respond quickly as the critical communication market recovered and supply chain issues in China started to impact our competitors. Our made in America TTA product launched in FY2020, achieved the milestone of surpassing £1m of sales in January 2022, and it continues to be the TTA product of choice for P25 programmes that will be implemented in the next 24 months.

The global semiconductor shortage has impacted our business, and undoubtably restricted our ability to recognise revenue in FY2022. We believe these supply shortages may continue to be a challenge in the FY2023 trading period and beyond. Throughout the last twelve months we have invested in critical inventory as the opportunity has become available, however reacting to schedule changes and fluctuating material delivery dates has become a significant additional workload for the business. As a manufacturer and design authority, we have the flexibility to be proactive in the sourcing of components, and in some cases we can redesign and requalify products to make use of alternative material at short notice. However, Filtronic RF products generally form part of a larger communication solution, and increasingly it is other elements of the equipment supply chain that cause customers to reschedule product deliveries, adjust demand forecasts and in extreme cases, postpone new product introductions until a later date.

Customers and markets

The critical communications market has almost returned to pre-pandemic levels of demand, with state and federal spending programs redirected back to the upgrading and deployment of "first responder" networks. Our combiner products are used in most P25 network base stations, and our filter and amplifier products are extensively deployed across the Land Mobile Radio ("LMR") network. LTE telecommunication networks carry more data traffic, but the reliability of the LMR network when all other telecom networks become saturated, makes it an important part of any private network solution. Notwithstanding some short-term disruption to customer schedules from supply chain issues we expect Filtronic products to remain a part of the P25 network solution for some years to come.

The aerospace market remains a strong and steady revenue contributor, with shipments supported by a strategic inventory holding, and consistent availability of customer supplied materials. The multi-year manufacturing supply agreements won in FY2020, will run into FY2024, and we are looking to secure follow-on demand as future aerospace radar contracts are released. We have expanded our footprint in the Active Electronically Scanned Array ("AESA") radar market by capturing several related filter design opportunities in the past year. Initial volumes are low, but it has enabled us to strengthen our position with the major aerospace primes, broadening our customer register, which is a key strategic objective of ours.

We have made inroads into the UK defence market with the successful completion and delivery of our first battlefield communications product to the UK Ministry of Defence ("MOD"). The product is undergoing field trials and we believe we are positioned favourably for any repeat orders that may materialise as well as other future design programmes as part of the framework.

5G telecommunication network deployment around the world is accelerating, and critical to true 5G performance is the quality and reliability of high-frequency backhaul communications. Filtronic's 71-76GHz and 81-86GHz mmWave transceivers are designed to deliver cost-effective, multi-gigabit connectivity for mobile backhaul networks, in geographies where the E-band frequency has been licenced. The demand for our products will continue as users come to expect true 5G performance, and individual countries make the E-band frequency available for use, with India expected to be a key market and licence approval anticipated shortly.

HAPS and LEO space communications are an attractive application for our proven E-band technology, and initial customer engagements are evolving into tangible commercial opportunities. We have undertaken two important development programmes with large west-coast USA technology companies that were early pioneers in this field of converging telecommunication solutions. Consequently, we now have a good understanding of how to apply our IP in both stratospheric and LEO space platforms. We are further encouraged by the UK government's interest in the commercial space market and the publication of the National Space Strategy in September 2021.

There have been several notable achievements over the last year which set the potential for sustainable growth and future revenues, to which end, I would highlight the following:

- Two separate design contracts with UK aerospace and defence primes for bespoke, low power bandpass filters and switch filter banks, for use in next generation radar systems. Design and prototypes were delivered within the year and initial production orders were placed for delivery in FY2023.
- The successful delivery of a £1.3m defence contract for the design, development, and production of a battlefield radio communication product. This represents our first direct engagement with the UK MoD and the timely delivery of the initial production units positions us favourably for future production volumes.
- The Tower Top Amplifier ("TTA") product, launched in FY2020, passed the milestone of £1.0m of sales in FY2022, with some important design wins for future system upgrades and new state-wide installations in the USA.

- Successful transition of a long running development programme for over-the-air, mmWave test equipment, from prototype into full production. We are working with the customer to explore future production run rates based on market acceptance of the end product.
- Successful delivery of custom, high-performance E-band transceivers for use in several separate private network applications associated with high-frequency trading platforms. Extreme low latency data communications being critical for the delivery of timely trading data.
- Continued delivery of the Morpheus E-band transceiver in volume production with over 60,000 units shipped worldwide. This achievement earned Filtronic the coveted Queen's Award for Export in November 2021.
- We closed the year with a significant opportunity pipeline of new aerospace, defence and HAPS and LEO space opportunities, that have the potential to materially drive the business forward in the medium term.

Outlook

We are undoubtably in a period of economic and geopolitical uncertainty but one in which our technology will be in demand, the RF design expertise we offer is in short-supply and our core markets well positioned for growth. The current disruption to semiconductor supply chains will impact our business in the short term. However, we feel we have the resources and reserves necessary to weather the short-term impacts, and look forward to the new trading period.

Filtronic's core markets of mobile telecommunications, critical communications and aerospace and defence, represent industry segments that have remained robust over the last few years. They also align well with the needs of the post-pandemic world, where public safety, mobile communications, sovereign defence capability and development of LEO non-terrestrial telecommunication networks, resonate with governments and other stakeholders alike.

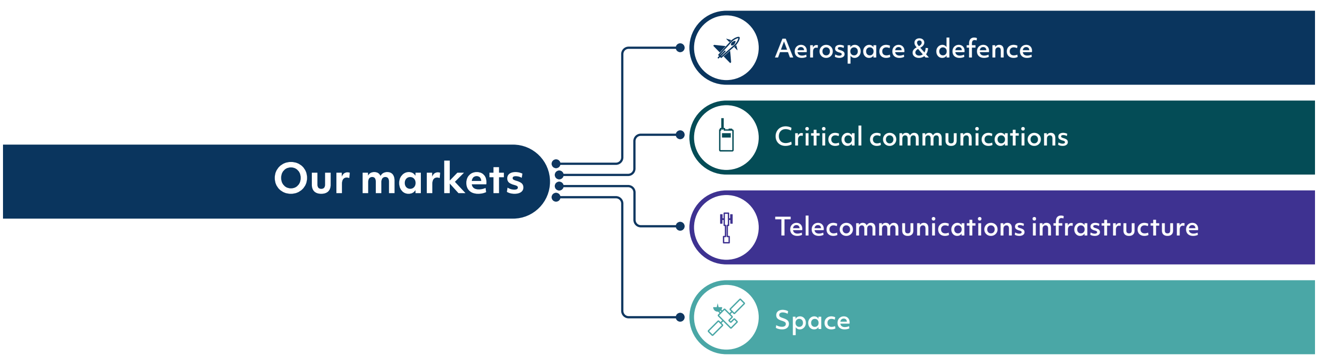
Business plans for FY2023 will reflect the somewhat unpredictable nature of the economy and the current geopolitical situation, but in general we remain committed to the growth opportunities and technology roadmaps identified in our strategic plan. We have a culture that is proactive and highly motivated to create growth and diversification of our customer base. With this in mind, we have a number of initiatives to develop our capability, and secure a range of well-defined 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;
- Develop our scalable Cerus power amplifier platform to maximise the range of power options at selected frequency bands;
- Develop our E-band transceiver platform to include active diplexer and SiP solutions;
- Continued investment in our marketing activities with an updated website platform, enhanced web content, and strategic use of social media platforms;
- Strengthening the sales organisation with the deployment of additional direct sales and business development resource in the UK and Western Europe;
- Expand our indirect channels to market through the Manufacturing Representative Network across the USA and in Europe through distribution and reps;
- Further investment in capital equipment to continue the extension of our engineering, design and test capability, production capability aligned to new business opportunities and incorporation of alternative frequency bands required for LEO space applications; and
- Align our business processes and equip our facilities to achieve the accreditation necessary to undertake a higher level of UK Defence programmes.

I am pleased with the progress we have made to date and remain excited by the potential that exists at Filtronic. There is an increasing demand for our high-performance products and unique RF design capabilities, and I believe we have the resources and expertise necessary to navigate the business challenges that will come our way in the next twelve months. The specific market segments that we have identified for future growth continue to develop at pace, and as we embark on a new financial year, I believe we are well placed to continue to deliver on our long-term growth objectives.

Richard Gibbs
Chief Executive Officer
1 August 2022

Our core markets



Market review - mega trends

Infographic

BIG DATA:

1.7Mbps

In 2020, every person generated 1.7 megabytes per second
(Source: IBM)

127

Every second, all over the world, there are 127 new devices connected to the internet
(Source: IDC)

4 seconds

To download the content of a DVD (4.7 GB) over a DSL line with a bandwidth of 50 Mbit/s it would take 13 mins. A 5G-enabled smartphone or laptop could download the content of an entire DVD over a mobile 5G data link in just four seconds (10Gbit/s)

CLIMATE CHANGE:

Digitalisation is an enabling technology representing a fast, scalable tool to help address climate change. As an accelerator, it has the potential to reduce global emissions by up to 15 percent by 2030

15%

CO_2

128 million

5G-enabled technology could help the combined G7 manufacturing sectors reduce their total carbon emissions by 182 million tonnes of CO2e by 2035
(Source – Mobile UK)

20%

5G is projected to make a 20% contribution toward US 2025 climate change goals

(Source: Accenture (NYSE: ACN) study commissioned by CTIA, the wireless industry association)

SOCIAL CHANGE:

By 2030, consumers in large cities, will generate 81% of global consumption and 91% of global consumption growth
(Source: 3M)

65%

The % of global population living in cities by 2040 Cities are using smart-city innovation to become more efficient and sustainable, to advance well-being, and to boost competitiveness

43

33

By 2030

the number of megacities (Cities with more than 10 million inhabitants) is expected to rise to 43
(Source: United Nations, Department of Economic and Social Affairs, Population Division (2018))

MULTI-POLARITY:

The number of countries able to put satellites into space using their own launch facilities has increased from two in the 1950s (US and Russia) to over 22 in 2022
(Source: worldpopulationreview.com)

According to SIPRI, global military spend reached almost $2 trillion in 2020. The top 10 countries represent roughly 75% of this figure, and have increased their spending by $51 billion since the year prior
(Source: SIPRI Military expenditure database, Apr 2021)

Global military spending figures are at a 32-year high, despite the pandemic's effect on shrinking economic output
(Source: SIPRI Military expenditure database, Apr 2021)

Strategic report

Market review - mega trends continued

Filtronic serves several distinct markets with advanced RF communications equipment, the main applications being mobile telecommunications infrastructure ("Xhaul"), critical communication networks and aerospace & defence. In addition to these terrestrial applications, we also see increasing opportunity for our technology in stratospheric and low earth orbit ("LEO") space applications, where we add value through leveraging our existing intellectual property and over 40 years of RF design expertise.

Mobile telecommunications infrastructure (Xhaul)

Xhaul is a collective term that covers front, mid and backhaul, representing the various connections between the edge of the telecoms network, base stations, remote radio heads and the core fibre network. Specifically, it does not include the highly commoditised Radio Access Network ("RAN" / "open RAN") or mobile handset connections to the mobile telecommunications network. Xhaul infrastructure is achieved through a combination of fibre and wireless links, with the RF solutions traditionally employing licensed microwave bands (between 6GHz and 42GHz). However, as the data demands on telecommunication networks increases, the capacity of Xhaul links has had to adapt, by incorporating the significant extra bandwidth available with the lightly licensed mmWave bands, primarily E-band (71-76GHz / 81-86GHz). W-band (92-114.5GHz) and D-band (130-175GHz) remain as possible frequency bands for future ultra-high bandwidth requirements.

For several years, Mobile Network Operators around the world have been building networks to deliver 5G performance in accordance with recognised international standards. Initial network implementations have been based on Non-Stand Alone ("NSA") technology, whereby the existing 4G Long Term Evolution ("LTE") network infrastructure is augmented by increasing capacity through carrier aggregation techniques. This initial deployment enabled the basic 5G New Radio ("5G NR") phase 1 performance requirements to be met. More recently, Stand Alone ("SA") network rollouts are delivering the full 5G NR phase 2 performance which is necessary to meet increased end user expectations.

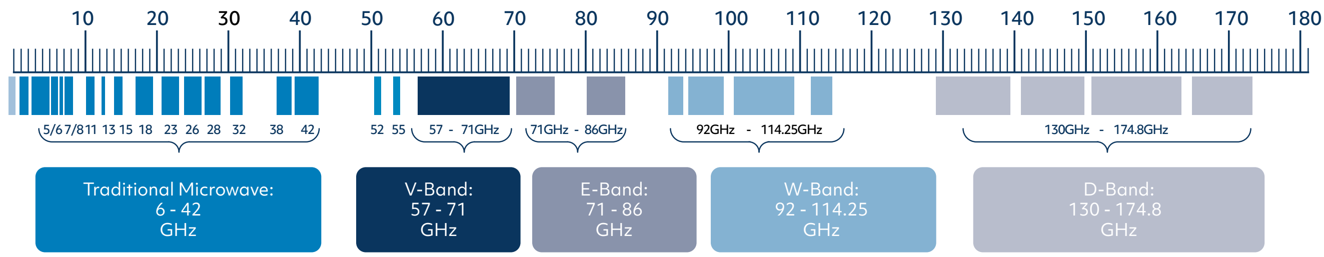
The full range of 5G SA performance requires higher capacity mmWave frequencies to be utilised in volume. Higher frequencies dramatically increase the network carrying capacity, but typically result in shorter wireless link distances, and more cell sites are needed within the network. Consequently, the overall market size for wireless Xhaul links connecting the cell sites back into the network is increasing, and the use of E-band backhaul connections (now licenced in 86 countries worldwide) is more prevalent.

Microwave transport is a well-established backhaul technology and has been used in mobile networks for decades. To a large extent, 4G 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 there are several factors to consider in deciding whether to deploy fibre or wireless:

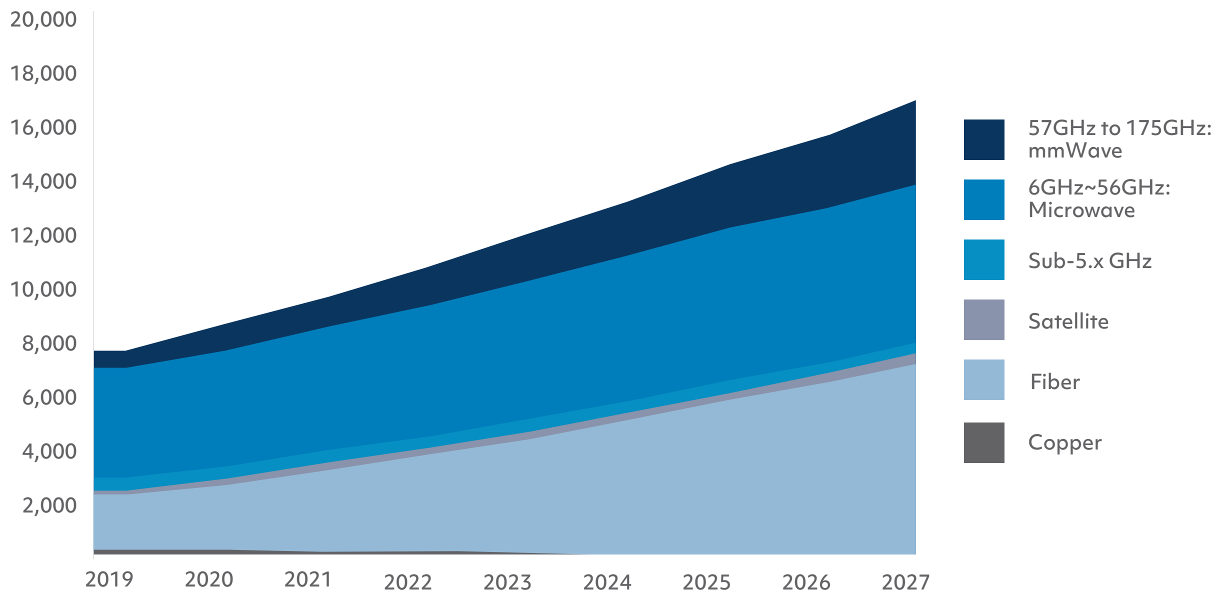
- Fibre is not ubiquitously available, especially in suburban/rural areas and in the network configurations of fast-growing economies like India and parts of Asia and Latin America. When a fibre Point of Presence ("PoP") is a few hundred metres away from the radio access point, the cost of adding new 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 practical, or 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 is often a fraction of the investment required to trench and install the cable, whereas the cost to supply and install point-to-point, line-of-sight wireless links continues to reduce, while performance continues to improve.
- E-band backhaul technology links that meet 5G capacity requirements can offer the user lower latency than that of a fibre cable of the same length. This makes dedicated point to point mmWave links a more attractive solution for certain well-defined latency-critical applications.

Frequency Table: Traditional microwave to D-Band

Source: ITU



Installed backhaul links by platform (000s)



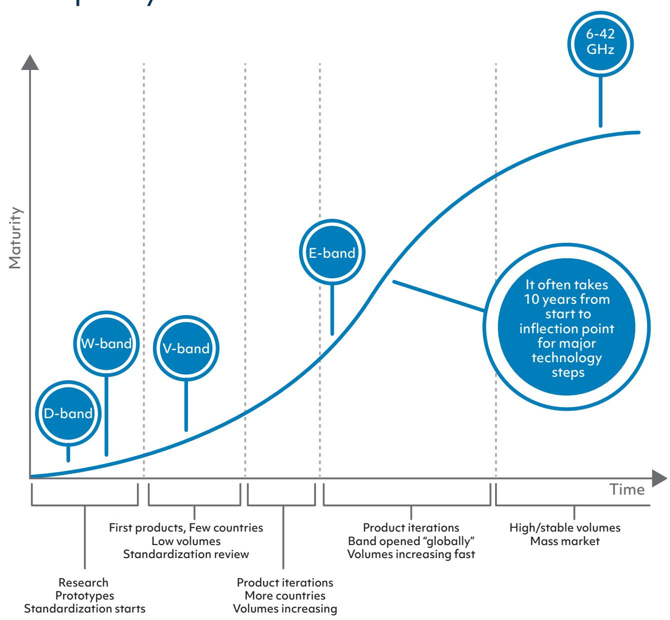
In summary, the roll out of true 5G networks is a major driver for the deployment of wireless, E-band Xhaul products. Current market estimates predict that by 2027, microwave will account for 65% of installed base of backhaul connections, and with 11% CAGR, at least 30% of these wireless links will be high frequency mmWave, deployed in areas of high traffic density such as airports, sports stadiums, and metropolitan areas. The technical and economic advantages of microwave over fibre will underpin the continued growth and deployment of E-band wireless links, and our intent is to become the independent "go to" partner of choice for these demanding mmWave product designs.

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, and results in significantly reduced time to market, lower development costs and simplified integration with the radio.

Filtronic's Morpheus II transceiver module is an update on our class leading Orpheus module first introduced in 2016. It represents the latest product in a long line of E-band transceiver developments going back 10 years. Morpheus II has the advantage of being backwards compatible with Orpheus, enabling simple insertion, but is also more compact, lighter in weight, lower in cost and higher in performance. Therefore, it offers customers a significant upgrade to both new and legacy designs. In addition, Morpheus II has an Enhanced Tx

Time and steps to reach maturity in a new frequency band



Market review - mega trends continued

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 maintain their own in-house RF design and manufacturing capabilities, Filtronic's unique approach has allowed us to create a highly differentiated offering that provides our clients with flexibility, cost and, crucially, time to market advantages. Furthermore, our class-leading chipsets and dedicated manufacturing capability mean that our 5G backhaul products continue to offer users a significant performance advantage. Current transceiver products operate at E-band frequencies, but by 2030 the 6G performance standards will be on the agenda, and with it, the requirement for extreme low-latency and uninterrupted connections to even more mobile and Internet of Things ("IoT") devices. This will create a significant number of technical challenges for the telecoms industry. Filtronic have initiated the development of solutions for W-band and D-band, and we are well placed to provide the mmWave sub-systems required to support a world of universal high-speed connectivity.

Critical communications networks

Critical communication 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.

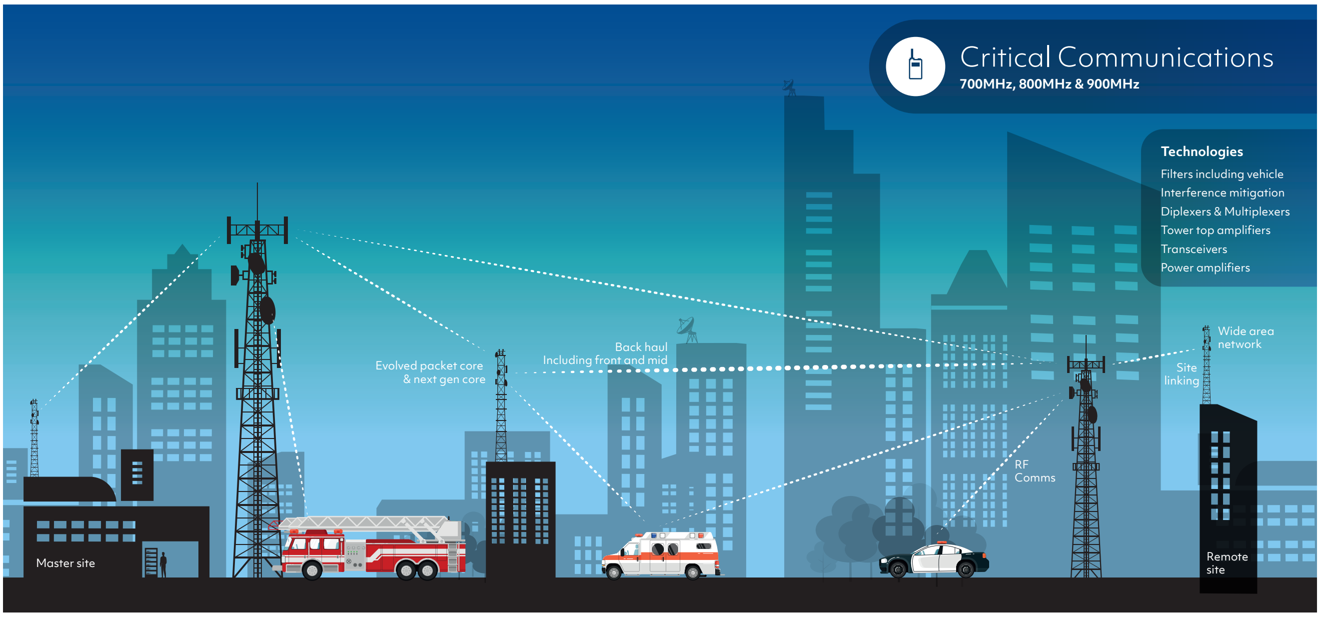
Filtronic has historically focussed on the North American market which deploys the P25 network standard, and where the market dynamics and the demand for higher resilience and longer-range communication, have allowed us to differentiate our products.

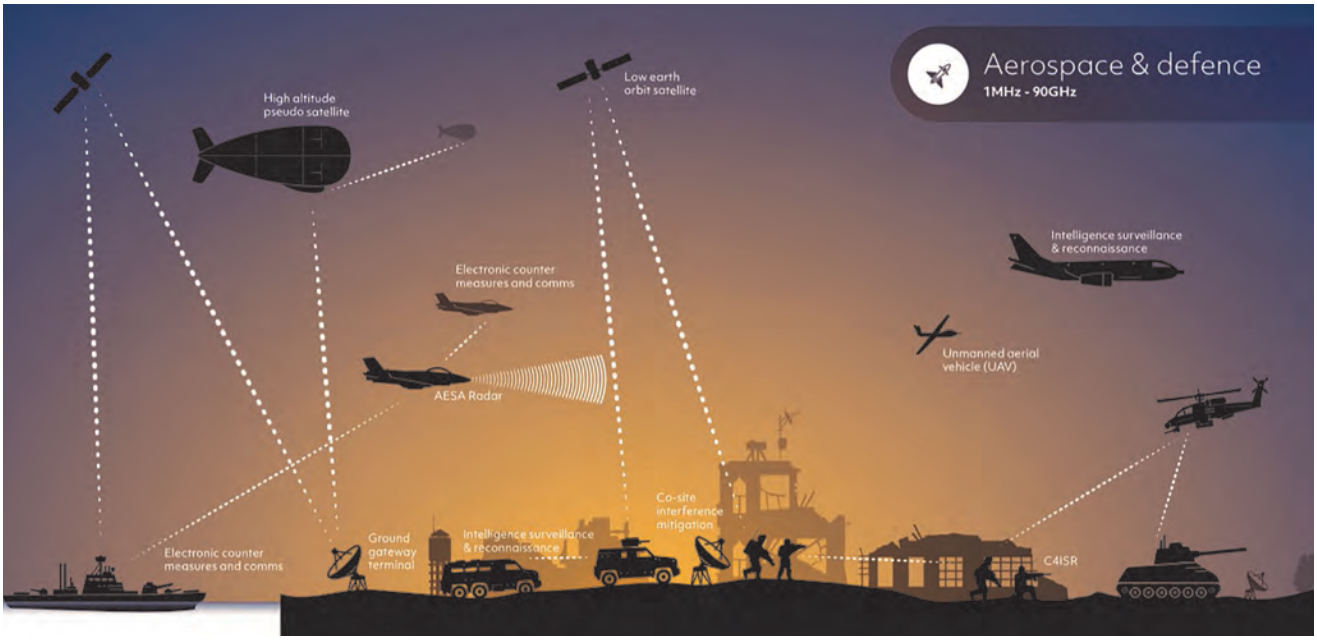
Overall expenditure on critical communication networks continues to grow as emergency services look to expand coverage, integrate services, and continue to replace legacy Frequency Modulation ("FM") analogue networks. The global Land Mobile Radio ("LMR") market is forecast to grow at 9% CAGR between 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 those in the commercial mobile phone network market, and therefore return on investment cases are very attractive for Filtronic.

Critical communication networks have historically been designed to supply high-quality, high-reliability voice communication, as a result these networks tend to operate at narrowband microwave frequencies (700-900MHz). In recent years there has been an increase in first responders wishing 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 continue to run over dedicated and secure private communication networks, whilst non-critical data communications are carried over commercial grade mobile telecommunication LTE 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. In FY2020 we launched a range of TTAs to expand our product offering. Although our TTA





products have been designed to be OEM agnostic, and are marketed under our own brand, our lead client in this market, the 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. These products will be designed based on market demand whilst recognising that the cycle for accreditation, approval and adoption associated with new products can be lengthy.

Filtronic took the decision in 2020 to in-source and on-shore the manufacturing of P25 critical communication network products into our own facility in Salisbury, Maryland, USA, and reduce the reliance on our Chinese subcontractor. This move was primarily designed to improve lead-time 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.

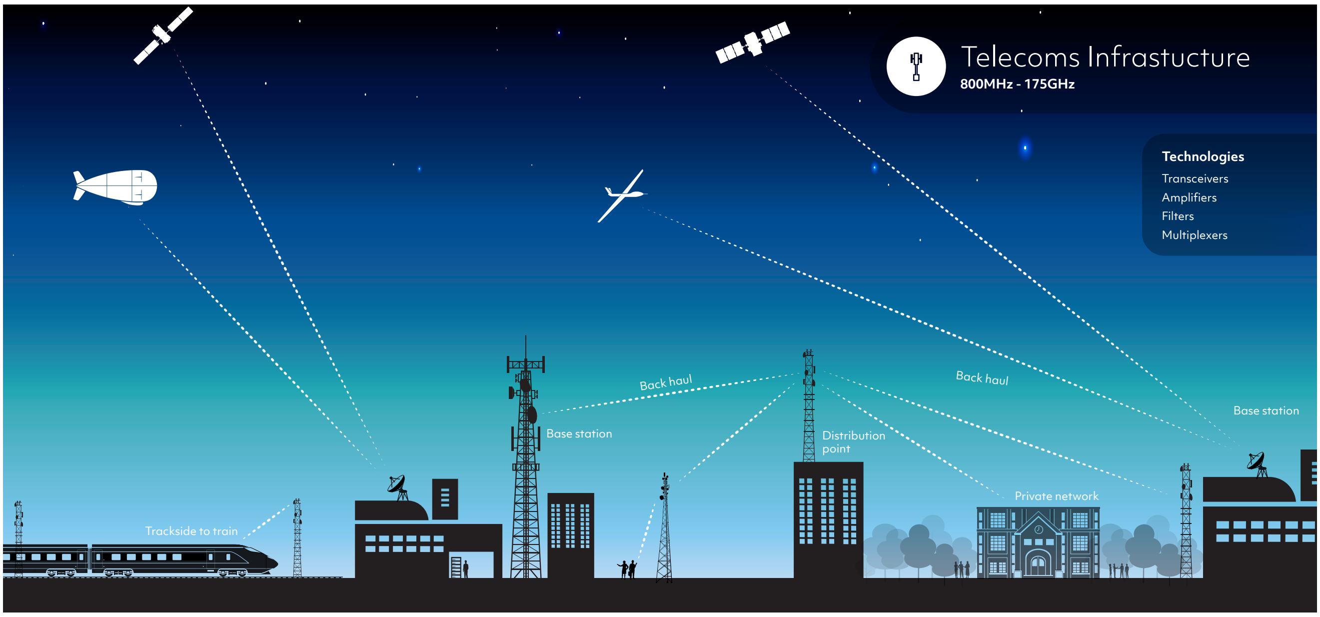
The critical communications market continues to show good levels of investment at both the city and state level, and in private networks requiring secure communications not found with the public telecoms network. Our solutions are trusted, reliable and generally the product choice for system designers 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 been a supplier of RF components and sub-systems to the aerospace industry for many years, in particular the delivery of filters, switch filter banks and electronic modules for successive generations of airborne radar systems. The latest generation of Active Electronically Steered Array ("AESA") e-scan phased array radars are an array of antennas, which form a beam of high frequency radio waves that can be aimed in different directions, without physically moving the antenna themselves. This functionality together with powerful onboard computing provides an unparalleled level of real-time air-to-air and air-to-surface target identification. Future generations of radar technology will require ever more complex and densely packed RF subsystems integrated into the limited space of the fighter jet airframe.

We currently use our extensive RF design expertise and UK based manufacturing locations to deliver multi-year contracts associated with the build and supply of highly integrated transmit and receive modules ("TRMs") for a range of aircraft platforms. These long-term delivery contracts provide us with a consistent level of demand for our manufacturing facilities and allows us to use our world class, Manufacturing Execution System ("MES"), Enterprise Resource Planning system ("ERP") and Quality Management System ("QMS") to ensure that each component manufactured is both traceable and matched to the desired performance of the radar system. The attraction of this market is the critical role that radar plays in delivering an effective sovereign electronic warfare ("EW") solution for the current range of fast jet programmes. Defence OEM's make huge efforts to maintain their operational edge and extend asset life-in-service results. This results in performance upgrades and a wear & tear replacement business. In the last few years, we have received several development contracts to use our RF design expertise in the development and

Market review - mega trends continued



prototyping of next generation radar systems.

Increasing geopolitical tensions are expected to lead to increased defence spending over the coming years. 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 an upgrade of the UK fleet of Typhoon radar system and the development of the next generation fast jet platform.

Filtronic's approach to the Aerospace and Defence market

Filtronic's target market in aerospace and defence is the manufacture of hybrid electronic modules, integrated switch filters and other RF components and sub-systems where our engineering, design and highly specialised manufacturing capabilities can create sustainable value. By focusing on TRMs and associated sub-systems Filtronic can leverage its deep understanding of RF packaging and thermal management issues, together with a sovereign manufacturing capability to produce solutions that meet the customer's challenging size, weight and power objectives.

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, with this in mind Filtronic have built a significant capability for the manufacture of RF hybrids, together with the process and procedures necessary to support full traceability and associated documentation. Innovative RF filter design has always been at the core of Filtronic's capability and with a limited number of UK based suppliers with the necessary defence experience, the company is a key partner for the aerospace prime.

Whilst the market for land and ship-based radars is relatively small by comparison to aerospace, they still require significant numbers of filters, electronic hybrids and RF sub-systems and this, together with emerging EW applications deploying high frequency RF technology, represent an attractive market development opportunity for Filtronic.

With low RF frequencies and limited ability to differentiate with innovative packaging, the defence market has been a limited engagement for Filtronic in the last few years. However, in 2020 we were invited to be part of a bid to design and build a battlefield communication training system for the UK Ministry of Defence ("MoD"). The programme was secured under the Department of Science and Technology Leadership ("DSTL") procurement scheme, and we successfully delivered prototype product and a limited production run in 2022. This successful engagement has caused us to re-evaluate the defence market as a strategic opportunity and we were awarded a second contract to this market last month. We have been invited to bid on other similar UK defence programmes that require innovative multi frequency RF solutions.

Low Earth Orbit ("LEO") Space and High Altitude Pseudo Satellites ("HAPS")

In recent years there has been a considerable global effort to design, develop and deploy high altitude communication networks, or non-terrestrial networks ("NTNs"), that both compliment and overcome the limitations of conventional terrestrial telecom infrastructure. The promise of NTNs is the delivery of true 5G bandwidth and services over wide geographical areas where terrestrial cellular network infrastructure is impractical, for example the open ocean, underpopulated rural areas, or remote locations far away from developed infrastructure.

The challenge of providing ubiquitous, cost-effective broadband connectivity has seen the emergence of two specific non-terrestrial solutions. The first is HAPS, operating within the outer limits of the stratosphere 20km above the earth. These networks, carried by balloons or solar powered gliders, stay suspended in the upper reaches of the earth's atmosphere for months at a time, and have the capacity to provide coverage over well-defined geographic areas. In parallel, there is considerable investment in LEO constellations operating in the lower level of space between 250km and 2,000km above the earth's surface. These satellites are typically interconnected and deployed in constellations, that when combined, cover large areas of the planet in a similar way to more traditional, higher orbit geostationary ("GEO") space satellites.

As the world of ground based and non-terrestrial telecommunications starts to converge, then the traditional business models associated with telecom service delivery will also evolve and there will be a range of new entrants into the HAPS and LEO market. These will include traditional aerospace and telecommunication companies, as well as industry disruptors who see the potential revenue streams available with a new form of deployment.

There are currently over 40 HAPS programmes at various stages of development around the world, and it is predicted that during the decade commencing 2020, over 10,000 LEO satellites will be launched as part of the race to develop constellations of private satellite networks. The links between LEO satellites, and the corresponding high frequency links to and from the ground-based distribution centres, represents a significant opportunity for the development of high reliability RF sub-systems.

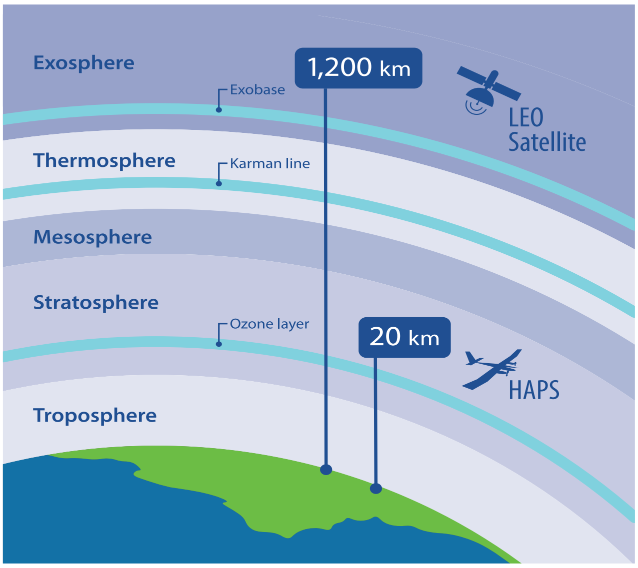
Filtronic's approach to the LEO Space and HAPS market

Filtronic have been a provider of terrestrial backhaul solutions for many years and our integrated Orpheus and Morpheus modules are an integral part of the current global 5G deployment. Our Xhaul products are produced in high volume to meet the quality, reliability, and cost expectations of a highly developed telecommunications market.

Based on our reputation as an independent Xhaul solution provider, Filtronic have been called into collaboration with some of the pioneers exploring the commercial opportunities for HAPS based telecom solutions. These early engagements with well-funded US tech companies enabled Filtronic to demonstrate an ability to adapt terrestrial telecom products for high altitude operation. Essentially modifying horizontal line of sight mmWave links to vertical line of sight links over extended distances.

The communications technology in these early HAPS demonstrations worked particularly well, and Filtronic's ability to design high power solutions based on our in-house chipsets enabled early adopters to build and test payload prototype solutions to an aggressive schedule. Ultimately, frequency licencing and unproven business models have limited the rollout of commercial HAPS solutions, however, this has not stopped the early innovators in this market migrating to LEO applications where the economics are better understood, and the frequency band allocations are already defined.

Filtronic will continue to drive a technology development roadmap in support of the emerging HAPS and LEO opportunity, recognising that the pioneering companies in this field are looking to adopt proven commercial technology, as opposed to expensive bespoke space grade solutions used in the more traditional geostationary telecommunications market.



Adjacent growth markets

Filtronic will continue to seek and develop opportunities in adjacent markets where we can leverage existing technology and capability, particularly those applications associated with the licenced frequency ranges of Q / V / E / W and D-band. Current adjacent applications of interest include low-latency and high-capacity private networks, high-speed track-to-train networks, gigabit wireless links, mmWave test systems, and early-stage quantum computing applications.

Strategic report

Market review - mega trends continued

Low-latency private networks
Filtronic has designed and supplied highly customised versions of Orpheus and Morpheus E-band links to customers servicing the financial services market. Private low-latency microwave networks are becoming recognised as essential in reducing the transaction times in automated, high-frequency, financial trading systems. Other low-latency high-capacity applications under consideration include plant safety controls, security monitoring networks 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. 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 US RF test equipment company. The design phase completed in CY2021 with the supply of evaluation samples, and the product moved into production in CY2022.

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 transceivers 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.

Quantum computing
Recent development in the field of quantum computing have exposed the need for sophisticated levels of RF filtering, and more recently the need for integrated switch filter banks capable of operating at both room temperature and in cryogenic chambers at sustained level of very low temperature. Filtronic is delighted to have partnered with an industry leader in this field to develop and test new filter technology.

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 several interesting technical and commercial challenges. Filtronic has partnered with OutDoor Unit ("ODU") manufacturers to successfully complete a demonstration project in both Europe and Asia. Follow-on projects of "Metro scale" were initially planned for execution in CY2022 but these have been postponed or delayed during the pandemic.

Objective and strategy

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

Accelerating speed to market	Reducing whole life costs	Customisation	Competitive advantage through higher performance

Filtronic have been at the forefront of RF technology for over 40 years, and we create value for our clients by enabling the future of RF, microwave and mmWave communications. We focus on markets where we have a deep understanding of the sector and the customer's application, and where we can leverage our design expertise and IP portfolio to create innovative products and sustainable revenue streams.

By being a trusted supplier of technically advanced products in markets that place value on quality and reliability enables us to differentiate ourselves from competition and deliver profitable growth and a positive return for our shareholders.

Our strategy is focused on providing high performance RF solutions from 300MHz to 300GHz focused on four distinct primary growth markets:

Telecommunications infrastructure

Build on our existing E-band technology to offer a complete product family of high power and low latency transceiver options in a selection of packaging styles that facilitate easy integration into Xhaul radio designs. Expand our frequency band offering to include W-band and D-band transceivers that incorporate our own best in class MMIC designs.

Defence

Use our considerable design expertise in filters and crucial communication products to pursue opportunities for turnkey RF design solutions for the UK defence industry.

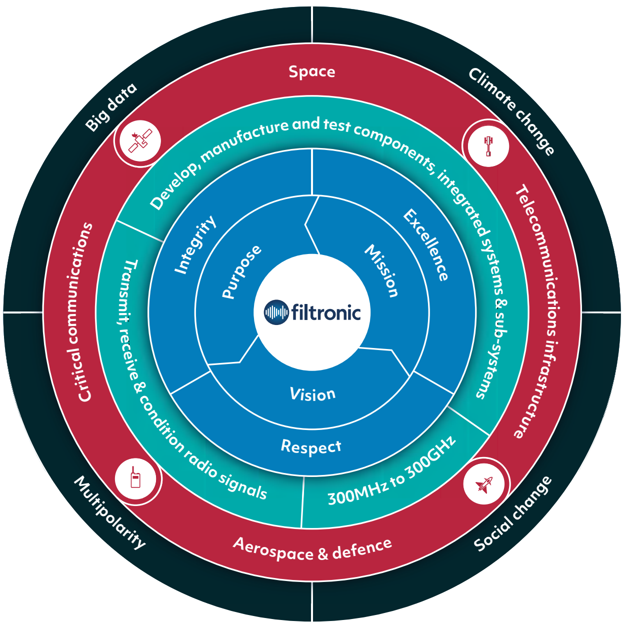
Aerospace radar

Build on our existing Aerospace and Defence customer relationships to secure design wins for the next generation of AESA radar and future manufacturing volumes of outsourced semiconductor assembly and test ("OSAT") hybrid manufacturing.

Space

Leverage the IP and manufacturing capability developed for the terrestrial telecommunication market to position Filtronic in the emerging LEO space and HAPS market.

To deliver the business strategy we set demanding goals for the organisation. We cascade, measure and reward achievement of these goals via our management



Strategic report

Objective and strategy continued

Objectives	Activities for FY2022	Progress in FY2022	Activities for FY2023
To nurture close working relationships with our customers to understand their needs and requirements	• Cover 100% of USA and Europe with sales representatives. • Expand the direct Business Development ("BD") organisation. • New CTO 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.	• Contracted with four rep companies that cover 80% of the USA market. • Seasoned BD staff added to the roster from Q1 FY2023. • Created new engineering director roles in support of the CTO role. • IASME governance accreditation added and the development of the Customer Relationship Management ("CRM") System.	• Continue to develop the rep channels to promote our product lines. • Deploy newly hired business development resource to extend our penetration of the UK Defence and UK/US Space market. • Expand our attendance at critical industry events and conferences with technical papers and an increased trade show presence.
To nurture close working relationships with our customers to understand their needs and requirements (continued)	• Expand our manufacturing capabilities to serve defence, space, and aerospace markets.	• All UK sites cleared for defence work. Added IASME Governance cyber security accreditation. CRM systems were upgraded to improve customer relationships and drive further sales. • New prototype equipment installed to allow rapid product and process development.	• Market and develop our technology roadmaps with key customers and industry bodies. Further investment into our cyber security systems to facilitate more defence contract wins. • Implement new process capability opening up new market opportunities outside of our existing offering.
To develop class-leading products in our core technology areas and to expand our areas of expertise	• Execute on the core technology roadmaps developed as part of the FY2021 strategic planning process ("STRAP"). • Expand our capability to design System in Package ("SiP") solutions to reduce size, weight, and power in key markets. • Continue to develop our telecom Xhaul product portfolio exploring W-band and D-band.	• Technology roadmaps refined to identify a specific set of new product developments. • Successfully recruited SiP design engineering capabilities and built a proposal for next generation QFN solution for ASEA radar market. • W-band MMIC programme initiated with first wafer run planned for Q2 FY2023.	• Build concept /demonstrator products to show capability at Ka/Q/V band frequencies for the LEO space market. • Implement the proposed QFN programme to provide plastic packaged hybrid solutions in addition to our current hermetic package offering. • Continue the W-band mmic development.
To develop solutions to address both customer-specific and general market requirements.	• Expand capabilities associated with the design, qualification, test, and manufacture of emerging Compound Semiconductor technology.	• New prototype equipment installed to allow rapid product and process development of new packaging solutions for compound materials	• Deploy the Manchester design centre in support of mmWave applications adjacent to E-band. • Continue to target UK Defence / DSTL development programmes.
To grow our customer base within the market verticals we serve	• Focus on adjacent market applications that have the potential for near term growth. • Expansion of the customer base in our existing markets of interest. • Continue to expand our Marcom activities and build our sales channels.	• Products launched in test instruments, private low-latency banking and LEO space applications. • Deeper penetration of ASEA radar application to include filters and Switched Filter Bank products. • Active campaign of marcom initiatives monitored through a market-leading B2B website tracker.	• Continue to explore adjacent applications for our E-band transceiver IP with the launch of the Cerus range of Solid-State Power Amplifiers and a range of transceiver options from high performance Hercules to active diplexer and SiP. • Use improved web data analytics to market our products and services and run targeted campaigns with prospective customers.

Objectives	Activities for FY2022	Progress in FY2022	Activities for FY2023
To broaden the range of markets we serve	• Refresh and relaunch the Filtronic brand and promote our brand message to targeted markets. • Focus on building our position in UK Defence market.	• New Filtronic brand launch complete and well received in the market. • Successfully expanded our position with UK MoD and DSTL contacts. • Delivered first battlefield radio comms project. • Number of smaller NRE contracts won with numerous defence primes.	• Continue with proactive strategic marcom activities designed to build the Filtronic brand. • Increase BD efforts to position Filtronic in UK defence and UK/EU/USA LEO space markets. • Broaden the customer base with specific targets identified in a number of markets.

Product & technology strategy

Filtronic designs, manufactures, and supplies technically advanced RF products that transmit, receive, condition, and manage radio waves. Our product range and wider technology capabilities are rich in IP and know-how, with over 80 patents/applications across the portfolio. Our aim is to be an applied technology and capability leader in our markets but avoid the risk of being a research pioneer.

Brand Strategy

Filtronic has a strong brand with good brand recognition and a reputation for innovative products and world class mmWave RF design. We recognise the value of a strong brand and have invested in the marketing tools to promote and build the Filtronic brand via our direct and indirect channels.

Organisational overview

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

We are in the process of adding a new site in north-west England to augment our engineering design capacity for mmWave products.

Sedgefield, UK

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

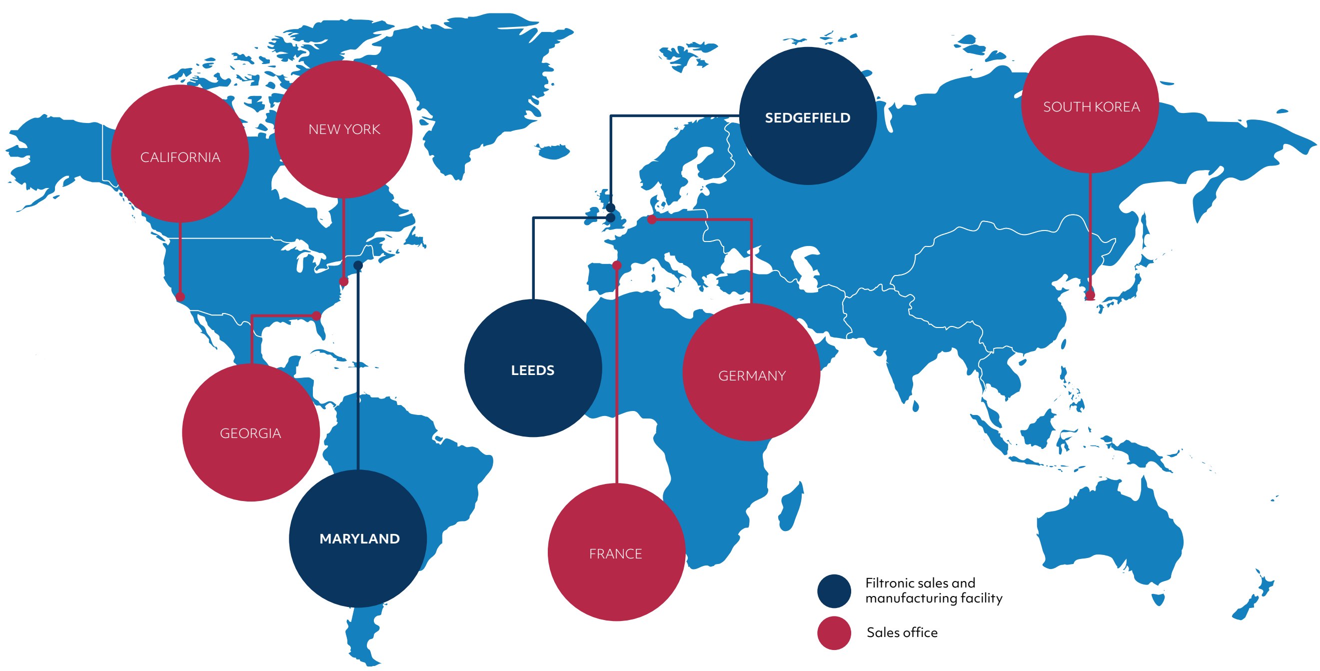
Leeds, UK

Engineering & Development of Filters, TTAs and associated RF systems and sub-systems for defence.

Salisbury, MD, USA

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

Filtronic recognising the importance of building empowered teams and we maintain attractive work conditions combined with modern flexible working practices.



Strategic report

Financial review

A year of continued progress delivering revenue growth and another year of successive adjusted EBITDA growth, despite strong macro-economic headwinds and industry-wide semiconductor shortages, providing a solid platform from which we will invest in the future of the business.

Filtronic achieved another year of adjusted EBITDA growth delivering £2.8m (2021: £1.8m) thanks to a strong sales mix and controlled overhead spend. Consequently, the balance sheet was strengthened with a healthy cash position following cash generation of £1.1m (2021: £0.9m) which will be used to invest in opportunities that offer a high rate of return and provide the building blocks for future growth.

Revenue

We are also pleased to report sales growth for the Group of 10%, taking revenue to £17.1m (2021: £15.6m) with the uplifts coming from aerospace & defence and critical communications. This was especially pleasing given revenue would have been higher in the period if output had not been constrained by material availability caused by the widely publicised global semiconductor component shortage. By encouraging customers to place longer-term orders we have secured the visibility we need to align resources and safeguard inventory. Consequently, we have been able to build our order book, which is stronger leaving the year than we entered, and gives optimism that we can continue on a growth trajectory. The momentum is also building as we look to deliver on one of our key strategic objectives, to broaden the customer base, with several recent contract wins outside of our largest three customers.

5G Xhaul sales decreased year-on-year by 12% as revenue was constrained by component availability in H1. Having received the material towards the end of H1, we enjoyed a 38% increase of sales to our lead customer in H2, as the demand profile returned to customer-specified levels. Output continues to flex, and we have the capacity in place to execute as 5G rollouts gather pace and an increasing number of governments release E-band spectrum. Sales of E-band derivatives to customers in adjacent markets saw growth with a main contributor being 'over-the-air' equipment having successfully completed the pilot phase of an engineering development to a leading US customer.

Sales of aerospace & defence products saw year-on-year growth of 27%, driven by our multi-year contracts running at consistent levels of output combined with revenue from new contract wins. The battlefield communications project, announced in January 2020, was the largest of these contract wins and saw over £1m of revenue recognised in the period. This market is critical to our growth plans, and it was pleasing to see several new customers entering the register with initial NRE development contracts. The sales cycle can be long in aerospace and defence, but once initial prototype orders become established, they are generally long-term and predictable, which helps to underwrite the business, improving the risk appetite for more speculative high-return projects in other areas.

The products supplied into the critical communications market achieved good results in the period with 23% growth year-on-year. The market suffered during the pandemic with funds diverted to sectors such as healthcare, but government spend has now flowed back into public infrastructure projects. Demand recovered well in the year and our lead customer is reporting year-on year revenue growth in Land Mobile Radio ("LMR"), which is the segment of their business we supply into, and a record order backlog primarily driven by LMR demand. The recently launched TTAs performed beyond our expectation with the product successfully designed into major infrastructure projects ahead of more established suppliers in the market. Our procurement strategies, including early sourcing of materials and elevated levels of inventory, minimised the impact of component shortages but revenue to this market would have been higher if not for shortages upstream in the system-level product. However, this also created opportunities for us, and we were able to capitalise, winning additional business thanks to our ability to maintain supply, when competitors hit fulfilment challenges.

Operating costs and headcount

Operating costs remained broadly flat in the year at £9.4m (2021: £9.5m) as overheads were controlled in the administrative areas of the business.

The Group's largest overhead is salary-related costs which increased by £0.1m, although the mix of personnel changed in the year. Improvements in manufacturing efficiency facilitated a lower cost base to run our manufacturing operations, with the savings invested back into the business with the recruitment of new employees in engineering to support work on the technology roadmap.

Given this shift, there was a reduction in the total number of employees in the Group during the year which is reflected in the average headcount for the year decreasing to 124 (2021: 130). An analysis of the Group's average continuing headcount is presented below:

Number	2022	2021
Manufacturing	**78**	86
Research and development	**26**	24
Sales and marketing	**5**	5
Administration	**15**	15
Total headcount	**124**	130

Further investment is planned for the year ahead with additional engineers joining the business in Q1 FY2023 as we seek to capitalise on new opportunities having strengthened our direct channels to market. This follows a big push on recruitment of senior sales personnel and engineers which incurred recruitment costs of £0.2m, which is larger than we have previously incurred, as given the high number of vacancies to fill we engaged a recruitment process outsourcer ("RPO") to fill the open vacancies.

Other costs were managed tightly throughout the year and consequential cost savings from the pandemic such as business travel prevailed. In my report last year, I advised that I was keen to see our sales and marketing team return to trade exhibitions at the earliest opportunity, and it was pleasing to see the restart of these events in the year. They have been successful forums for generating new customer leads in the past, and money will always be made available to support these events as they are key to new business acquisition.

In the USA, we secured a second round 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 and converted to a grant totalling $186k (£131k).

A large portion of our product development in the year was customer funded which maintained a healthy flow of cash during the development phase of the engineering projects. Consequently, there was limited capitalisation of development costs as the costs are expensed in line with revenue recognition. Further commentary can be seen in the Research and Development section of this review.

Adjusted EBITDA

The Group continues to focus on an alternative performance measure ("APM") to track performance of the business. This 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. Adjusted EBITDA for the operation was £2.8m (2021: £1.8m) representing a 58% increase whilst adjusted operating profit was £1.6m (2021:£0.6m). This was facilitated by a stronger sales mix and controlled spend of the overhead cost base whilst maintaining investment into R&D.

Gross profit increased considerably thanks to increased sales to the critical communications and aerospace & defence market as certain components are free issued by the customer which gives improved margins, whilst sales to the telecommunications infrastructure market were lower where pricing is more competitive.

Amortisation increased as the full year impact of the Morpheus and MMIC IP engineering developments, capitalised as an intangible asset in a prior period, were borne.

The exceptional items relate to legacy Telecoms Antenna Operation provisions that were released unused in the period. Having previously recognised the cost in the discontinued operation, the reversal has gone through exceptional items.

The table below shows the reconciliation of operating profit delivered at £2.0m (2021: £0.6m) to adjusted EBITDA.

Reconciliation of operating profit to adjusted EBITDA	2022 £000	2021 £000
Operating profit	**1,975**	642
Exceptional items	**(391)**	(64)
Adjusted operating profit	**1,584**	578
Impairment of development costs	**-**	45
Depreciation	**945**	941
Amortisation	**278**	209
Adjusted EBITDA	**2,807**	1,773

Taxation

A tax charge of £0.4m (2021: £0.2m) was recognised for the year. This is the result of a reduced deferred tax position reflecting usage in the year within the profitable trading subsidiaries in the UK and US. This is a non-cash entry so payments will not be made to 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 provided over the last couple of years. The UK has already increased the rate of corporation tax with effect from 1 April 2023 for companies with profits above £250,000 to 25% from 19%, and the US is currently debating the merits of an increase. However, with substantial deferred tax assets, including those not recognised on the balance sheet, this is likely to have a minimal impact on cash in the Group in the short and medium term.

Research and development costs ("R&D")

Total R&D costs in the year before capitalisation and amortisation of development costs were £1.7m (2021: £1.7m). The Group utilised most of its engineering resource on customer funded developments generating near-term revenue with an increased chance of commercialisation.

However, the Group remains committed to investment in R&D for future growth of the business and consequently measures R&D spend as a KPI. Given the importance, our investment strategy is geared towards continual investment in R&D with the plan to align annual spend at 12% or more of revenue. Key areas of spend in the year included product development for markets spanning 'over-the-air' mmWave equipment, aerospace & defence,

Financial review continued

low earth orbit and development of W-band capability. The healthy cash position and strengthened balance sheet gives us a greater ability to invest in the development of our own strategic technology roadmap and proprietary IP. This will allow us to build long-term shareholder value in the years ahead.

Recruitment of RF engineers has been an industry-wide issue for some time, but a change of approach has yielded positive results with the use of the RPO, as disclosed in the operating costs and headcount subsection of this report. We have also recruited a high-calibre team of engineers in the Manchester area, where we are creating a low-cost footprint to base the team, who will drive our technology roadmap in mmWave engineering for the space market.

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	2022 £000	2021 £000
R&D costs in income statement	**1,937**	1,845
Capitalisation of development costs	**-**	52
Impairment of development costs	**-**	(45)
Amortisation of development costs	**(259)**	(182)
R&D cash spent	**1,678**	1,670

Capital expenditure and right of use assets

Capital expenditure increased slightly in the year. The total amount of capital purchased was £0.6m (2021: £0.4m) with the purchase of another die-attach machine and solder reflow oven. The die-attach machine increases overall capacity at our Sedgefield site, enabling quick-turnaround of new product introductions and servicing of a growing opportunity pipeline without disruption to the production line. It also increases the bandwidth of our process engineers, which is a key skillset of the business, to undertake more development work. The solder reflow oven improves the capability of the operation and opens new opportunities particularly in the aerospace & defence market. The assets were externally financed through asset finance agreements were subsequently classified as right of use assets.

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 2022, the warranty provision was £0.1m (2021: £0.3m). A provision relating to the legacy Telecoms Antenna Operation was released unused in the year and is recognised in exceptional items.

Funding and cash flow

The Group recorded an increase in cash and cash equivalents to £4.0m (2021: £2.9m) at the year-end. Cash generated from operating activities in the year was £2.3m (2021: £2.5m) as solid adjusted EBITDA performance drove strong cash generation offset by increased working capital requirements. Industry-wide semiconductor shortages have been well-documented and are mentioned a number of times in the Group's Annual Report, with a key mitigation action being the increase of our inventory holding. This has been key to continuity of supply at a time when availability is scarce and lead times are stretching. Consequently, the net inventory position grew by £0.4m in the year. The increase in receivables and payables represents a strong period of trading in Q4 FY2022, inflating the closing position, as payments were in line with payment terms.

Net cash of all lease obligations, when including all debt except property leases at the end of the period, was £3.1m (2021: £1.9m), whilst overall net cash including property leases was £2.2m (2021: £0.8m). At a time when many sectors are struggling with liquidity, coupled with economic headwinds from inflation, cost of living increases and geopolitical uncertainty, our business is in the fortunate position to have a platform from which to grow with a cash position that will be used to invest for the future.

We also have additional cash headroom available through 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 2022 (2021: 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 2022 of £4.0m (2021: £2.9m) and the additional headroom available through the undrawn invoice discounting facilities and overdraft (2021: undrawn);
- Global semiconductor component shortages impacting supply chains and the potential for customer orders to remain unfulfilled for prolonged periods; and
- The economic headwinds the world is facing with the potential for customers to reassess their priorities, with opportunities postponed or curtailed.

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 2022.

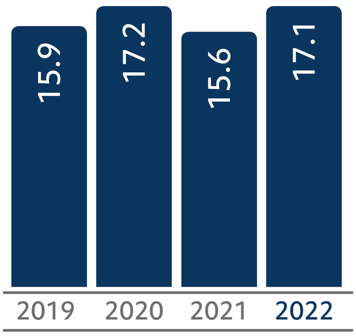
Michael Tyerman
Chief Financial Officer
1 August 2022

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)

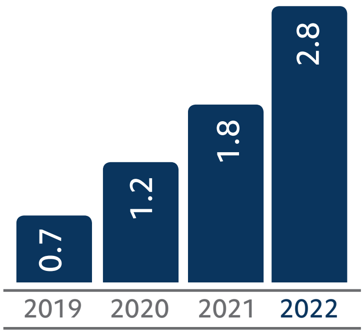
£17.1m



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

Adjusted EBITDA (£m)

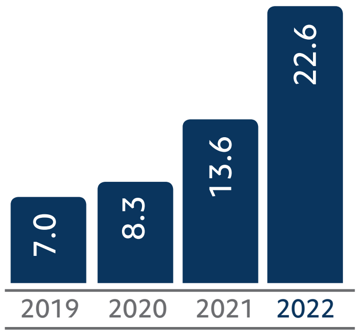
£2.8m



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

Adjusted EBITDA per employee (£k)

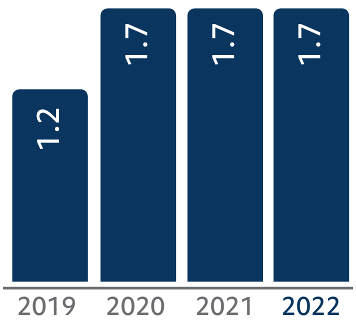
£22.6k



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

Research and development costs (£m)

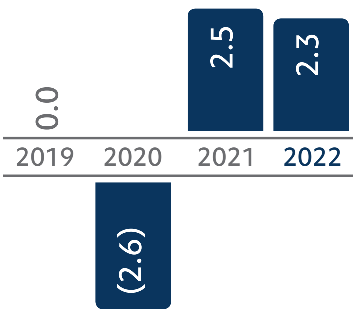
£1.7m



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)

£2.3m



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.

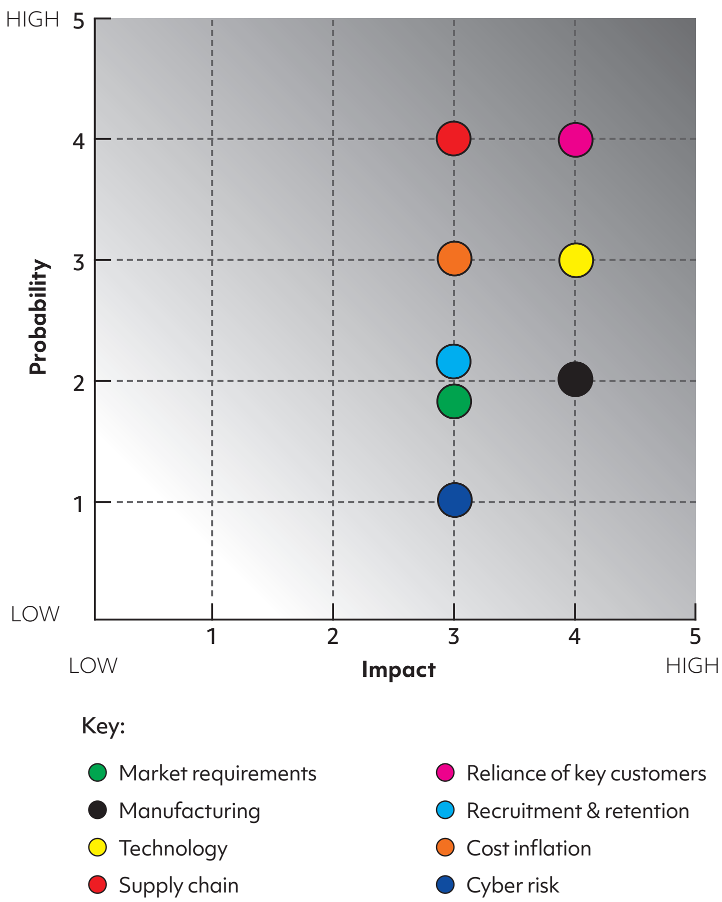
Risk management

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.

How we manage risk

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 and Risk 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 the Risk Management Committee made up of senior operational management including the Executive Directors.



The team is responsible for

- Identifying the risk and the negative and positive risk circumstances;
- Assessing and evaluating the likelihood and impact of those risks;
- Reporting the risk; and
- Managing the key risks in accordance with established processes under the Group's operational policies and controls.

This process includes a 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.

Managing new emerging risks

We monitor new and emerging risks closely. In the year, we introduced the new risk of the increasing risk of cost inflation and margin pressure but having undertaken a successful recruitment drive in the financial year have now removed recruitment from the key risks, but continue to monitor retention. Like many risks, they could present opportunities as well as downsides. With the global electronic component shortage, for instance, customers might look to secure supply and give extended order book coverage or competitors might not have the ability to increase their working capital to ensure continuity of supply or may not be able to secure inventory. We have mitigating plans to cover these different eventualities.

In the year ahead our priorities will include the monitoring of geopolitical impact of the events in Ukraine and continuing to closely monitor our cybersecurity mitigation and capabilities.

Our principal risks and uncertainties

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.	
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 is regularly monitored whilst regular communication with key suppliers ensures lead times are managed. Please see the specific risk on the global electronic component shortage for more information.	
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.	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) and the HAPS Alliance. By staying close to the market, we position ourselves to react quickly to any technology changes that develop.	

Strategic report

Risk management continued

Risk	Risk description	Mitigation actions	Change in year
Competing technology and failure to deliver projects on time or to specification (continued)	For products in the production cycle, technology insertion is often required as a means of achieving price reductions, which underpin sales.	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. We have also utilised the strength of the balance sheet to secure inventory early, ensuring availability of components to fulfil customer orders. With good communication to our customers highlighting the risks to product lead times we have been able to secure sales orders and commit purchase orders into the supply chain.	
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.	Our largest customers are very successful in their respective markets, and each has a long-established relationship with Filtronic. We continue to win further contracts with our existing customers and have good outlook visibility as well as being actively engaged with them on new opportunities. The Group has strong account management strategies and mitigates this risk by working closely with customers, at all levels, to ensure that we are designed into their new products at an early stage, enabling us to develop products that meet their specifications and requirements. We provide customers with a well-resourced programme and a high level of service with a focus on product quality and delivery which enables high customer retention rates. To broaden the customer base, we have won several smaller contracts with new customers, in the year, across several different markets that may lead to significant business in the future. The sales function has also been strengthened in both the direct and indirect channels and trade exhibitions have recommenced in the year which together gives confidence of an expanding opportunity pipeline and a broadening our customer base.	

Risk	Risk description	Mitigation actions	Change in year
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 with regular benchmarking exercises. 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 have also developed the Filtronic Leadership Academy to give our management team the tools they need to lead their team to meet their objectives. We provide regular communications to all employees through communication meetings in each of our business locations. By helping our employees gain 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.	Decreased risk
Cost inflation and margin pressure	Inflation in the UK, as measured by the Consumer Price Index (CPI) is currently increasing, which is driven by broad-based cost increases. This could create a business environment in which customers redirect their spending from new projects to more pressing needs. Wage inflation, increased energy bills and rising component prices could have a direct impact on our underlying cost base and profitability.	We can control some of these factors such as passing costs on to customers but some factors such as economic and political ones are beyond our control. Ensuring our pricing models are updated so we are quoting for new business with the latest cost base and reducing our energy consumption are some of the measures we have in place to protect our margins.	Increased risk
Cyber security and data integrity	There is a risk to the Group if there is unauthorised access to, or integrity issues with, its data systems. This could cause significant reputational damage as well as service disruptions and potential impact on orders, revenue and profit.	As a supplier to the defence industry the Group has strong cyber security credentials including Cyber Essentials Plus and DART accreditation and has recently achieved accreditation with IASME Governance which further augments our capability to defend ourselves from cyber threats and protect our sensitive data. Regular reviews are undertaken of the network security arrangements and training is provided regularly to users on cyber threats and other data loss/integrity risks. The Group also limits access to data and access is only provided to those users with a genuine business need. Data shared externally is conducted under contractual arrangements. In the year ahead, the Audit and Risk Committee will oversee a penetrative test on our systems conducted by an external partner to understand how resilient we are in the event of an attack.	No change

Risk key

Increased risk No change Decreased risk

Strategic report

Our people

We are extremely proud of our people and their contribution in supporting organisational performance and strategy.

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 technical, 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.

Employee profile

Our headcount as of 31 May 2022 was 116. 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, supplemented by extensive practical training where applicable.

Employee turnover

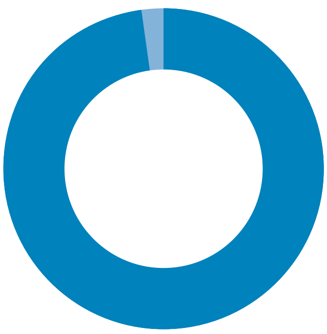
The Group's employee turnover rate has historically been very low but employee retention has been an elevated risk over the last year due to a couple of factors. Firstly, through a fundamental shift in working practices, home and hybrid working has increased job opportunities significantly as candidates are no longer restricted by geography. Secondly, several local companies have recruited aggressively over the past year which has disrupted the local labour market, which coupled with cost-of-living pressures, has made staff retention more challenging. We conducted an extensive salary benchmarking exercise in the year and implemented increases on the findings to ensure we are competitive. Aside from the increased employee turnover this year, we have an extremely stable workforce, with an average length of service at 7.9 years.

Employee communication and engagement

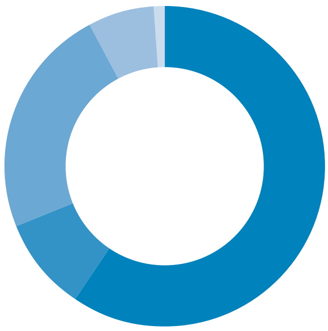
We strive to maintain a healthy employee relations environment in which dialogue between management and our employees, both directly and indirectly, where appropriate, is embedded in our work practices.

We are currently in the process of rolling out our first formal employee engagement survey to all employees. Responses and analysis will be managed by external consultants to further encourage honest and open feedback in an anonymous manner. This will be a recurring annual event as we look to improve our employees' experience at work, measure commitment and identify trends with action taken to address any gaps.

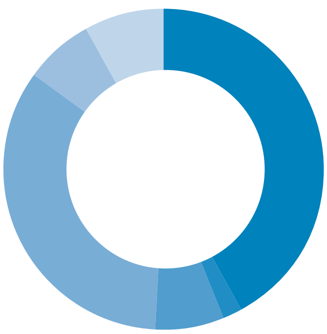
Current headcount metrics



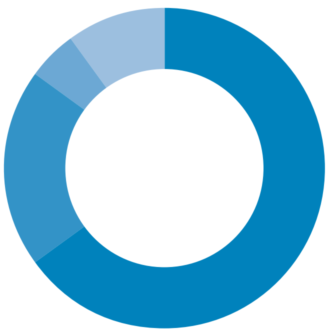
Full time/ Part time	FY2022 %	FY2021 %
Full time	97	98
Part time	3	2



Length of service	FY2022 %	FY2021 %
0-5	69	50
5-10	11	9
10-20	27	35
20+	8	5
>25	1	1



Qualification	FY2022 %	FY2021 %
Level 1	42	51
Level 2	2	2
Level 3	7	9
Bachelors degree	34	21
Masters degree	7	9
PhD	8	7



Function	FY2022 %	FY2021 %
Manufacturing	61	65
R&D	23	20
Sales & marketing	4	5
Administration	12	10

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

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 enabling us to analyse data to address any retention issues or implement suggested 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.

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. Activities in the year includes training through an e-learning module devised by Make UK to ensure that our people are being inclusive in the way they approach their role and responsibilities.

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 and retain talent whilst promoting and rewarding 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 is 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 the prior year, we rolled out our Technology Leadership Recognition Policy to recognise and reward innovative thinking and professional personal development, a number of awards were made in the year, under this scheme, for new patent applications and grants as well white papers and technical presentations. To complement this, we have also introduced a 'Bright Ideas' scheme managed through our T-card system, to broaden the reward scope for new ideas and continuous improvement suggestions. Vouchers are presented quarterly to employees with the best ideas.

Employee share plans

We have a couple of share option plans designed to align employees' interests with the Group's performance and the interest of our shareholders. For information on the share-based compensation plans for Executive Directors, see the 'Directors' remuneration report'.

UK-based employees of Filtronic plc are eligible to participate in the Save As You Earn ("SAYE") Scheme. Options are granted at the closing middle market price on the day before issue and 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 the 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 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.

Following the introduction of these values and behaviours last year, we have taken a holistic approach to ensuring that they are embedded across the organisation. They have been written into recruitment, appraisal and performance management systems.

Recruitment

Competition and demand for technical talent has never been greater; geographical base limitations have been removed for many roles driven by a fundamental change in how and where people work. We have embraced this shift to ensure that we continue to attract the best talent with the introduction of hybrid working, and supporting remote working, where possible.

Our people continued

Our values & behaviours

Filtronic employs a special kind of person. They are experts in their field, confident communicators who love to collaborate, solve problems, and step up to a challenge.

Values

Behaviours

Integrity

Act with integrity; being honest and fair, always keeping our promises.

- Do the right thing, not the easy thing, speak up if it's not right.
- Deliver on your promises.
- Be truthful, always being honest and open.
- Be fair and ethical in your work and decision making.
- Take responsibility for your own actions, learn from mistakes when they happen.

Respect

Be respectful to all; it is the foundation of our culture.

- Be inclusive, always respecting and valuing others.
- Act how you want to be treated; being kind, considerate and respectful of others and their opinions.
- Be supportive and positive in all your working relationships.
- Value the importance of equality, diversity and inclusivity.
- Be open-minded and upfront with people.

Excellence

Strive for excellence; it is what our clients and colleagues expect and what we endeavour to deliver.

- Perform to the highest professional standards.
- Be innovative and pragmatic with problem solving.
- Take pride in our work, paying attention to detail.
- Be agile and flexible in your approach.
- Be curious and challenge constructively to improve how we work.

This has been a very successful year for recruitment as we have strengthened our engineering and business development teams. To deliver this we utilised an RPO model, implemented a generous employee referral scheme and used our very well-established industry and academic contacts. We have also recruited a team of high-calibre engineers in the Manchester area who bring a wealth of experience and provides us with a base in the area to attract engineers from both the Manchester and Sheffield area where RF engineering skills are available.

Covid-19

We continue to manage any ongoing impact of Covid-19 with the health & safety of our employees remaining our number one priority. The impact to business operations has been negligible due to the adoption of home and hybrid working coupled with robust, pragmatic health and safety protocols.

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, to which the rollout of our Leadership Academy is testament.

This year we will be focussing on establishing an apprenticeship programme and formal succession planning.

What do you enjoy most about your job?

"There's always something new to learn in my role. I enjoy the higher frequency work especially; it wasn't something I'd had a ton of experience with before I joined and the manufacturing capabilities at NETPark mean lots of those opportunities exist."

Laura McDonald
Senior RF Design Engineer

"I really enjoy working at Filtronic, the variety and progression is a big draw for a new graduate, plus the investment within the IT systems makes my job more interesting."

Muz Hussain
IT Graduate

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.

Environmental Social Governance ("ESG")

Environmental

- Operational energy use and carbon emissions
- Waste and recycling
- Technology driving digitalisation and carbon footprint reduction

Social

- Health, safety and wellbeing
- Employee engagement
- Diversity, inclusion and equality
- Attracting and retaining talent
- Charitable and community support
- Human rights and modern slavery

Governance

- Ethical conduct
- Corporate governance
- Risk management
- Responsible supply chain
- Data privacy and cybersecurity

Corporate social responsibility report continued

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 implementation of a cycle to work scheme and encouraging the use of the electric car recharging stations at our NETPark site;
- Continued to minimise waste through re-use and recycling and promote efficient use of materials and resources;
- Strove to prevent pollution and to continually improve our environmental performance;
- Undertook training from the Responsible Business Alliance relating to ESG;
- Benchmarked our ESG credentials on a large well-known business sustainability platform; and
- Reviewed our status against Net Zero as we look to develop our plans to help tackle climate change.

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 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. In the year, we updated our H&S policy which is published with our group policies and is on display at each of our 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.

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 adopted a Supplier Code of Conduct in the year which can be found at www.filtronic.com/about/customer-and-supplier-support/ to ensure suppliers behave ethically and in alignment with Filtronic's values. During the year we also rejuvenated our supplier questionnaire and supplier management processes including the implementation of the Supplier Code of Conduct to improve the governance of 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 certified ISO9001 and are actively working towards the AS9100 which is the quality management standard adopted by the aerospace and defence industry.

The FY2022 Strategic report, has been reviewed and approved by the Board of Directors on 1 August 2022 and signed on its behalf by

Richard Gibbs
Chief Executive Officer
1 August 2022

Board of Directors

Executive Directors

Richard Gibbs (aged 63) : 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 43) : 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

Jonathan Neale (aged 59) : Non-Executive Chairman

Appointed to the Board: 15 November 2021

Committees: A N R

Jonathan was recently Chief Operating Officer of McLaren Group. Until his retirement he previously held a number of executive roles with the McLaren Group including Chief Executive Officer of McLaren Racing F1. Prior to this, Jonathan was Managing Director of BAE Systems, UK – Hawk Military Aircraft.

Jonathan graduated from the University of Nottingham with an honours degree in physics and is a Fellow of the Institute of Directors; a council member of the charity The Foundation for Science and Technology; a Fellow of the Institute of Engineering and Technology; and a Chartered Engineer.

Peter (Pete) Magowan (aged 54) : Senior Independent Non-Executive Director

Appointed to the Board: 19 November 2018

Committees: A N R

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 61) : Independent Non-Executive Director

Appointed to the Board: 1 January 2021

Committees: A N R

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 A Audit N Nominations R Remuneration

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 2022.

The Board recognises the value of good corporate governance as the basis for promoting the long-term growth and sustainability of the business. Governance arrangements are reviewed on an ongoing basis to ensure they are fit for purpose and the Board continues to consider that the Quoted Companies Alliance ("QCA") Corporate Governance Code 2018 ("The Code") provides the most appropriate framework for governance for the Company's size and complexity. Throughout the year, we have complied with all principles of the Code.

This governance section of the 2022 Annual Report and Accounts, which includes the corporate governance statement, the Audit and Risk Committee report, the Nominations Committee report and the Directors' remuneration report, describes how Filtronic has applied the main principles of the Code during the year. Further information on compliance can be found on the Filtronic website at https://filtronic.com/investors.

In November 2021, I joined the Board as Chairman. I am aware that it is my responsibility to ensure that Filtronic has the governance arrangements in place to support effective leadership and promote the long-term success of the Company and that these arrangements are followed in practice.

Jonathan Neale, Chairman
1 August 2022

Corporate governance statement

Introduction

The Board acknowledges the role that the ten QCA Code principles has in providing structure to the Group's corporate governance framework. This section explains how we have complied with the ten principles of the QCA Code.

Principle 1 – Delivering growth in the long-term

As explained fully within the strategic report of the Annual Report, our strategy is focussed around four core areas:

- **Telecoms:** defending 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 coverage with major customers requiring RF hybrid solutions;
- **Space:** position Filtronic in Space (HAPS/LEO) market by virtue of our UK manufacturing capability and Q-band PA design; and
- **Radar:** leveraging our current relationships to secure a bigger role in next generation radar design;

Notwithstanding the challenges posed by the Covid-19 pandemic, as well as the macroeconomic backdrop (e.g., inflationary pressures, electronic component shortage and extended lead-times) during the year, the delivery of the strategy continues and remains, front and centre, as the focus of the Board's attention. Our objective through the execution of the strategy is to deliver shareholder value and medium-long term growth. As a Board, we will ensure that we continue to challenge ourselves and regularly consider whether we are effective in delivering this objective.

Our business model and execution of the strategy is underpinned by the governance framework outlined in this section.

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

Great value is taken from 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") and the Chairman. The CEO and CFO undertake an extensive programme of meetings with shareholders at least twice a year. Additionally, 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 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 and Stakeholder engagement sections within the Governance report and the Corporate social responsibility report of the Strategic report.

Principle 4 – Risk management and internal controls

The Group faces challenges in the execution of its business strategy. The Board acknowledges that it has 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. During the year the remit of the Audit Committee (renamed the Audit and Risk Committee) was formally extended to include a quarterly review of the Group's risk register with a view to (i) ensuring the risk register is complete, appropriate and up to date; (ii) ensuring adequate processes are in place to detect new or emerging risks; (iii) reviewing risk exposures and any changes to the status of risks in the risk register; (iv) reviewing risk management assessment and processes; (v) reviewing risk mitigation measures and the appropriateness of responses to risks; (vi) reporting its findings to the Board. The Group operates a series of controls which includes the annual strategic planning and business planning process. Additionally, the Executive Directors and senior managers provide monthly updates to the Board in the form of function reports which include the principal risks and controls they are managing across the Group. Please see the Risk management section of the Annual Report 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 (Jonathan Neale), 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. During the year, the Board was supported and assisted by the Company Secretary and General Counsel (Maura Moynihan), who was in attendance at and contributed to each board meeting. All members had access to the advice and services of the General Counsel and Company Secretary. Following Maura's retirement from Filtronic at the end of the financial year, Michael Tyerman was appointed Company Secretary on 1 June 2022 (while retaining his CFO role). In compliance with the Code, the Board is mindful of the need to develop plans to separate the roles at an appropriate time. Board members are able to take independent professional advice at the Company's expense in the discharge of their duties.

There is a formal schedule of matters reserved for the Board. To enhance the Board's communication with management and achieve greater operational transparency, senior management from the sales and marketing, operational and engineering organisations are invited to the performance review section of the board meeting to present their key projects and deliverables at regular intervals 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. Board meetings are held at the Group's operational sites to enable local management teams to present operational and strategic programme progress to the Board. The Board believes this arrangement gives greater transparency and enhanced relationships between the management and the Board. During the year, board meetings have been held in person at the Sedgefield and Yeadon sites.

Directors' attendance FY2022

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

	Meetings attended
Jonathan Neale[1]	6/6
Richard Gibbs	10/10
Reg Gott[2]	4/4
Michael Tyerman	10/10
Pete Magowan	10/10
John Behrendt	10/10

[1] Jonathan Neale was appointed on 15 November 2021

[2] Reg Gott retired on 28 October 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 33. The members of the Board bring a range of complementary skills and experience from across markets in which the Group operates.

In November 2021, the Board was delighted to welcome Jonathan Neale as independent Non-Executive Chairman. Jonathan brought with him a wealth of relevant directorial experience, technology credentials and personal qualities to position him well to provide the clarity of purpose and strong leadership required to lead the Board effectively as well as oversee the communication and delivery the Company's strategy. Overall, the Board is satisfied that, between the directors, it has an effective balance of skills and experience. Please see the Nominations 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 with progress

Governance report continued

on actions monitored during the year. On joining the business, the Company Secretary arranges an induction session with each new director covering such matters as Group and organisation structure, Filtronic's values and group 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. Following last year's exercise, the Board received refresher training on MAR, AIM Rule 11 and other corporate matters from Pinsent Masons LLP. In addition, further information on IFRS standards IFRS 15 (revenue from contracts with customers) and IAS 38 (intangible assets) was provided as required following last year's exercise.

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 be the trusted provider of innovative RF solutions. 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:

- Act with **integrity;** being honest, 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.

The Board monitors and promotes its corporate culture assisted by its senior leadership team ("SLT"), which includes the Head of HR. This team plays a vital role in disseminating the Company's shared values with its employees. The SLT holds monthly meetings, and its members are frequently invited to attend sections of the board meeting 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 and Risk 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 of its shareholders. Communication with members is driven primarily through the regulatory news service (RNS), the company 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 and Risk Committee, Nominations 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 town hall meetings 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 with all suppliers issued with the Filtronic Supplier Code of Conduct which includes, but is 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 2022, 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 having regard to the six matters listed in s. 172 (1) (a) to (f) of the Companies Act 2006.

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.

Direct engagement of Board members

The Executive Directors are in daily contact with employees from across the business to understand key topics relating to both employees and customers, sharing regular updates to the Board. Regular reporting on customer engagement keeps the Board up to date on customer trends and feedback. A number of board members had meetings with shareholders during the year to discuss strategy and business performance.

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

- Approval of the new Filtronic values and behaviours.
- Implementation of a new ESOP scheme to incentivise and align the interests of senior management with shareholders.
- Approval of the Hybrid Working Policy to give our employees flexibility to work from a variety of locations.
- Consideration and approval to improve our employee engagement processes.
- Recognition of our longest serving members of staff with the implementation of a Long Service Awards Policy.
- Approval of the Filtronic Leadership Academy to upskill employees with managerial responsibility and develop future leaders , to drive the business forward.

Strategy

- 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.
- Consideration and approval of the FY2022 interim report.
- Consideration of and approval of the FY2023 business plan and long-range forecast.

Governance

- Agreed on the appointment of Jonathan Neale as Non-Executive Chairman.
- Consideration of the IASME Governance cyber security standard and approval for its implementation.
- Approval of updated Group Policies including a new IT Policy.
- Approval of the new Supplier Code of Conduct.
- Consideration of an Anti-Tax Evasion Policy and procedures.
- Update from shareholders in relation to strategy and remuneration matters.

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 a dedicated account management who acts 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 levels of engagement with customers at a strategic level. A greater understanding of both customer and market trend requirements better informs the development and refinement of our own strategy and technology roadmap to ensure we support our customers to the best of our ability and invest in the right capability to meet their needs.
	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. Following the relaxing of government restrictions, we have enjoyed many face-to-face meetings with current and prospective customers in a more normalised business environment facilitating strong customer engagement. Having customer onsite enables them to see our capability and production facilities demonstrating our credibility as a leading technology company.
	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.
	We regularly participate in a wide range of trade shows, conferences and symposia. They play an important role in our business development planning.	Trade exhibitions and conference attendance recommenced following the Covid-19 pandemic for which we have been very active over the last year. This has facilitated key engagement, not only with prospective customers, but also having useful discussions with our existing clients.
Employees	The Executive Directors communicate with employees through communication sessions and town hall meetings 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.	Broad ranging and meaningful communication leads to greater transparency throughout the business and facilitates a more engaged, motivated and effective team. This is done through a range of communication channels including newsletters, emails to all employees and 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 including the newly introduced Filtronic Leadership Academy to upskill all staff with managerial responsibility.
	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. The Group also operates a T-card system where employees can offer ideas for business improvements which are shared with the Executive Directors with the aim of offering feedback to those that have taking the time to share their views. The Board have also approved an annual employee engagement survey to gain insight into employees' thoughts and attitudes towards their work and overall environment.

Stakeholder engagement continued

Stakeholder	How we engage	Key outcomes
Employees (continued)	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. The Company opened a new SAYE scheme in the year open to all employees.
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 during the year with meetings offered both in person and virtually.
	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. We were delighted to welcome shareholders back for the 2021 AGM which was physically held in Sedgefield with private investors welcomed to attend.
	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 Ltd ("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 team 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. Following the relaxation of government guidelines in multiple jurisdictions we have enjoyed meetings at our suppliers' sites.
	Our Supplier Code of Conduct is 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 Supplier Code of Conduct and group policies. They are required 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 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
Jonathan Neale (Chairman)[1]	2/2
Pete Magowan	3/3
John Behrendt	3/3
Reg Gott[2]	1/1

[1]Jonathan Neale was appointed on 15 November 2021.

[2]Reg Gott retired on 28 October 2021.

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 for FY2022. This year the Committee 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.

This was a busy year for the Committee with several board changes including the appointment of myself as Chairman following the retirement of my predecessor, Reg Gott, and the appointment of Michael Tyerman, who already serves on the Board as the Chief Financial Officer, as Company Secretary after Maura Moynihan retired. The Committee is aware of the QCA guidance to have a plan in place to appoint a dedicated Company Secretary at an appropriate time in situations where the Company Secretary is also a director. The Committee will keep this arrangement under review until it feels a dedicated Company Secretary is necessary.

In identifying suitable candidates for board appointment, the Committee uses the services of external advisers to facilitate the recruitment search, as it did with my appointment to the Board, 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.

When a new director joins the Board a full and formal induction process is undertaken. On my appointment, the Company Secretary provided me with information about the Group including board and committee minutes along with board papers from the last six months, the Group's policies, procedures and governance information, analysis of the Company's key shareholders, guidance for directors on their legal and regulatory responsibilities in an AIM-quoted company, guidance on corporate governance and board effectiveness and relevant information about the markets we operate. I also spent time on an individual basis with the CEO and CFO and other key management around the business to gain a better understanding of the business and its culture.

The Nominations Committee also takes account of the results of the annual board performance evaluation exercise. 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.

In the year ahead, the Committee will look at its organisational development plans for the executive leaders in the business as the Committee recognises that, developing and retaining talent within the Group are essential for the continued sustainability of the business.

The Committee will also focus on succession plans for the Board and key management and to oversee the actions coming out of the board effectiveness questionnaires that took place in June 2022 to ensure they are effectively implemented.

Jonathan Neale
Chairman, Nominations Committee
1 August 2022

Activities of the Nominations Committee during the year

The Nominations Committee discharged its responsibilities during the year by:

Area of review	Activities undertaken
Board appointments	• Led the search for a new Non-Executive Chairman to replace Reg Gott. • Recommended the appointment of Jonathan Neale as Non-Executive Chairman. • Recommended Michael Tyerman to be appointed as Company Secretary.
Board performance evaluation	• Conducted a rigorous board performance evaluation exercise. • Agreed the board effectiveness review strategy.
Governance	• Assessed the size and composition of the Board. • Reviewed and approved the Committee's terms of reference.

Audit and Risk Committee report

Membership

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

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

[1] Jonathan Neale was appointed on 15 November 2021.

[2] Reg Gott retired on 28 October 2021.

Roles and responsibilities of the Audit and Risk Committee

The Audit and Risk Committee operates within a framework of approved terms of reference which are reviewed annually along with its effectiveness; 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.
- Review the company's risk management systems and processes to ensure their adequacy and regularly review the risk register to ensure it is complete and up to date with appropriate risk mitigation measures in place where required.

Dear Shareholder

During the year the Board gave additional responsibility to the Audit Committee to oversee and report on risk management resulting in the renaming of the Committee to the Audit and Risk Committee. Therefore, on behalf of the Board, I am pleased to present the report of the Audit and Risk Committee.

The Audit and Risk Committee continues to fulfil a vital role in the Group's governance framework, providing independent challenge and oversight of the accounting, financial reporting and internal control processes, risk management, the internal audit activity and the relationship with the external auditor. This report outlines how the Audit and Risk Committee has discharged its responsibilities during the year and the key issues it has considered in FY2022.

The Audit and Risk Committee reviewed the number of times it meets each year, having expanded the remit of the Committee to include risk management, and decided it will meet at least four times a year going forward. Meetings are generally held 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 external auditors attend when requested as do the outsourced 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 and Risk 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 and the full year Annual Report and Accounts, the latter with the external auditors' observations and opinions. There are at least two additional meeting in the year to review the internal audit that has taken place in the year and consider the key risks of the Group, how they are managed and review the adequacy of the arrangements to mitigate those risks.

As Chair 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.

Next year the Committee will focus on continuing to monitor risk management systems with the internal audit activity focussed on cyber security.

John Behrendt
Chairman, Audit and Risk Committee
1 August 2022

Activities of the Audit and Risk Committee during the year

During the year, the Audit and Risk 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 including consideration of the Group's latest business plan and three-year outlook, cash flow forecast and corresponding sensitivities on downside scenarios.
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 risk management register. • Specific focus on risks in the semiconductor supply chain, cost of living and wage inflation, cyber security as well as the risk of not fulfilling our strategic objective of broadening the customer base. • 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. • Training on IFRS 15 (Revenue from contracts with customers) and IAS 38 (Intangible assets). • Expanded the remit of the Committee to include risk management and renamed it the Audit and Risk Committee. • Amended the number of meetings per year following the expanded remit of the Committee.

Key accounting matters

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

- Group – Inventory valuation; and
- Group - Goodwill
- Parent Company – Carrying value of the investment in subsidiaries.

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

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 product and looked 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 was appropriate and consistent.

Audit and Risk Committee report continued

Carrying value of goodwill and the investment in the subsidiary:
The Committee considered the judgements made in relation to the valuation methodology adopted by management and the model inputs used. These are set out in notes 15 and 16 to the financial statements.

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

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 four 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 and Risk 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 and Risk 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 and Risk Committee, the Board has concluded that the 2022 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)	5/5
Jonathan Neale [1]	2/2
John Behrendt	5/5
Reg Gott [2]	3/3

[1]Jonathan Neale was appointed on 15 November 2021.
[2]Reg Gott retired on 28 October 2021

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 2022. 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.

In the year, the Committee reviewed the basis of the FY2023 performance-related bonus plan to ensure it aligned with the interests of shareholders. As the Company executes on its growth plans it was concluded that the incentive scheme would be better served by a revenue-based metric, moving away from the profit-based plan, with incentives given for achieving stretching targets against the FY2023 strategic business plan. The Committee is confident this will drive the right behaviours in the organisation to deliver long-term shareholder value and ultimately increased revenue will lead to improved levels of profit.

To support the long-range strategic plans and further align the interests of the Executive Directors and key management with shareholders, the Committee introduced another employee share option plan ("ESOP") in the year which vests in FY2024 based on meeting stretching revenue targets.

The Committee also recognises that every employee is key to delivery of our ambitious growth strategy. Our employees have been outstanding throughout the pandemic, and in handling the fallout from it such as the global semiconductor shortages, demonstrating focus, commitment and drive to continue to deliver to customers. To recognise this, and incentivise employees to achieve results likely to deliver share price appreciation, another Save As You Earn ("SAYE") scheme was implemented in the year where employees can exercise their option in three years' time at a 20% discount to the share price the day before grant.

Salary increases in the year were awarded to the Executive Directors and key management at a rate of 5% which was approved having undertaken a benchmarking exercise of pay rises in businesses of similar nature and size. The Committee also undertook an exercise to review

Directors' remuneration report continued

the benefits awarded to employees including the car allowance scheme awarded to the Executive Directors and management in the Group. After consideration, the Committee approved the proposal to offer all employees in receipt of the benefit the option of converting their car allowance into base salary. Both Richard Gibbs and Michael Tyerman opted to convert their car allowance benefit.

The main activities of the Committee in FY2022 are set out in the table below. I hope you find this report gives a clear account of the Committee's approach and remuneration outcomes for the year. We are committed to maintaining an open dialogue with shareholders with regards to remuneration and would welcome any comments or concerns, relating to this report, that shareholders may have.

Pete Magowan
Chairman, Remuneration Committee
1 August 2022

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 for the Executive Directors and senior management as part of the annual pay review. • Set the remuneration for Jonathan Neale on his appointment as a Non-Executive Chairman. • Assessed and approved the FY2022 bonus outcomes. • Reviewed and approved the FY2023 performance-related bonus plan changing the performance criteria to a revenue based metric. • Considered and approved moving car allowances from a benefit into base salary.
Share incentive plans	• Approved the grant of share options under the Employee Share Option Plan ("ESOP") for the Executive Directors and key management. • Approved the grant of share options under the Save as you Earn Plan ("SAYE") for the Executive Directors and key management. • Assessed and approved good leaver terms for eligible leavers. • Reviewed employee share scheme headroom availability.
Governance	• Considered and approved the Annual Report and Accounts on remuneration. • Reviewed and approved the Committee's terms of reference.

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

Name	Executive service agreement appointment date	Key current terms	Notice period
Richard Gibbs Chief Executive Officer	Appointed to the Board on 1 September 2020	Base salary £204,225 Annual bonus Health insurance Long-term incentives	6 months
Michael Tyerman Chief Financial Officer	Appointed to the Board on 1 April 2016	Base salary £137,365 Annual bonus Health insurance Pension Long-term incentives	6 months

Name	Role	Non-Executive terms of appointment date	Fee	Notice period
Jonathan Neale	Chairman and Nominations Committee Chairman	Appointed to the Board on 15 November 2021	£60,000	6 months
Pete Magowan	Remuneration Committee Chairman	Appointed to the Board on 19 November 2018	£40,000	3 months
John Behrendt	Audit and Risk 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.

£000	Salary or fee FY2022	Salary or fee FY2021	Bonus FY2022	Bonus FY2021	Benefits FY2022	Benefits FY2021	Long-term incentive FY2022	Long-term incentive FY2021	Total remuneration excluding pension contributions FY2022	Total remuneration excluding pension contributions FY2021
Executive Directors										
Richard Gibbs	**189**	135	**75**	42	**17**	15	**9**	7	**290**	199
Michael Tyerman	**126**	120	**50**	38	**5**	8	**3**	-	**184**	166
Non-Executive Directors										
Jonathan Neale[1]	**33**	-	-	-	-	-	-	-	**33**	-
Reg Gott[2]	**25**	100	-	14	-	-	-	-	**25**	114
Pete Magowan	**40**	40	-	-	-	-	-	-	**40**	40
John Behrendt	**40**	17	-	-	-	-	-	-	**40**	17
Michael Roller	-	17	-	-	-	-	-	-	-	17
Total	**453**	429	**125**	94	**22**	23	**12**	7	**612**	553

[1] Jonathan Neale was appointed to the Board on 15 November 2021.

[2] Reg Gott retired on 28 October 2021.

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

Taxable benefits

Taxable benefits in kind were amended in FY2022 as the benefit of a car allowance was transitioned into base salary instead of being given as a separate benefit to simplify the remuneration structure. The Executive Directors are still provided with private health insurance and life assurance.

Incentive outcomes for FY2022

The Executive Directors were rewarded during the year for delivering profit targets aligned to the FY2022 business plan.

Annual performance-related bonus plan

An annual performance-related bonus plan has been introduced for the year ending 31 May 2023 which will reward the Executive Directors and key management cash bonuses for delivering stretching revenue targets aligned to the FY2023 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.

Long-term incentives

The Executive Directors have long-term incentives as part of the Company's share option plan. More details relating to this can be found on page 50 in the 'Management share option plan - audited' section of the Directors' remuneration report.

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 FY2022	Pension contributions FY2021
Michael Tyerman	**11**	11
Total	**11**	11

Contributions were made to the Company's defined contribution scheme.

Richard Gibbs elected not to join the Company's pension scheme.

Directors' remuneration report continued

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 2022, in the Company's ordinary shares, which excludes interests under the share option schemes, are set out below:

	2022		2021	
	Shares	**%**	Shares	%
Richard Gibbs	425,000	0.2%	225,000	0.1%
Michael Tyerman	339,478	0.2%	339,478	0.2%
Jonathan Neale	199,870	0.1%	-	-
Pete Magowan	750,000	0.4%	750,000	0.4%
John Behrendt	60,000	0.0%	60,000	0.0%
	1,774,348	0.9%	1,374,478	0.7%

The above shareholdings include holdings of directors' connected parties.

Management share options scheme - audited

The Executive Directors who were serving at 31 May 2022 held the following options over the ordinary shares of the Company:

	Plan	Exercise period	Option price	2022	2021
Richard Gibbs	ESOP	25/09/2023—24/09/2030	8.00p	750,000	750,000
Richard Gibbs	ESOP	24/06/2024—23/06/2031	11.12p	245,448	-
Richard Gibbs	SAYE	06/05/2024—05/11/2024	6.67p	35,622	-
Michael Tyerman	ESOP	01/03/2019—28/02/2026	5.37p	300,000	300,000
Michael Tyerman	ESOP	24/06/2024—23/06/2031	11.12p	479,988	-
Michael Tyerman	SAYE	06/05/2024—05/11/2024	6.67p	58,290	-
				1,869,348	1,050,000

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. The ESOPs granted in June 2021 to Richard Gibbs, Michael Tyerman and key management were granted for the delivery of stretched targets of revenue with the options vesting at various incremental increases of agreed targets.

There are no performance conditions attached to the ESOP options granted to Richard Gibbs, vesting in 2023, other than remaining in employment with Filtronic until the exercise period.

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.

Richard Gibbs and Michael Tyerman both opted to take part in the Company's SAYE scheme which was offered to all employees in the year.

The closing middle market price on 31 May 2022 was 10p, and on 31 May 2021 it was 9p. The range of middle market share prices during the year ended 31 May 2022 was 13p—9p.

There were no changes in directors' interests between 31 May 2022 and 1 August 2022. The Company's register of directors' interests, which is open to inspection at the Registered Office, contains full details of directors' shareholdings.

Directors' report

The directors present their report together with the audited consolidated financial statements for the year ended 31 May 2022.

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 20.

After a review of forecasts including projections of profitability and cash flows for the year to 31 May 2023 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.

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
Michael Tyerman
Jonathan Neale (appointed on 15 November 2021)
Pete Magowan
John Behrendt
Reg Gott (retired on 28 October 2021)

Details of directors' interests in the share capital of the Company are set out in the remuneration report on page 50.

Jonathan Neale, having been appointed to the Board on 15 November 2021, offers himself for election at the Annual General Meeting.

Michael Tyerman, retires by rotation, and being eligible, offers himself for re-election at the Annual General Meeting.

Pete Magowan, retires by rotation, and being eligible, offers himself for re-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.

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 (2021: £1.7m), of which £nil was capitalised (2021: £0.1m). Amortisation of development costs in the year was £0.3m (2021: £0.2m).

Financial results and dividend

The results for the year are set out in the income statement on page 59. The position at the end of the year is shown in the balance sheet on page 61.

The directors are not recommending payment of a dividend (2021: £nil).

Significant events and future developments

There have been no significant events since the reporting date. The Group's future developments are disclosed in the Strategic Report on pages 3 to 32.

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 2021.

Substantial shareholdings

Up to 31 May 2022, 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 2022 (as disclosed by shareholders via TR1) is set out in the table below. As at 31 May 2022, the Company had issued share capital of 214,798,417 ordinary shares of 0.1p each.

Top Investors

Rank	Investor	31 May 2022	%
1	Mark and Diana Dixon	54,000,000	25.14
2	Canaccord Genuity Group Inc.	22,490,000	10.50
3	David and Monique Newlands	19,521,021	9.09
4	River and Mercantile Asset Management LLP	11,333,451	5.30
5	Michael and Alice Bennett	7,054,761	3.28

Directors' report continued

Political and charitable contributions

No contributions were made for political purposes (2021: £nil). The Group made charitable donations of £100 in the year (2021: £nil).

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 37 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 27 October 2022 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 Accounts 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 UK-adopted international accounting standards.

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 financial year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards 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 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 also 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
Michael Tyerman
Company Secretary
1 August 2022

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 2022 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 UK-adopted international accounting standards; 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 2022; 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 including 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)
- Carrying value of investments (parent)

Materiality

- Overall Group materiality: £170,000 (2021: £155,000) based on 1% of revenue.
- Overall Company materiality: £108,000 (2021: £141,000) based on 1% of total assets.
- Performance materiality: £127,000 (2021: £116,000) (Group) and £81,000 (2021: £106,000) (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

Going concern, which was a key audit matter last year, is no longer included because of the Group's recent performance, financial forecasts and available cash and financing facilities. 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) Refer to page 46 (Key accounting matters) and note 16 to the financial statements. 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 the 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.
Carrying value of investments (parent) Refer to page 46 (Key accounting matters) and note 15 to the financial statements. 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 recoverable amount, being the higher of value in use (VIU) and fair value less cost to sell (FVLCTS). We obtained management's impairment assessment, which included a VIU model based on discounted cash flows and a FVLCTS model based on a multiple of forecast earnings. We tested the inputs to the models by assessing forecast cash flows against recent performance of the filters business and comparing to approved budgets. We also tested the integrity of the models and their mathematical accuracy.

Carrying value of investments (parent) (continued)

We obtained and reviewed industry and analyst commentary on the future filters-related market against which to assess the reasonableness of management's assumptions, including the multiple used in management's FVLCTS model.

We determined that the FVLCTS model derived a higher recoverable amount and that it was most sensitive to the assumption on the multiple applied, for which we engaged with our valuations specialists to support our work and conclusions.

We reviewed the disclosures in the Annual Report and Accounts for compliance with IFRS, particularly in relation to sensitivity analysis given an impairment has been recognised.

Based on the procedures we performed we were able to obtain sufficient and appropriate 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 two 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 entity within the UK, Filtronic Broadband Limited, and in addition 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 audit 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.

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:

	Financial statements - Group	Financial statements - Company
Overall materiality	£170,000 (2021: £155,000).	£108,000 (2021: £141,000).
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 £95,000 and £165,000. 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% (2021: 75%) of overall

Independent auditors' report to the members of Filtronic plc continued

materiality, amounting to £127,000 (2021: £116,000) for the Group financial statements and £81,000 (2021: £106,000) 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 in the middle 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 £8,526 (Group audit) (2021: £7,780) and £5,400 (Company audit) (2021: £7,085) 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:

- Assessing management's base case and severe but plausible downside cash flow forecasts, including challenging management on the key assumptions underpinning the models, which included sales forecasts, margin performance and working capital assumptions;
- Considering the mitigating actions included in the severe but plausible downside scenario to consider whether they reflected actions within management's control;
- Reviewing historic trading results and 'looking back' to compare them with management's original budget for the relevant period, to consider management's historical forecasting accuracy;
- Testing the mathematical accuracy and integrity of management's model; and
- Considering the disclosures provided in the financial statements with respect to going concern for consistency with the models that were subject to audit.

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 2022 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 and US 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 and review of board minutes, taking into consideration 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.

Independent auditors' report to the members of Filtronic plc continued

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
1 August 2022

Consolidated income statement

for the year ended 31 May 2022

	Note	Group 2022 £000	Group 2021 £000
Revenue	3	**17,052**	15,556
Adjusted earnings before interest, taxation, depreciation, amortisation and exceptional items		**2,807**	1,773
Amortisation of intangible assets	16	**(278)**	(209)
Impairment of development costs	16	**-**	(45)
Depreciation of property, plant and equipment and right of use assets	17, 18	**(945)**	(941)
Adjusted operating profit		**1,584**	578
Exceptional items	5	**391**	64
Operating profit	4	**1,975**	642
Finance costs	11	**(194)**	(431)
Finance income	12	**111**	-
Profit before taxation		**1,892**	211
Taxation	13	**(424)**	(151)
Profit for the year		**1,468**	60

Basic earnings per share	14	**0.68p**	0.03p
Diluted earnings per share	14	**0.68p**	0.03p

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

The notes on pages 66 to 92 form part of these financial statements.

Financials

Consolidated statement of comprehensive income

for the year ended 31 May 2022

	Note	Group 2022 £000	2021 £000
Profit for the year		1,468	60
Other comprehensive income/(expense)			
Items that are or may be subsequently reclassified to profit and loss:			
Currency translation movement arising on consolidation	29	179	(98)
Total comprehensive income/(expense) for the year		1,647	(38)

The total comprehensive income 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 66 to 92 form part of these financial statements.

Consolidated balance sheet

as at 31 May 2022

	Note	Group 2022 £000	Group 2021 £000
Non-current assets			
Goodwill and other intangible assets	16	**1,495**	1,716
Right of use assets	17	**2,293**	2,268
Property, plant and equipment	18	**701**	1,014
Deferred tax	19	**868**	1,218
		5,357	6,216
Current assets			
Inventories	20	**2,598**	2,190
Trade and other receivables	21	**4,479**	3,294
Cash and cash equivalents		**4,006**	2,906
		11,083	8,390
Total assets		**16,440**	14,606
Current liabilities			
Trade and other payables	22	**2,993**	2,380
Provisions	23	**282**	397
Deferred income	24	**172**	184
Financial liabilities	25	**-**	63
Lease liabilities	26	**540**	542
		3,987	3,566
Non-current liabilities			
Deferred income	24	**130**	128
Financial liabilities	25	**-**	76
Lease liabilities	26	**1,280**	1,478
		1,410	1,682
Total liabilities		**5,397**	5,248
Net assets		**11,043**	9,358
Equity			
Share capital	27	**10,796**	10,795
Share premium	28	**11,060**	11,039
Translation reserve	29	**(471)**	(650)
Retained earnings	31	**(10,342)**	(11,826)
Total equity		**11,043**	9,358

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

Company number 2891064.

The notes on pages 66 to 92 form part of these financial statements. The financial statements on pages 66 to 92 were approved by the Board of Directors on 1 August 2022 and signed on its behalf by

Richard Gibbs
Chief Executive Officer
1 August 2022

Financials

Consolidated statement of changes in equity

for the year ended 31 May 2022

	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 June 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
Profit for the year	-	-	-	1,468	1,468
New shares issued	1	21	-	-	22
Currency translation movement arising on consolidation	-	-	179	-	179
Share-based payments	-	-	-	16	16
Balance at 31 May 2022	**10,796**	**11,060**	**(471)**	**(10,342)**	**11,043**

Company statement of changes in equity

for the year ended 31 May 2022

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 June 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
Loss for the year	-	-	(3,434)	(3,434)
New shares issued	1	21	-	22
Share-based payments	-	-	16	16
Balance at 31 May 2022	**10,796**	**11,060**	**(14,585)**	**7,271**

The notes on pages 66 to 92 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 May 2022

	Group	
	2022 £000	2021 £000
Cash flows from operating activities		
Profit for the year from continuing operations	**1,468**	60
Taxation	**424**	151
Finance income	**(111)**	-
Finance costs	**194**	431
Operating profit	**1,975**	642
Share-based payments	**16**	2
Depreciation of property, plant and equipment and right of use assets	**945**	941
Amortisation of intangible assets	**278**	209
Impairment of intangible assets	**-**	45
Movement in inventories	**(273)**	626
Movement in trade and other receivables	**(1,100)**	1,489
Movement in trade and other payables	**550**	(1,026)
Movements in provisions	**(115)**	(712)
Change in deferred income	**(10)**	(255)
Tax received	**19**	495
Net cash generated from operating activities	**2,285**	2,456
Cash flows from investing activities		
Capitalisation of development costs	**-**	(52)
Acquisition of other intangible assets	**(57)**	(69)
Acquisition of plant and equipment	**(61)**	(177)
Acquisition of right of use assets	**(132)**	(106)
Proceeds on sale of assets	**-**	12
Net cash used in from investing activities	**(250)**	(392)
Cash flows from financing activities		
Interest paid	**(194)**	(225)
Proceeds from bank loans	**-**	131
Repayment of bank loans	**(131)**	(209)
Exercise of employee share options	**22**	40
Repayment of lease liabilities	**(653)**	(666)
Repayment of interest-bearing borrowings	**(8)**	(104)
Net cash used in financing activities	**(964)**	(1,033)
Movement in cash and cash equivalents	**1,071**	1,031
Currency exchange movement	**29**	(153)
Opening cash and cash equivalents	**2,906**	2,028
Closing cash and cash equivalents	**4,006**	2,906

The notes on pages 66 to 92 form part of these financial statements.

Company balance sheet
as at 31 May 2022

	Note	Company 2022 £000	2021 £000
Non-current assets			
Investments in subsidiaries	15	**4,179**	6,551
Intangible assets	16	**72**	58
		4,251	6,609
Current assets			
Trade and other receivables	21	**6,321**	7,403
Cash and cash equivalents		**259**	158
		6,580	7,561
Total assets		**10,831**	14,170
Current liabilities			
Trade and other payables	22	**3,560**	3,503
Total liabilities		**3,560**	3,503
Net assets		**7,271**	10,667
Equity			
Share capital	27	**10,796**	10,795
Share premium	28	**11,060**	11,039
Retained earnings brought forward	31	**(14,585)**	(11,167)
Total equity		**7,271**	10,667

The Company made a loss in the year of £3,434,000 (2021:£728,000).

Company number 2891064.

The notes on pages 66 to 92 form part of these financial statements. The financial statements on pages 66 to 92 were approved by the Board of Directors on 1 August 2022 and signed on its behalf by

Richard Gibbs
Chief Executive Officer
1 August 2022

Company cash flow statement

for the year ended 31 May 2022

	Company	
	2022 £000	2021 £000
Cash flows from operating activities		
Loss for the year	(3,434)	(728)
Finance costs	1	1
Operating loss	(3,433)	(727)
Amortisation of intangible assets	14	19
Impairment of investments in subsidiaries	2,372	-
Share-based payments	16	2
Movement in trade and other receivables	1,082	(2,117)
Movement in trade and other payables	71	2,812
Net cash generated from/(used in) operating activities	122	(11)
Cash flows from investing activities		
Acquisition of intangible assets	(28)	(49)
Net cash used in investing activities	(28)	(49)
Cash flows from financing activities		
Proceeds from exercise of share options	22	40
Payment of lease liabilities	(14)	(13)
Interest paid	(1)	(1)
Net cash generated from financing activities	7	26
Movement in cash and cash equivalents	101	(34)
Opening cash and cash equivalents	158	192
Closing cash and cash equivalents	259	158

The notes on pages 66 to 92 form part of these financial statements.

Notes to the financial statements

for the year ended 31 May 2022

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 2022 have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006.

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 2022, the Group had cash at bank of £4m and access to undrawn invoice discounting facilities of £3m and $4m in the UK and US respectively. Details of these facilities can be found in note 37.

As referred to in the Strategic report, the Board recognises the uncertain economic and political 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 and/or delays 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 financial statement

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 financial year, 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)

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 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 financial year.

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.

Notes to the financial statements continued

for the year ended 31 May 2022

1 Accounting policies (continued)

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.

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.

1 Accounting policies (continued)

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.

Defined contribution pension schemes

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

Notes to the financial statements continued

for the year ended 31 May 2022

1 Accounting policies (continued)

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 financial year they are paid. Final dividends are recognised in equity in the financial year 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.

The following amendments are effective for the financial year beginning 1 June 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41);
- References to Conceptual Framework (Amendments to IFRS 3);
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12);

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 2022

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 their recoverable amount relative to their carrying value. In accordance with IAS 36, recoverable amount is determined as the higher of value in use ("VIU"), determined based on the expected cash generated by the CGU to which the investment relates and fair value less costs to sell ("FVLCTS"). Both models are subject to uncertainties surrounding the EBITDA and cash flow forecasts being used.

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 16.

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 Filtronic Broadband Limited in the UK and Filtronic Wireless Inc. in the USA 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 £125,000.

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 81% of revenue. This is split as follows:

- Customer A - **36%** (2021: 35%)
- Customer B - **23%** (2021: 33%)
- Customer C - **22%** (2021: 19%)

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.

Revenue by destination	**2022 £000**	2021 £000
United Kingdom	**7,489**	4,693
Europe	**3,421**	4,178
Americas	**5,313**	4,197
Rest of the world	**829**	2,488
	17,052	15,556

Split of non-current assets by location	**2022 £000**	2021 £000
United Kingdom	**5,109**	5,293
Americas	**248**	923
	5,357	6,216

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

Notes to the financial statements continued

for the year ended 31 May 2022

4 Operating profit

	2022 £000	2021 £000
Revenue from goods and services	16,580	14,375
Revenue from non-recurring engineering ("NRE") projects	472	1,181
Revenue	17,052	15,556
Material cost of goods sold	5,645	5,462
Wages and salaries	5,532	5,576
Social security costs	577	543
Pension costs	291	280
Share-based payments	16	2
Furlough payments received	-	(83)
Staff costs	6,416	6,318
Impairment of development costs	-	45
Amortisation	278	209
Depreciation	945	941
Depreciation, amortisation and impairment	1,223	1,195
Other operating income	(329)	(345)
Non-salary related exceptional items	(391)	(64)
Other expenses	2,513	2,348
Total operating costs	9,432	9,452
Operating profit	1,975	642

Development costs of £nil were capitalised in the year (2021: £52,000).

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 exceptional items as follows:

	2022 £000	2021 £000
Antenna warranty	(339)	-
Historic claim	(52)	(64)
	(391)	(64)

The antenna warranty item relates to the Group's legacy Telecoms Antenna Operation previously costed through discontinued operations. The warranty period has now lapsed, and the provision was released unused.

A provision relating to an historic claim was released unused and credited to the income statement as it related to the Telecoms Antenna Operation, sold in January 2020.

6 Operating items

	2022 £000	2021 £000
Operating profit is stated after charging/(crediting):		
Depreciation	945	941
Research and development costs in the income statement excluding amortisation	1,937	1,663
Amortisation of development costs (R&D)	259	182
Amortisation of other intangible assets	19	27
Foreign exchange (gain)/loss	(141)	205

7 Auditor's remuneration

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

	2022 £000	2021 £000
Company auditor:		
Audit of the Group and Company financial statements	35	28
Company auditor and their associates:		
Audit of subsidiaries' financial statements pursuant to legislation	75	75
Additional fees relating to prior year audit	-	15
Other services relating to taxation	-	1
	110	119

8 Employees

The average number of employees comprised:

	2022 Number	2021 Number
Manufacturing	78	86
Research and development	26	24
Sales	5	5
Administration	15	15
	124	130

Notes to the financial statements continued

for the year ended 31 May 2022

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 47 to 50. The compensation of the directors was:

	2022 £000	2021 £000
Salary or fees	**453**	429
Bonus	**125**	94
Benefits	**22**	23
Long term incentives	**12**	7
Total remuneration excluding pension contributions	**612**	553
Pension contributions	**11**	11
	623	564

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 £931,000 (2021: £935,000) and a royalty charge of 1% of filters product sales to Filtronic Wireless Limited of £38,000 (2021: £30,000). 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 21 and 22 through the movement in the Company's intercompany receivables and payables.

The amount outstanding from subsidiary undertakings to the Company at 31 May 2022 totalled £6.3m (2021: £7.4m). Amounts owed to subsidiary undertakings by the Company at 31 May 2022 totalled £2.8m (2021: £2.8m)

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

	2022 £000	2021 £000
Interest expense on loans for plant and equipment	**-**	6
Interest expense for lease arrangements	**127**	136
Minimum service costs and interest charges on invoice discounting facilities	**67**	82
Revaluation of foreign currency denominated intercompany balance	**-**	207
	194	431

12 Finance income

	2022 £000	2021 £000
Revaluation of foreign currency denominated intercompany balance	111	-
	111	-

13 Taxation

Recognised in the income statement	2022 £000	2021 £000
Current tax credit		
Overseas taxation in the financial year	-	(15)
Adjustment in respect of prior year — R&D tax credit	(24)	(371)
Total current tax credit	(24)	(386)
Deferred tax charge/(credit)		
Change of tax rate	(109)	-
Origination and reversal of temporary differences	557	537
Total deferred tax charge	448	537
Income tax charge	424	151

The reconciliation of the effective tax rate is as follows:

	2022 £000	2021 £000
Profit before taxation	1,892	211
Profit before taxation multiplied by standard rate of corporation tax in the UK (19%) (2021:19%)	359	40
Disallowable items	155	213
Deferred tax asset not recognised	194	213
Enhanced R&D tax credit	(270)	(176)
Adjustment in respect of prior year R&D tax credit	(24)	(371)
Foreign tax not at UK rate	15	(15)
Derecognition of deferred tax asset	104	247
Rate change of deferred tax	(109)	-
Taxation	424	151

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 2022

14 Earnings per share

	Total Group 2022 £000	Total Group 2021 £000
Profit for the year	**1,468**	60

	'000	'000
Basic weighted average number of shares	**214,726**	213,397
Dilution effect of share options	**868**	897
Diluted weighted average number of shares	**215,594**	214,294
Basic earnings per share	**0.68p**	0.03p
Diluted earnings per share	**0.68p**	0.03p

15 Investments in subsidiaries

	Company investments in subsidiaries £000
Cost	
At 1 June 2020, 31 May 2021 and 31 May 2022	**21,110**
Impairment	
At 1 June 2020 and 1 June 2021	(14,559)
Impairment in the year	(2,372)
At 31 May 2022	**(16,931)**
Carrying amount at 31 May 2021	6,551
Carrying amount at 31 May 2022	**4,179**

The investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. The assessment of the carrying amount is derived from the higher of the value in use and the fair value less costs to sell. Value in use is determined by discounting the future cash flows generated from the continuing use of the cash generating unit ("CGU") to which the investment relates whilst the fair value less costs to sell is the amount that a market participant would pay for the asset or CGU, less the costs of sale.

The carrying amount was calculated using the fair value less costs to sell model which returned a higher carrying value based on the following key assumptions:

- The profits generated within the CGU based on past experience and actual operating results;
- An assessment of recent market transactions corroborated by valuation multiples and quoted share prices for publicly traded companies.; and
- Appropriate costs that may be included in the 'costs to sell' such as legal and professional fees.

Based on the testing, an impairment charge was recognised in the year. The key sensitivity in the model is the valuation multiple utilised to compute the fair value less costs to sell. Had the valuation multiple changed by -/+ 1 then there would have been a further impairment charge or write back of £1,029,000.

15 Investments in subsidiaries (continued)

The Company's subsidiaries are related parties.
The subsidiaries at 31 May 2022, 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
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] Plexus 1, NETPark, Thomas Wright Way, Sedgefield, County Durham TS21 3FD, United Kingdom
[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

Financials

Notes to the financial statements continued

for the year ended 31 May 2022

16 Goodwill and other intangible assets

	Group					Company
	Goodwill £000	Other intangibles (core technology) £000	Software costs £000	Development costs £000	Total £000	Software costs £000
Cost						
At 1 June 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
Additions	-	-	57	-	57	28
At 31 May 2022	**974**	**10,884**	**380**	**1,015**	**13,253**	**155**
Amortisation						
At 1 June 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
Provided in the year	-	-	19	259	278	14
At 31 May 2022	**-**	**10,884**	**262**	**612**	**11,758**	**83**
Carrying amount at 31 May 2021	974	-	80	662	1,716	58
Carrying amount at 31 May 2022	**974**	**-**	**118**	**403**	**1,495**	**72**

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 pre-tax cash flows have been prepared to 31 May 2023 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 2027. A long-term growth factor of nil was applied to the perpetuity cash flows; and
- The Group's pre-tax discount rate of 12% (2021:12%) was applied in determining the recoverable amount of the unit, being the estimated weighted average cost of capital for the CGUs.

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.

17 Right of use assets

	Property leases £000	Plant and equipment £000	Total £000
Cost			
At 1 June 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
Additions	66	512	578
Exchange differences	34	4	38
At 31 May 2022	**1,726**	**1,938**	**3,664**
Depreciation			
At 1 June 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
Provided in the year	331	232	563
Exchange differences	27	1	28
At 31 May 2022	**853**	**518**	**1,371**
Carrying amount at 31 May 2021	1,131	1,137	2,268
Carrying amount at 31 May 2022	**873**	**1,420**	**2,293**

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 up to seven years.

In addition to the depreciation charges shown in the table above, the consolidated income statement includes the following amounts relating to leases:

	2022 £000	2021 £000
Interest expense (included in finance cost)	**127**	136
Expense relating to viable lease payments not included in lease liabilities (included in operating costs)	**7**	14

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Notes to the financial statements continued

for the year ended 31 May 2022

18 Property, plant and equipment

	Group				Company
	Fixtures and fittings £000	Plant and equipment £000	Computer hardware £000	Total £000	Plant and equipment £000
Cost					
At 1 June 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	-
Additions	3	51	7	61	-
Disposals	-	(441)	-	(441)	-
Exchange differences	1	42	1	44	-
At 31 May 2022	**296**	**3,418**	**178**	**3,892**	**-**
Depreciation					
At 1 June 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	-
Depreciation	31	337	14	382	-
Disposals	-	(441)	-	(441)	-
Exchange differences	1	35	-	36	-
At 31 May 2022	**182**	**2,877**	**132**	**3,191**	**-**
Carrying amount at 31 May 2021	142	820	52	1,014	-
Carrying amount at 31 May 2022	**114**	**541**	**46**	**701**	**-**

19 Deferred tax

	Group	
	2022 £000	2021 £000
Deferred tax assets		
Opening balance	**1,218**	1,868
(Reversal)/origination of tax losses	**(585)**	74
Utilisation of tax losses	**(309)**	(290)
Origination/(reversal) of capital allowances	**342**	(322)
Exchange differences	**93**	(112)
Change of tax rate	**109**	-
	868	1,218

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.

19 Deferred tax (continued)

Deferred tax assets which have been recognised:	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Depreciation in advance of capital allowances	**415**	73	**-**	-
Tax losses carried forward	**453**	1,145	**-**	-
	868	1,218	**-**	-

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. These deferred tax assets are presented below:

Deferred tax assets which have not been recognised:	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Depreciation in advance of capital allowances	**1,397**	1,732	**510**	455
Tax losses carried forward	**15,775**	11,724	**13,917**	9,772
Share options deferment	**80**	80	**80**	80
	17,252	13,536	**14,507**	10,307

20 Inventories

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Raw materials	**3,548**	3,126	**-**	-
Work in progress	**531**	480	**-**	-
Finished goods	**264**	133	**-**	-
	4,343	3,739	**-**	-
Inventory provision	**(1,745)**	(1,549)	**-**	-
Inventories (net of provision)	**2,598**	2,190	**-**	-

Raw materials, consumables and changes in finished goods and work in progress recognised in cost of sales in the year amounted to £5,083,000 (2021: £5,129,000).

The amount charged to the income statement in the year in respect of write-downs of inventories is £196,000 (2021: £162,000). The amount credited to the income statement in the year in respect of reversals of write-downs of inventories is £nil (2021: £56,000).

21 Trade and other receivables

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Trade receivables	**3,512**	2,737	**-**	-
Group receivables	**-**	-	**6,266**	7,372
Other receivables and prepayments	**967**	557	**55**	31
	4,479	3,294	**6,321**	7,403

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.

Notes to the financial statements continued

for the year ended 31 May 2022

22 Trade and other payables

	Group		Company	
	2022 £000	2021 £000	**2022 £000**	2021 £000
Trade payables	**1,825**	1,299	**78**	70
Group payables	**-**	-	**2,784**	2,784
Other payables and accruals	**1,168**	1,081	**698**	649
	2,993	2,380	**3,560**	3,503

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

23 Provisions

	Group		Company	
Warranty provision	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Opening balance	**342**	1,053	**-**	-
Used during the year	**(24)**	(526)	**-**	-
Released unused during the year	**(347)**	(116)	**-**	-
Charge for the year	**117**	11	**-**	-
Exchange differences	**1**	(80)	**-**	-
	135	342	**-**	-

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.

	Group		Company	
Dilapidation provision	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Opening balance	**55**	57	**-**	-
Charge for the year	**91**	-	**-**	-
Exchange differences	**1**	(2)	**-**	-
	147	55	**-**	-

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. The charge for the year is expected to be utilised in the next financial year as it relates to our site in Yeadon where we are reducing our footprint by reducing the amount of space we use.

	Group		Company	
Total provision	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Warranty provision	**135**	342	**-**	-
Dilapidation provision	**147**	55	**-**	-
	282	397	**-**	-

24 Deferred income

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Contract liabilities	134	146	-	-
Capital grant	38	38	-	-
Total current deferred income	172	184	-	-
Contract liabilities	111	73	-	-
Capital grant	19	55	-	-
Total non-current deferred income	130	128	-	-
Total deferred income	302	312	-	-

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 5G XHaul products. The grant is being amortised over a period of four years with a remaining life of 1.5 years.

25 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 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Bank loans—current	-	55	-	-
Obligations under finance agreements—current	-	8	-	-
Total current financial liabilities	-	63	-	-
Bank loans—non-current	-	76	-	-
Total non-current financial liabilities	-	76	-	-
Total financial liabilities	-	139	-	-

Terms and debt repayment schedule - Group

	Currency	Nominal interest rate	Date of maturity	Carrying amount 2022 £000	Carrying amount 2021 £000
Bank loan	USD	1.0%	10 February 2026	-	131
Total bank loans				-	131
Finance agreements	GBP	4.1%	31 May 2021	-	8
				-	139

The bank loan with a maturity date of 10 February 2026 for $186,000 (£131,000) 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.

Notes to the financial statements continued

for the year ended 31 May 2022

25 Financial liabilities (continued)

Debt reconciliation - Group	Bank loans £000	Finance agreements £000	Total £000
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
Repayment of borrowings	-	(8)	(8)
Repayment of PPP bank loan	(131)	-	(131)
Balance at 31 May 2022	-	-	-

Other banking facilities

At 31 May 2022, the Group had an undrawn (2021: undrawn) invoice discount facility with Barclays Bank plc ("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 (2021: undrawn).

26 Lease liabilities

	Group 2022 £000	Group 2021 £000
Opening lease liability	**2,020**	2,529
New leases entered into during the year	**445**	457
Payments made during the year	**(653)**	(666)
Disposal of lease	**-**	(279)
Exchange differences	**8**	(21)
	1,820	2,020

	2022 £000	2021 £000
Lease liability payable in less than a year	**540**	542
Current lease liabilities	**540**	542
Lease liability payable in one to five years	**1,017**	1,070
Lease liability payable in more than five years	**263**	408
Non-current lease liabilities	**1,280**	1,478
Total lease liabilities	**1,820**	2,020

27 Share capital

	Group and Company ordinary shares of 0.1p each Number '000	£000
At 1 June 2020	**213,698**	**10,794**
Exercise of share options	717	1
At 31 May 2021	**214,415**	**10,795**
Exercise of share options	383	1
At 31 May 2022	**214,798**	**10,796**

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.

28 Share premium

	Group and Company £000
At 1 June 2020	**11,000**
Exercise of share options	39
At 31 May 2021	**11,039**
Exercise of share options	21
At 31 May 2022	**11,060**

29 Translation reserve

	Group £000
At 1 June 2020	**(552)**
Currency translation movement arising on consolidation	(98)
At 31 May 2021	**(650)**
Currency translation movement arising on consolidation	179
At 31 May 2022	**(471)**

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

30 Dividends

The directors are not proposing to pay a dividend for the year ended 31 May 2022 (2021: £nil).

31 Retained earnings

	Group £000	Company £000
At 1 June 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)**
Profit/(loss) for the year	1,468	(3,434)
Share-based payments	16	16
At 31 May 2022	**(10,342)**	**(14,585)**

Notes to the financial statements continued

for the year ended 31 May 2022

32 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 7

	Weighted average exercise price 2022	Number of options 2022
Granted during the year	6.67p	**2,059,029**
Cancelled during the year	6.67p	**(160,836)**
Outstanding at the end of the year	6.67p	**1,898,193**
Exercisable at the end of the year	6.67p	-

Management incentive plans

The options granted in the year have 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 2022:

Ordinary shares of 0.1p 2022	Ordinary shares of 0.1p 2021	Date granted	Earliest date exercisable	Latest date exercisable	Exercise price
1,250,000	1,633,334	01/03/2016	01/03/2017	28/02/2026	5.4p
300,000	300,000	11/04/2016	11/04/2017	10/04/2026	8.5p
200,000	200,000	28/03/2018	28/03/2019	27/03/2028	9.0p
200,000	200,000	11/02/2020	11/02/2021	11/02/2030	9.3p
750,000	750, 000	24/09/2020	24/09/2023	24/09/2030	8.0p
2,543,574	-	24/06/2022	24/06/2025	24/06/2032	11.1p
5,243,574	**3,083,334**				

The weighted average price of the outstanding options under this scheme at 31 May 2022 was 9p (2021: 6.80p).

	Number of share options 2022	Number of share options 2021
Outstanding at the beginning of the year	**3,083,334**	3,839,584
Granted during the year	**3,270,828**	750,000
Cancelled during the year	**(727,255)**	(789,583)
Exercised during the year	**(383,333)**	(716,667)
Outstanding at the end of the year	**5,243,574**	3,083,334
Exercisable at the end of the year	**1,750,000**	2,133,334

33 Share-based payments

	Group and Company	
	2022 £000	2021 £000
Share options expense	**16**	2
	16	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	
	2022	2021
Number of share options granted	**5,329,857**	750,000
Weighted average share price	**9.40p**	8.00p
Expected volatility	**50%**	50%
Expected life	**3.0 years**	3.0 years
Risk-free interest rate	**0.8%**	0.8%
Weighted average fair value	**2.5p**	2.2p

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

34 Pension costs

	Group		Company	
	2022 £000	2021 £000	**2022 £000**	2021 £000
Defined contribution schemes	**291**	280	**43**	41

35 Capital expenditure commitments

	Group		Company	
	2022 £000	2021 £000	**2022 £000**	2021 £000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	**34**	147	**-**	-

36 Analysis of net cash/(debt)

	1 June 2021 £000	Cash flow £000	Other changes £000	**31 May 2022 £000**
Cash and cash equivalents	2,906	1,071	29	**4,006**
Bank loans	(131)	131	-	**-**
Lease liabilities - plant and machinery	(835)	417	(445)	**(863)**
Net cash when including all debt except property leases	1,940	1,619	(416)	**3,143**
Lease liabilities - property leases	(1,185)	236	(8)	**(957)**
	755	1,855	(424)	**2,186**

Financials

Notes to the financial statements continued

for the year ended 31 May 2022

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

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

	2022 £000	2021 £000
Movement in cash and cash equivalents	1,071	1,059
Movement in bank loans	131	78
Movement in lease liabilities - plant and machinery	(28)	546
Movement in lease liabilities - property lease	228	(39)
Exchange differences	29	(179)
Movement in net cash	1,431	1,465
Opening net cash/(debt)	755	(710)
Closing net cash	2,186	755

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 2022 (2021: £nil).

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

37 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 £4.0m whilst the Company has cash at bank of £0.3m.

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 2022, although this can be reviewed at their 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 2023 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 Bank and Wells Fargo Bank.

37 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	
	2022 £000	2021 £000
Customer one	1,226	979
Customer two	830	902
Customer three	742	629
Other customers	714	227
	3,512	2,737

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

	Group	
	2022 £000	2021 £000
Not past due	3,487	2,709
Past due less than three months	25	28
	3,512	2,737

No trade receivables have been provided for in either FY2022 or FY2021.

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 2022, there was £nil held on short-term deposit. The remaining cash in the Group is held in very low interest rate bank 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)

Notes to the financial statements continued

for the year ended 31 May 2022

37 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 2022 (2021: £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					
	2022			2021		
	EUR £000	RMB £000	USD £000	EUR £000	RMB £000	USD £000
Cash and cash equivalents	4	20	859	1	27	1,148
Trade receivables	-	-	2,194	9	-	1,738
Trade payables	(6)	-	(740)	(54)	-	(234)
Net exposure	(2)	20	2,313	(44)	27	2,652

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 2022, then the Group operating profit would have been £55,000 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
Richard Gibbs - Chief Executive Officer

Michael Tyerman - Chief Financial Officer

Jonathan Neale - Non-Executive Chairman

Pete Magowan - Non-Executive Director

John Behrendt - Non-Executive Director

Company Secretary
Michael Tyerman

Company number
2891064

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Independent auditors
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Chartered Accountants and Statutory Auditors
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Bankers
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Financial public relations
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1 Bartholomew Close
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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:

Link Group
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29 Wellington Street
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LS1 4DL
Tel: +44 (0)371 664 0300

(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.

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
AESA:	Active Electronically Steered Array
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
B2B:	Business to Business
CAGR:	Compound Average Growth Rate
CRM:	Customer Relationship Management
CY:	Calendar year
D-band:	130GHz to 175GHz
DSTL:	Department of Science and Technology Leadership
E-band:	71GHz to 86GHz
EBITDA:	Earnings Before Interest, Taxation, Depreciation and Amortisation
EMEA:	Europe, the Middle East and Africa
ERP:	Enterprise Resource Planning
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
FM:	Frequency modulation. The modulation of a radio or other wave by variation of its frequency
FY:	Financial year
Gbps:	Gigabits per second
GEO:	Geostationary, an altitude of about 22,300 miles
GHz:	Gigahertz: 10^9 Hertz
Gigabit:	10^9 bits
HAPS:	High Altitude Pseudo-Satellites
IOT:	Internet of Things
IP:	Intellectual Property
Ka-band:	26.5GHz - 40GHz
Ku-band:	12GHz -18GHz
LEO:	Low Earth Orbit
LMR:	Land Mobile Radio
LTE:	Long-Term Evolution
MarCom:	Marketing communications
MES:	Manufacturing Execution System
MMIC:	Monolithic Microwave Integrated Circuit
mmWave:	Millimetre Wave
MOD:	Ministry of Defence
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
NTN:	Non-Terrestrial Networks
ODU:	Outdoor Unit
OEM:	Original Equipment Manufacturer
Open RAN:	Open radio access network. A key part of a mobile network system that uses cellular radio connections to link individual devices to other parts of a network

OSAT:	Outsourced Semiconductor Assembly and Test
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
QMS:	Quality Management System
RAN:	Radio access network. The part of a mobile network that connects end-user devices, like smartphones, to the cloud
RF:	Radio Frequency: a rate of oscillation in the range of around 3kHz to 300GHz
RPO:	Recruitment Process Outsourcer
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
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

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