



Filtronic

Filtronic plc

Annual Report and Accounts 2020

Stock Code: FTC

www.filtronic.com

Welcome to Filtronic



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

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

Our strategy to achieve this objective is:

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

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

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



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

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

Forward-looking statements

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

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FY2020 was a year of numerous and varied challenges that I am pleased to say management and staff navigated successfully under difficult circumstances.

05 Chief Executive's review

The sale enabled us to refocus the energies of our employees on managing and developing our continuing business operations. In particular, we were able to finance and complete key investments in manufacturing and engineering capability enhancement across all three of our operational sites.

07 Market review

The technical and economic advantages of E-band over fibre in many situations will underpin the continued growth of deployment of E-band wireless links in backhaul applications, and our intent is to become the independent "go to" partner of choice for advanced mmWave applications.

10 Objective and strategy

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

Glossary

3GPP:	The 3rd Generation Partnership Project
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
Backhaul:	The portion of a hierarchical telecommunications network that comprises the intermediate links between the core network and the small subnetworks at the edge of the network
CAGR:	Compound Average Growth Rate
CY:	Calendar year
D-band:	130GHz to 175GHz
dB:	Decibel
E-band:	71GHz to 86GHz
EBITDA:	Earnings Before Interest, Taxation, Depreciation and Amortisation
EMEA:	Europe, the Middle East and Africa
ETSI:	European Telecommunication Standards Institute
Fronthaul:	The portion of a C-RAN telecommunications architecture that comprises the intermediate links between the centralised radio controllers and the radio heads at the edge of a cellular network
FY:	Financial year
GHz:	Gigahertz: 10^9 Hertz
Gigabit:	10^9 bits
HAPS:	High Altitude Pseudo-Satellites
IoT:	Internet of Things
IP:	Intellectual Property
LBITDA:	Loss Before Interest, Taxation, Depreciation and Amortisation
LEO:	Low Earth Orbit
LMR:	Land Mobile Radio
LTE:	Long-Term Evolution
MHz:	Megahertz: 10^6 Hertz
Midhaul:	The link in a telecommunications network between the controller or the radio head that feeds the next link in the network
mmWave:	Millimetre Wave
Mobile router:	A device with a cellular network connection to the internet and Wi-Fi or ethernet connection to one or several clients (such as PCs or tablets)
NRE:	Non-recurring engineering
NSA:	Non-Stand Alone. The non-standalone (NSA) mode of 5G that depends on the control plane of an existing 4G LTE network for control functions
ODU:	Outdoor Unit
OEM:	Original Equipment Manufacturer
P25:	Project 25: a suite of standards for digital mobile radio communications designed for use by public safety organisations
PoP:	Point of presence is the point at which two or more different networks or communication devices build a connection with each other
RF:	Radio Frequency: a rate of oscillation in the range of around 3kHz to 300GHz
SA:	Stand Alone 5G: the deployment of 5G without relying on the 4G LTE network
TIP:	The Telecom Infra Project was formed in 2016 as an engineering-focused, collaborative methodology for building and deploying global telecom network infrastructure, with the goal of enabling global access for all
TRM:	Transmit Receive Module
TTA:	Tower Top Amplifier
TX:	Transmit
W-band	92GHz to 115GHz

Strategic report

Financial highlights

	2020	2019
Sales revenue	£17.2m	£15.9m
Adjusted earnings before interest, taxation, depreciation, amortisation and exceptional items	£1.2m	£0.7m
Adjusted operating profit*	£0.4m	£0.2m
Exceptional items	(£0.6m)	-
Operating (loss)/profit	(£0.2m)	£0.2m
(Loss)/profit before taxation	(£0.4m)	£0.1m
Loss for the year from discontinued operations	(£1.4m)	(£3.5m)
Loss for the year	(£2.0m)	(£1.3m)
Basic and diluted loss per share	(0.93p)	(0.63p)
Net cash when excluding right of use property leases	£0.4m	£2.5m
Net (debt)/cash balance at 31 May	(£0.7m)	£2.5m
Cash used in operating activities	(£2.6m)	£0.0m

* Operating (loss)/profit before exceptional items.

Note: All adjusted measures set out throughout this document which are described as 'adjusted' represent alternative performance measures (APMs) and are defined and reconciled in the financial review.

Operational highlights

- A contract award from a leading US technology corporation for the development of high-power long-distance high-capacity low-latency transceiver modules for use in HAPS applications.
- A contract award from a leading OEM supplier for the development and delivery of module samples for Over-the-Air equipment.
- The installation and commissioning of automated placement and bonding machinery in our Sedgefield operation to double capacity and improve product yields.
- The approval and adoption as "best-in-class" of our new Tower Top Amplifier ("TTA") product line by our lead US public safety communications client.
- The in-sourcing and on-shoring of our public safety product assembly activity from our Chinese sub-contractor to our newly created capability in Maryland, USA.
- Successful completion of the sale of the Filtronic Telecoms Antenna Operation for an initial consideration of \$5.5m to Microdata Telecoms Innovation Stockholm AB.

Pictured: Automatic wire bonder

Chairman's statement

FY2020 was a year of numerous and varied challenges that I am pleased to say management and staff navigated successfully under difficult circumstances.

As advised in the half-year statement, the sale of the Telecoms Antenna Operation was completed on 2 January 2020 for a cash consideration the Board was very pleased with and on terms that were in line with our expectation. However, no sooner had we completed the process of decoupling the Antenna business operations from the continuing business than we were in the midst of Covid-19 measures, and then quickly into lockdown.

We are greatly relieved not to have suffered any Covid-19 illness amongst our staff and I take this opportunity to thank all members of the Filtronic team for their courage, support and loyalty during a very stressful period for all. As a result of the efforts of our team, we managed to maintain full 24/7 manufacturing capability and meet all contractual deliveries throughout the Covid-19 lockdown period, whilst also commissioning further capital investment projects and meeting all key customer deadlines on a number of very significant engineering development projects.

The measures we took to remain fully operational progressively impacted our productivity and efficiency as time went by and consequently our profitability suffered over the fourth quarter of the financial year. We were therefore very pleased to deliver annual results in line with market forecasts.

Whilst our end markets held up reasonably well during the lockdown period, enabling us to maintain delivery continuity, new business development and acquisition became progressively more difficult. Many of our customers had increasing difficulty in firming up future commitments, leading to a number of programmes being pushed out. Consequently, we entered the new financial year with a high level of confidence in our ability to perform under the restrictions presented by Covid-19, should conditions deteriorate again, but with a higher degree of uncertainty around customer requirements in terms of volumes and delivery schedules.

Notwithstanding these uncertainties we are confident that the measures we have taken position the business well to take advantage of improvements and opportunities within our markets as they arise.

Financial performance summary

Group sales from continuing operations increased by 8% in the year to £17.2m (2019: £15.9m). An adjusted operating profit of £0.4m was achieved (2019: £0.2m) with an operating loss of £0.2m (2019: £0.2m operating profit). Adjusted earnings before interest, taxation, depreciation, amortisation and exceptional items ("EBITDA") from continuing operations was £1.2m (2019: £0.7m).

The Group had net cash when excluding right of use property leases, of £0.4m at the end of the financial year (2019: £2.5m). Net debt including right of use property leases was £0.7m (2019: £2.5m net cash). The Group was



able to close the year with £2.0m of cash at bank (2019: £2.6m) giving healthy cash reserves in addition to our working capital debt facilities in the UK and USA which provide additional headroom. The reduction in cash is largely related to the loss-making discontinued Antenna operation and the payment of £1.2m to settle three of the four instalments of the warranty settlement agreement with £0.4m remaining on the outstanding liability.

Dividend

No dividend is proposed for the year (2019: £nil). The Board continues to be of the opinion that shareholders are better served by cash being retained in the company to fund future opportunities.

Board Composition

Rob Smith resigned from his position as CEO in October 2019 and I stepped in to fulfil the role of Executive Chairman until a new CEO could be appointed. The recruitment process was impacted by the Covid-19 situation but is back on track and has advanced to the final stages.

After seven years of excellent service as a Non-Executive Director, Michael Roller has decided to retire from the Board and will leave us at the 2020 Annual General Meeting. Michael has been a key figure in guiding the Company through some very difficult and some very rewarding challenges over these years and his input to the Executive, the Board in general and as Chairman of the Audit Committee in particular has been greatly appreciated. I would like to take this opportunity to thank Michael on behalf of all Filtronic stakeholders and wish him well for the future. We will look to appoint a replacement in due course.

Outlook

The slowdown in new business acquisition over the fourth quarter due to Covid-19 related constraints meant that we entered the new financial year with a slightly reduced order book compared with the prior year. Although we were very pleased to be able to announce a key two-year follow-on contract from our lead defence client early in the new year, there remains considerable uncertainty within our end markets. This uncertainty is compounded by the imminent conclusion of the Brexit transitional period with, as yet, little clarity regarding trading terms with Europe from January 2021. As a consequence, we remain cautious in our outlook for the current year.

Reg Gott
Chairman
3 August 2020

Chief Executive's review

FY2020 was a year of considerable change and achievement against a very disruptive background.

The sale of our Telecoms Antenna Operation completed on 2 January 2020. Several parties were interested in acquiring the business and negotiations proved to be complex as we sought to maximise shareholder value from the sale. The sale process took three months longer than we anticipated and consequently we incurred extra costs for operating the business during this period. Nonetheless, we were very happy with the eventual sale price and the terms of the sale, with the consideration being received in cash, which returned the Company to a net cash position.

The sale enabled us to refocus the energies of our employees on managing and developing our continuing business operations. In particular, we were able to finance and complete key investments in manufacturing and engineering capability enhancement across all three of our operational sites. Substantial investments in manufacturing automation assets in Sedgefield were completed on time and the production volume expansion to satisfy demand for our 5G XHaul product offering was achieved. In addition, we completed the transfer of our public safety product line assembly activities from China to our facility in Maryland, USA in January 2020. Whilst we are now assembling the finished products in the USA a number of critical components are still sourced from China, however, we will address this situation in FY2021.

Despite maintaining full 24/7 operational capability throughout the entire Covid-19 lockdown period, the measures we had to take to achieve this within a safe environment for employees affected our ability to maintain productivity and efficiency levels, and thus our profitability took a slight dip over the final quarter of the year. In addition, our customers similarly advised us of progressive impacts on their own businesses and, whilst we suffered no order cancellations, a number of delivery programmes were rescheduled out over a longer period.

A further consequence of Covid-19 was the slowdown of business development and sales acquisition activities during the final quarter of FY2020. Our customers and end-clients were unable to make the expected progress with existing project completions whilst new project developments fell victim to deferred decision-making. The key impact of this was a reduced level of order intake over the final quarter.

In order to mitigate reduced order intake and accommodate the rescheduling of certain client orders, we commenced a furlough programme using the UK government's Coronavirus Job Retention Scheme for 23 employees at the start of the new financial year. At the time of writing we have restart instructions from these customers and we expect to return furloughed staff progressively as the production programmes regain momentum, with all staff expected back by August 2020.

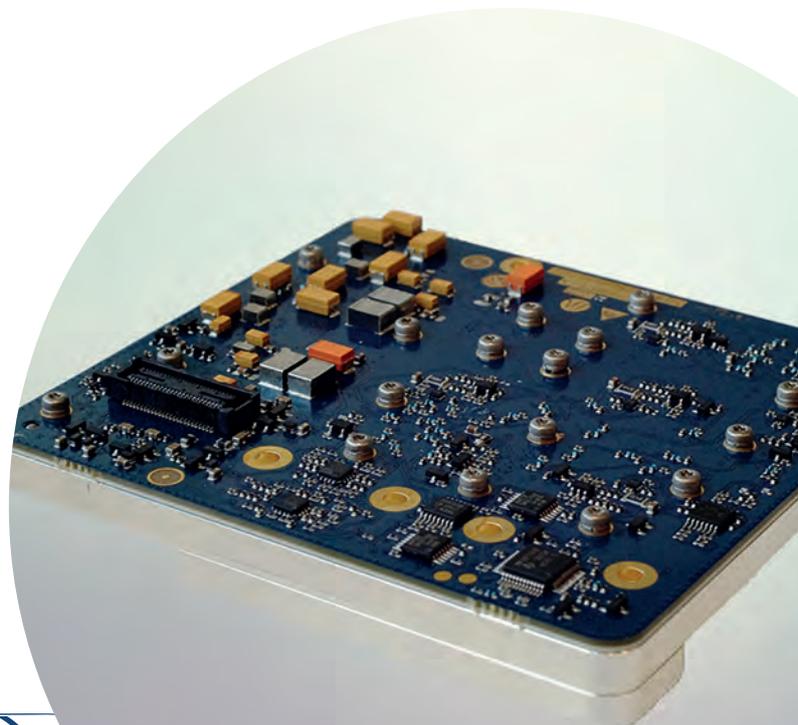
I am pleased to report that some of the orders delayed from Q4 FY2020 were received in the early part of the new financial year, including, in particular, a much anticipated £4.9m defence client contract for a two-year manufacturing supply agreement.

Notwithstanding the challenges of the year, we were delighted that revenue, adjusted operating profit and adjusted EBITDA all improved over the prior year and, despite the reduction in order intake during the final quarter, the total intake for the year matched annual sales revenue leaving us with a healthy order book entering the new year.

Our strategy and markets

The onset of the Covid-19 pandemic and the resultant lockdown came immediately on the heels of our Telecoms Antenna Operation sale completion. Understandably, management efforts during the lockdown period were focussed on maintaining operational capability whilst ensuring a safe working environment for our staff. As a consequence of this, and of a similar focus within our target markets, we have not made the progress we had hoped to make on strategic development of the continuing business. However, as we and our broader market are now emerging from the lockdown constraints, the development and articulation of a clear strategic roadmap are amongst our highest priorities for the current year.

Pictured: Orpheus, mmWave Transceiver Module



Chief Executive's review continued

That is not to say however that we have not made some significant achievements over the period, to which end I would highlight the following:

- The in-sourcing and on-shoring of our public safety product assembly activity from our Chinese sub-contractor to our newly created capability in Maryland, USA, with a full quality and process audit sign-off as an approved supply facility by our lead client in this market;
- The approval and adoption as "best-in-class" of our new Tower Top Amplifier ("TTA") product line by our lead US public safety communications client;
- A contract award from a leading US technology corporation for the development and delivery of evaluation and pre-commercialisation samples of high-power long-distance high-capacity low-latency transceiver modules for airborne communication links for use in High Altitude Pseudo-Satellites ("HAPS") applications;
- A contract award from a leading OEM supplier for the development and delivery of evaluation and pre-commercialisation module samples for Over-the-Air equipment;
- A contract for the supply of evaluation modules for new W-band frequency applications. W-band frequencies are significantly above those of our current E-band products and are expected to feature strongly in 5G phase 2 XHaul applications;
- The delivery of transceivers for a successful trial in Asia of a 10Gbps track-to-train backhaul solution. It is anticipated that this will lead to a further "metro scale" trial in 2021;
- The installation and commissioning of automated placement and bonding machinery in our Sedgefield operation to double capacity and improve product yields; and
- At the time of writing we have passed the 50,000 unit delivery milestone for our market leading E-band transceiver modules. The latest generation, Orpheus, will be superseded by our new Morpheus II product in Q2 FY2021.



Pictured: Tower Top Amplifier and TTA Controller Unit

The future

As we emerge from Covid-19 lockdown, we face increasing macroeconomic uncertainty and concerns for the impact it will have on infrastructure programmes. Consequently, it is very difficult to predict with any great accuracy how this will affect our business over the coming year. However, that does not mean we are not planning and agitating for success. Our business plan for FY2021 includes a wide range of measures to develop the capability of the business to win and deliver new opportunities including:

- Strengthening the sales organisation by establishing a new marketing function and the acquisition of further direct sales and business development resource;
- Establishing a Manufacturing Representative Network across the USA to enhance our sales reach with a faster route to market through established sales channels without the high overhead cost incurred from enlarging our own sales team;
- Further investment in new advanced equipment to continue the extension of our engineering design and test capability into higher-frequency higher-performance technologies; and
- A new talent acquisition, management and development investment plan.

I have been fulfilling the role of Executive Chairman since October 2019 and advised I would continue to do so until a new Chief Executive Officer ("CEO") is appointed and in position. At which point, I intend to step back into the role of Non-Executive Chairman. Understandably, the Covid-19 situation has impeded our search but I will continue in this role until a new CEO is on board, which we hope will be in the near future.

Reg Gott
Chairman
3 August 2020

Market review

Filtronic serves a number of markets with advanced RF communications equipment, the main markets being mobile telecommunications infrastructure (“XHaul”), public safety networks and defence & aerospace. In addition to these markets we have targeted other adjacent sectors where we can add value through leveraging our IP and know-how.

Mobile telecommunications infrastructure (XHaul)

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

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

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

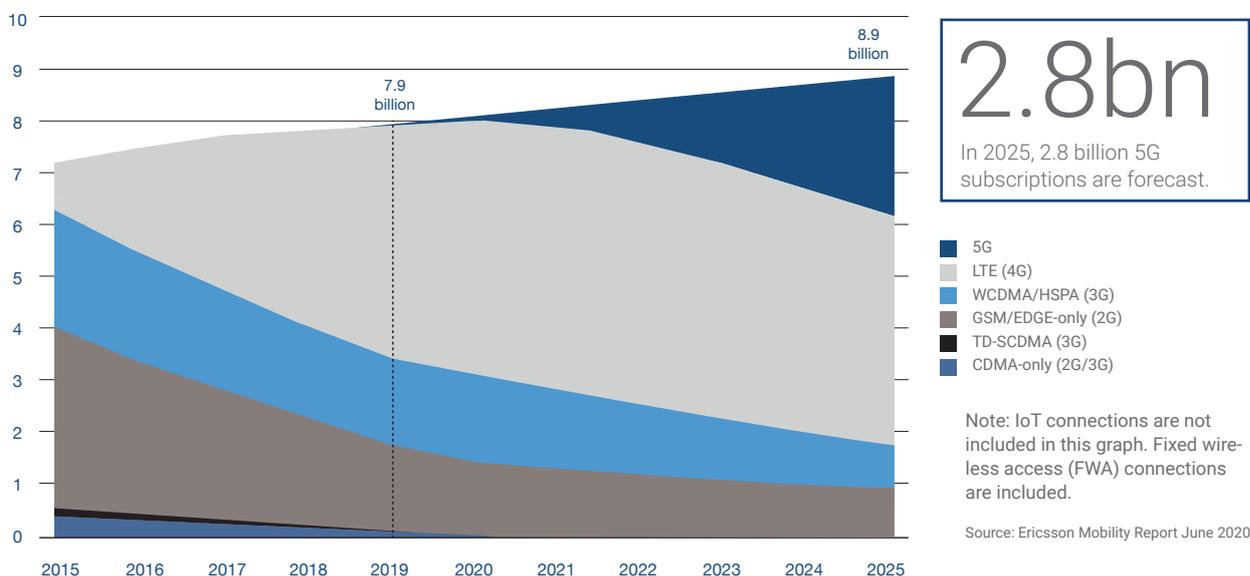
Microwave transport is a well-established backhaul technology and has been used in mobile networks for decades. To a large extent, LTE’s success has been built on the capacity, flexibility and short roll-out times that microwave links provide. The use of fibre optic links in networks has increased in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

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

In summary, the deployment of 5G networks is a major driver for the deployment of wireless, E-band XHaul products. The technical and economic advantages of E-band over fibre in many situations will underpin the

Strategic report

Mobile subscriptions by technology (billion)



Market review continued

continued growth of deployment of E-band wireless links in backhaul applications, and our intent is to become the independent “go to” partner of choice for advanced mmWave applications.

Filtronic’s approach to the 5G backhaul market

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

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

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

Public safety networks

Public safety networks are communications networks operated for emergency services. Reliability, availability and security are critical attributes for these services and they are normally provided over separate infrastructure, independent of commercial networks.

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

Overall expenditure on public safety networks continues to grow as emergency services look to expand coverage, integrate services and continue to replace legacy FM

analogue networks. Product life cycles in this industry tend to be significantly longer than in commercial mobile phone networks and therefore return on investment cases are more attractive for Filtronic.

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

Filtronic’s approach to the public safety 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 FY2019, we embarked on a programme to expand our product offering to this sector and in FY2020 we launched a range of TTAs as the first of these new products. Although our TTA products have been designed to be OEM agnostic and will be marketed under our own brand, our lead client in this market (who is in turn the US P25 infrastructure market leader), has adopted our TTA range and declared it to have “best in class” performance. We are actively developing further products to expand our P25 network product portfolio which we hope to launch over the coming year.

During FY2020 we in-sourced and on-shored the manufacturing of our public safety network products away from our Chinese subcontractor and into our own facility in Salisbury, Maryland, USA. This move was made not only to address security of supply issues due to growing trade relationship concerns, but also to enable us to provide a “closer to the customer” more flexible response with lead-times reduced by up to 75%.

Overall the public safety market continues to show good levels of investment. Filtronic’s strategic objective is to maximise the opportunity in this sector by expanding our range of products in order to deepen existing customer relationships and build new ones.

Defence and aerospace

Filtronic has long been a supplier of RF components and sub-systems to the defence and aerospace industry. In recent years we have significantly grown



this part of the business through multi-year contracts to supply transmit and receive modules ("TRMs") for latest generation airborne radars. An attraction of this market is that the need to maintain an "operational edge" and extend asset life-in-service results in planned through-life performance upgrades and wear & tear replacement business.

Increasing geopolitical tensions are expected to lead to increased defence spending over the coming years and it is anticipated that the focus of this increased spending will be to provide enhanced capability and interoperability, such as is provided by these advanced radar systems which utilise more sophisticated RF solutions.

Filtronic's approach to the defence and aerospace market

Filtronic's target market in defence and aerospace is the manufacture of TRMs, Filters and other RF components and sub-systems where our engineering, design and highly specialised manufacturing capabilities can add value. By focusing on TRMs and associated sub-systems Filtronic can leverage its advanced, specialist manufacturing capabilities.

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

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

Other growth markets

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

Low latency private networks

Filtronic has designed and supplied customised versions of Orpheus E-band links to a customer supplying the financial services markets. Low latency financial networks are becoming recognised as an essential part in reducing transaction times in automated high-frequency trading systems.

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 alike around the world. However, the provision of such services on high-speed trains presents a number of interesting technical and commercial challenges. During FY2020 Filtronic

partnered with a niche OutDoor Unit ("ODU") manufacturer to successfully complete a major demonstration project in Asia. A follow-on project of "Metro scale" is currently being planned for execution in CY2021 and it is hoped that commercialisation of the application will follow from CY2022.



mmWave modules for over the air 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 equipment company. The design phase is due to complete in early CY2021 with the supply of evaluation samples. It is hoped that production supply will commence later in CY2021.

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

In recent years there has been considerable work undertaken to develop airborne communications networks that overcome the limitations of terrestrial networks. A number of challenges exist in designing these systems, one of which is the development of communications transport links that deliver sufficient bandwidth and range to provide comprehensive internet services. Filtronic has developed class-leading power combining technologies at mmWave and has supplied evaluation transceiver modules for a number of West Coast, USA technology organisations actively developing this market. In FY2020 we were awarded a major contract to develop and deliver pre-commercialisation, long range E-band transceivers based on a customised version of our latest generation Morpheus II product.

Whilst the commercial deployments of HAPS and LEO satellites for mobile internet applications may be a little way off, we continue to position ourselves to participate in this market segment as part of our future growth strategy.

Objective and strategy

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

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

Our objectives within the strategy to achieve this are:

- To nurture close working relationships with our customers to understand their needs and requirements;
- To develop class-leading products in our core technology areas and to expand our areas of expertise;
- To develop solutions to address both customer-specific and general market requirements;
- To grow our customer base within the market verticals we serve; and
- To broaden the range of markets we serve.

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.



Filter & combiner products

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

mmWave 5G transceiver products

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

Tower top amplifiers

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

Manufacturing Process Capability

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

Organisational overview

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

Leeds, UK

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

Sedgefield, UK

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

Salisbury, MD, USA

North American sales, service, repair and manufacturing of public safety products.

Business ethos

Our aim is to be agile and responsive to customer needs. To achieve this, we provide an environment to our employees with a high degree of delegated authority and empowerment. We have established a framework of ten behaviours and values which guide our business ethos.

Our people

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

Filtronic has considerable depth of technology, engineering, manufacturing and operational management skills across its business operations. The Company 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.

mmWave Technology Developments

Reaching the Unconnected – How Satellites and HAPS can Connect Everyone and Everything, Everywhere

by Mike Geen,
Chief Scientist - mmWave Technology, Filtronic

The ambition to connect everyone and everything, everywhere, cannot be fulfilled by ground-based communication networks alone. This is why HAPS, operating in the stratosphere, and also constellations of LEO satellites, are beginning to be deployed to address the challenge of providing ubiquitous connectivity. As the technology evolves, we can expect to see non-terrestrial networks integrate with terrestrial infrastructure.

Filtronic is currently engaged in developing the mmWave subsystem needed to beam data at multi-gigabit rates between earth and HAPS, and between HAPS platforms, in order to form mesh networks in the sky.

As demand for broadband capacity from these space and air-borne systems grows, additional spectrum will be needed to support it. The telecommunications industry has successfully lobbied for more spectrum for HAPS, and the allocation of new and wider bands around 26GHz and 38GHz was agreed during the 2019 World Radio Conference. In addition, experimental licences have been granted for E-band (71–86GHz), where there is growing interest. These are frequencies where Filtronic has world-beating experience, which can be exploited in supplying transceivers for HAPS and high-power amplifiers needed for the links that feed data from Earth to the satellite constellations.

Further evidence of the growing interest in HAPS technology has been demonstrated by the formation of a Non Terrestrial Connectivity project group within the Telecom Infra Project (TIP) <https://telecominfraproject.com/>, an engineering-focused collaboration sponsored by Facebook. TIP boasts a global membership of over 500 companies, representing all the major telecom operators and equipment providers. Filtronic is an active member of TIP, and is contributing to the definition of backhaul payload requirements.

While many HAPS networks will communicate directly with existing mobile phones, LEO satellite constellations will also generate the need for huge numbers of new

consumer terminals. This in turn will create a demand for very high volumes of components operating at frequencies up to 55GHz, where previously production volumes have been relatively low. This increase in volume presents a challenge not only for OEMs but also for test equipment manufacturers, and offers an opportunity for Filtronic to design and manufacture mmWave solutions for use in automatic test equipment (ATE).

Frequencies above 100GHz for future XHaul

Filtronic's highly integrated E-band (71–76GHz and 81–86GHz) transceiver modules, including Orpheus and the new Morpheus II, offer an attractive and cost-effective high capacity solution for mmWave backhaul, fronthaul and midhaul applications (collectively known as XHaul), supporting radio links up to 20Gbps. However, due to the ever-increasing demand for data, even higher capacity will be required in future for 5G XHaul networks and a requirement for links up to 100Gbps has already been identified.

Systems operating in W-band (92–114.5GHz) and D-band (130–175GHz), where huge amounts of further bandwidth are available, are likely to provide part of that solution. The atmospheric attenuation at D-band is very similar to that at E-band, while the rain attenuation in D-band is only around 2dB higher and is almost flat across the band. In addition, an antenna will give higher gain in this band compared to the same size antenna at a lower frequency. All these features make the D-band system a good candidate for the next generation ultra-high capacity wireless links.

Innovative test methods

Working at D-band will bring further new challenges in test and measurement techniques. Filtronic recently collaborated with the UK's National Physical Laboratory ("NPL") in a research programme funded by Innovate UK to study ultra-high frequency interconnects and calibration methods. During the project, which concluded successfully in January 2019, transitions between mmWave integrated circuits (MMIC) and various external circuits were designed, fabricated and demonstrated in D-band (130GHz–175GHz). Calibration and measurement techniques were developed in collaboration with NPL.

Filtronic continues to cooperate with NPL on D-band measurements. NPL was recently awarded a grant from EURAMET for "Knowledge Transfer of Planar Calibration and Measurement Techniques at Millimetre-wave Frequencies", for which Filtronic is the primary industry supporter.

Filtronic is also an Industrial Partner within the UK EPSRC "DLINK" project, led by Lancaster University and the University of Glasgow, established to explore use cases within D-band.

Financial review

The disposal of the Telecoms Antenna Operation for \$5.5m (£4.1m) substantially improved the liquidity position of the Group. This provided the company with healthy cash reserves and a continuing business operation that demonstrated resilience during the Covid-19 crisis.

Filtronic achieved year-on-year revenue growth from continuing operations in the year of 8% resulting in an uplift of adjusted EBITDA to £1.2m (2019: £0.7m). The balance sheet benefitted from the sale of the Telecoms Antenna Operation in January 2020 for £4.1m and a level of unwind of working capital in the second half of the year from a continuing operation that has generated improved adjusted EBITDA, our core metric for measuring underlying profitability, for three consecutive years.

Revenues

Sales revenue for the Group from continuing operations increased in the year by 8% to £17.2m (2019: £15.9m) driven by increased output of our core product offerings manufactured at Sedgefield. It was very pleasing to see the investment made in product development over recent years come to fruition and provide sufficient uplift to replace and surpass the revenue previously generated by telecoms filters. Sales of telecoms filters drew to a close in the early part of the year following our strategic withdrawal from this low margin business in 2016 and generated only £0.2m of revenue in this financial year (2019: £4.1m).

5G XHaul sales to our lead customer grew by 221% year-on-year due to strong demand for the Orpheus platform as Mobile Operators commenced their 5G network roll-out. In addition to sales of 5G XHaul products into our traditional wireless telecoms infrastructure market, sales of XHaul derivatives grew by 150% as we saw traction into adjacent markets such as mmWave 'over-the-air' equipment and HAPS.

Sales of defence products saw year-on-year growth of 34% as the multi-year agreement announced in September 2018 to supply modules for use in aerospace radar systems entered production. This added to the two existing contracts that reached full capacity in the previous financial year.

Sales to the public safety market saw a reduction of 30% hindered by weak trading in the final quarter of the year as Covid-19 impacted our end customer.



Operating costs and headcount

Operating costs increased in the year to £9.3m (2019: £7.6m). A substantial portion of this increase was due to salary related cost increases of £1.7m, including £0.4m of exceptional items due to restructuring of the overhead cost base. The operational team was enlarged substantially in the year to support the production ramp of 5G XHaul products whilst we made additional investments in our engineering team to support new product development and advancement of our technology roadmap. This is reflected in the average headcount for the year which has increased to 141 (2019: 100).

The Group's average continuing headcount is presented below:

	2020	2019
Manufacturing	99	62
Research and development	21	17
Sales and marketing	5	6
Administration	16	15
Total headcount	141	100

Despite the increase in salary costs there were favourable changes to the cost base mainly from an additional £0.4m of development costs capitalised over the previous year as a number of product developments met the criteria of IAS38. Further commentary can be seen in the Research and Development section of this review.

Adjusted EBITDA

Adjusted EBITDA for the continuing operation was £1.2m (2019: £0.7m). The increase in revenue supported a minimal increase in gross profit of £0.1m but gross margin declined due to an increase of manufacturing overheads. The production ramp of the 5G XHaul products consumed more cost as employees undertook product and equipment training following substantial capital expenditure investment and new employees worked through the learning curve. Added to this were operational inefficiencies from the Covid-19 social distancing measures implemented.

In the USA, the public safety business was on-shored from China which led to an increase in manufacturing fixed costs at a time that Covid-19 impacted volume output. Given the

business is now operationally geared for higher volumes, increases in revenue will have a greater profit impact.

Depreciation increased as a result of investments made in plant and machinery during the second half of the year and the impacts of IFRS16. Impairment of development costs previously capitalised was £89k as a key client experienced technical issues with their internal development. Whilst we are hopeful this technical uncertainty will be resolved a prudent approach has been taken to its recognition.

Reconciliation of adjusted operating profit/EBITDA	2020 £000	2019 £000
Operating (loss)/profit	(188)	234
Exceptional items	569	-
Adjusted operating profit	381	234
Impairment of development costs	89	-
Depreciation	677	355
Amortisation	18	75
Adjusted EBITDA	1,165	664

Taxation

A tax charge of £0.1m (2019: £2.1m credit) has been recognised for the year, as set out in note 14 to the financial statements. The Group benefits from R&D tax credits in the UK as we continue to invest in the development of advanced product and process technology. An R&D tax credit of £0.1m was recognised in the year as it is anticipated the business will revert to an acceleration of tax losses position rather than a 'cash-out' as has been the case in previous years (2019: £1.4m).

Discontinued operations

The Group sold the Filtronic Telecoms Antenna Operation ("FTAO") during the year for an initial cash consideration of \$5.5m (£4.1m) to Microdata Telecom Innovation Stockholm AB on 2 January 2020. We are very pleased with the initial consideration received which may increase based on contingent consideration arising on an equal share of the gross profit that outperforms the mutually agreed gross profit targets of \$2.0m and \$3.0m over the next two calendar years. The fair value for this consideration has not been recognised in the financial results for the year.

The gain on sale of discontinued operations against the carrying value of the assets held for sale was £1.3m which reduced to an overall gain on sale of discontinued operations of £0.7m after advisor fees and other costs of sale were applied.

The discontinued operation continued to trade until the date the sale was completed. The loss from its operating activities was £2.1m (2019: £3.5m).

Research and development costs ("R&D")

Total R&D costs in the year before capitalisation and amortisation of development costs were £1.7m (2019: £1.2m). The Group saw an increase in R&D spend year-on-year as investment was made into expanding the product portfolio. The aim was to generate a mix of near-term revenue whilst also developing the strategic technology roadmap to build long-term shareholder value. The Group remains committed to investment in R&D for the future growth of the business and consequently measures this as a KPI. Key areas of spend in the year included product development of a range of TTAs for the public safety market and progression of the mmWave technology roadmap. This included the next-generation Morpheus II transceiver and applications for adjacent markets such as HAPS and 'over-the-air' mmWave equipment.

The Group capitalises its development costs in line with IAS 38 as set out in note 2 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	2020 £000	2019 £000
R&D costs in income statement	1,152	1,026
Capitalisation of development costs	678	250
Impairment of development costs	(89)	-
Amortisation of development costs	-	(38)
R&D costs before capitalisation and amortisation	1,741	1,238

Capital expenditure and right of use assets

The Group undertook an extensive capital expenditure programme during the year made up of right of use assets and plant and equipment. The total amount of capital committed was £1.8m (2019: £0.4m) to increase production capacity at Sedgefield and improve our operational capability. The assets, externally financed through asset finance agreements, were subsequently classified as right of use assets.

Inventory provision

Inventory is valued at the lower of cost and net realisable value. It is the Group's policy to regularly review the carrying value of its inventories and to make a provision for excess and obsolete inventory. As at 31 May 2020, the inventory provision was £1.5m (2019: £1.1m).

Financial review continued

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 2020, the warranty provision was £1.1m (2019: £2.2m). The Group has now paid 75% of a specific customer warranty settlement liability with the final instalment of \$0.5m (£0.4m) due in December 2020.

Funding and cash flow

The Group recorded a decrease in cash and cash equivalents to £2.0m (2019: £2.6m) at the year-end.

Cash used in operating activities in the year was £2.6m (2019: £0.0m). The cash usage was primarily to fund losses from the discontinued operation along with exceptional items, payment of the customer warranty liability settled in the year and increased working capital to service the increased activity of 5G XHaul products.

The Group paid £1.2m (2019: £1.1m) for plant and machinery and internally generated intangible assets. However, overall, the Group generated cash from investing activities of £2.4m as a result of the incoming proceeds of £3.7m - net of sale costs from the disposal of FTAO. The full breakdown of this movement can be seen on the consolidated cash flow statement.

Net cash when excluding property leases at the end of the period was £0.4m (2019: £2.5m) whilst overall net debt including property leases was £0.7m (2019: net cash of £2.5m).

To provide additional cash headroom Filtronic has a £3.0m invoice discounting facility with Barclays Bank plc in the UK and an agreement with Wells Fargo Bank for an additional \$4.0m invoice factoring facility to borrow against the debtors of our USA operation.

Cashflow responses to Covid-19 and going concern

The Covid-19 pandemic has brought a new liquidity risk to many businesses and a more cautious approach to the outlook. The initial response to the pandemic was to ensure Filtronic maintained manufacturing capability and keep meeting customer delivery commitments. This enabled us to strengthen the balance sheet during the crisis and continue to generate cash.

Several initiatives were implemented to strengthen the cash position in the face of potential Covid-19 impacts, including: negotiating an increase in the advance rate on the invoice discounting facility with Barclays from 65% to 70% to give additional access to debt should it be required; a three-month moratorium on payments to our asset finance partner; a three-month payment holiday with the landlord in Sedgefield on rent payments and a hold on VAT payments to HMRC. Having considered the government's Coronavirus Business Interruption Scheme (CBILS), it was determined

that long-term debt to finance potential operational losses would be an inappropriate source of finance. Additionally, the Group already had sufficient cash reserves and access to finance through working capital debt facilities to continue as a going concern even after stress testing the business forecast with severe downside scenarios. This included a decrease of revenue across the projected period against the base case by an average of 36% to model a more restrictive second wave of Covid-19 resulting in total lockdown for the UK and USA and demand recovering to no more than 75% of base case revenue afterwards.

In the USA the government have sought to secure jobs for businesses by offering the Paycheck Protection Program where companies were able to apply for 250% of average monthly payroll to protect jobs. We successfully applied for a loan under this scheme for \$237k (£192k) through Provident State Bank. This two-year loan carries a fixed 1% interest rate over the term and is not repayable for six months. Based on job retention the loan may be forfeited by the US government in the future.

Subsequent to 31 May 2020, Filtronic took advantage of the Coronavirus Job Retention Scheme made available by the UK government and secured a temporary overdraft facility for six months from Barclays for £500,000. It is not expected we will use this overdraft facility, but it is a more appropriate debt instrument than the invoice discounting facility when the Group could be prevented from generating sales in a lockdown situation.

Michael Tyerman
Chief Financial Officer
3 August 2020



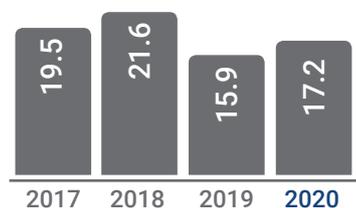
Pictured: Cerus E-band Power Amplifier

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)

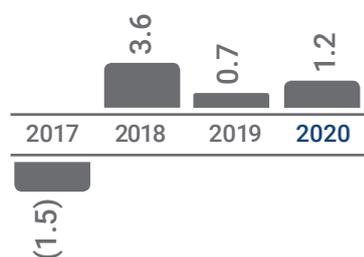
£17.2m



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

Adjusted EBITDA/(LBITDA) (£m)

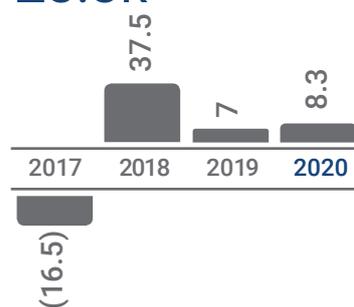
£1.2m



The Board recognises adjusted EBITDA/(LBITDA) as a key metric of the underlying health of the business.

Adjusted EBITDA/(LBITDA) per employee (£k)

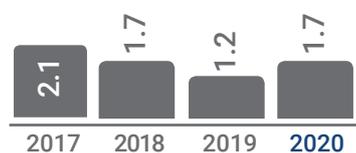
£8.3k



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

Research and development costs (£m)

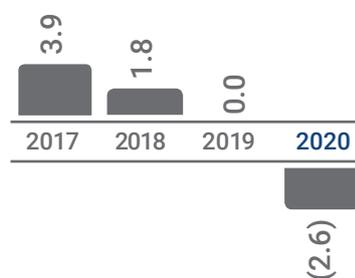
£1.7m



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

£(2.6m)



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

Effective risk management is key to our success, both in the industry that we operate in and within our chosen business model. Filtronic supplies microwave, mmWave and RF conditioning products to the wireless telecommunications and critical communication markets. The Group operates in a fast-changing sector with a small number of sophisticated customers, demanding high-performance standards and international competition, all of which pose risks to the business.

The directors recognise that risk is inherent in any business and seek to manage risk in a controlled manner. The key business risks are set out as follows:

Risk	Nature	Mitigation strategies	Change in year
Market	<p>We supply a range of niche products to a small number of large OEM customers.</p> <p>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.</p> <p>With the rapid evolution of product technology and other corporate decisions, the size of our addressable market may be affected. We may also fail to forecast market movements correctly thus missing opportunities or wrongly predicting product longevity.</p>	<p>The Group seeks to mitigate this risk by working closely with customers, at all levels, to ensure that we are designed into their products at an early stage, enabling us to develop products that meet their specifications and requirements.</p> <p>Filtronic aim to provide customers with a well resourced programme and a high level of service with a focus on product quality and delivery. This gives an advantage over our competitors that has facilitated new contract wins. The Group monitors its competitive position with regular competitor analysis and engagement with customers.</p> <p>The sales teams are actively seeking to increase the number of contract wins across a range of products and markets, within existing and new customers. To support this, the sales and marketing team has been strengthened and marketing activity has increased.</p> <p>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.</p>	
Manufacturing	<p>For most of the products, production is demand led and customers may vary their requirements at short notice, which also impacts inventory management.</p> <p>Customers in these businesses expect consistently high-quality products, decreasing prices and rapid product ramps, hence we depend on control of our operating environment, including management of security of supply in our supply chain, the provision of correctly designed technological solutions including the achievement of target cost-reduction plans and supply of product to specified timescales. Non-performance in these areas would result in a diminished market position.</p>	<p>The Group's manufacturing processes are accredited under ISO 9001.</p> <p>We manufacture and assemble at our highly automated facility at NETPark, Sedgefield, UK whilst our public safety product offering 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.</p> <p>All of our products are provided to customers after detailed qualification testing. We work closely with our customers to ensure that the test processes employed are appropriate so all products supplied are compliant to the customer's specification.</p>	

Risk	Nature	Mitigation strategies	Change in year
Technology	<p>Our product competitiveness is heavily influenced by technology choices at product concept stage and throughout the execution of design to product launch.</p> <p>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.</p> <p>For products in the production cycle, technology insertion is often required as a means of achieving price reductions, which underpin sales.</p>	<p>Our ability to remain competitive in terms of technology and product design is underpinned by retaining key staff 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 5G Innovation Centre (5GIC). By staying close to the market, we position ourselves to react quickly to any technology changes that develop.</p> <p>When undertaking new product introductions, we follow a process which facilitates a thorough review 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.</p> <p>In order to protect our intellectual property, we maintain and apply for patents when appropriate.</p>	
Recruitment and retention	<p>The Group is reliant on the key skills and knowledge of its people in a range of areas especially in the engineering function.</p> <p>Failure to recruit, develop and retain an appropriate number of suitably qualified people in critical areas could affect our ability to design new products and meet our customers' needs.</p> <p>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.</p>	<p>The Group has a competitive remuneration package that is reflective of market conditions for key roles and is under review as conditions change. The Group also operates a long-term incentive plan for key employees and SAYE schemes for all UK employees.</p> <p>We continue to invest in our engineering teams to ensure we have engineers with the right skills to execute our strategy.</p> <p>We also provide regular communications to all employees through communication meetings in each of our business locations along with a bi-monthly newsletter including an Executive Director blog giving updates about business performance. By giving our employees an understanding of our strategic direction and objectives, we believe it enables them to make meaningful contributions to the achievement of our goals.</p>	
Financial management	<p>The Group has specific exposure to credit risk and exchange rate fluctuations as a consequence of its global presence. A large proportion of the Group's sales are denominated in US dollars, so the Group is subject to risks associated with currency movements.</p>	<p>The Group has established a number of policies to mitigate these risks, further details of which are presented in note 40 to the financial statements. Predominantly, currency risk on the US dollar is managed through a hedge by matching the currency in which revenues are generated and expenses incurred.</p>	
Brexit	<p>As a consequence of the UK's decision to leave the European Union, there is international uncertainty around the impact this will have on business and trade.</p>	<p>The Group has operations and market presence in non-EU territories such as the USA. As a result, Brexit is not expected to have a material impact on the Group, however, management continues to monitor the current economic climate regularly for any potential future impacts.</p>	

Risk Key

-  Increased risk
-  No change
-  Decreased risk

Risk management continued

The Board has established a continuous process for identifying, evaluating, and managing the significant risks the Group faces which has operated throughout the year and up to the date of this report. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance with respect to the preparation of financial information and the safeguarding of assets against material misstatement or loss.

The Board regularly reviews the effectiveness of the Group's system of internal control which covers all controls, including financial, operational and compliance controls, and risk management systems. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring.

Covid 19

The Covid-19 pandemic continues to significantly impact individuals, businesses, markets and economies and despite coping well during the crisis the unprecedented period of uncertainty presents risk that require consideration and management. Filtronic was able to maintain full 24/7 operational capability during the lockdown period at its sites in the UK and the USA and has met all customer commitments to date, albeit, some measures implemented

to ensure a Covid-19 safe environment came at the cost of operational efficiency and increased costs of working. Notwithstanding the fact that the Board and Covid-19 Business Continuity Team have implemented positive measures during the pandemic there remains a high degree of uncertainty over future events and the consequences for The Company. The table below details some of the key risks and the strategies to mitigate the risks:

Risk	Nature	Mitigation strategies
Market	<p>Major economic disruption may result in reduced demand for our products. Governments have undertaken extensive fiscal spending programmes which may inhibit their infrastructure rollouts and planned expenditure.</p> <p>The new business pipeline has been impacted during the crisis with prospect interface much reduced and other sales initiatives such as trade exhibitions and customer training cancelled. Therefore, the Group has not been able to execute on customer acquisition initiatives.</p>	<p>Filtronic has continually worked to diversify the markets it operates in with a major focus on adjacent markets for its products, in addition to the traditional market of wireless telecommunications.</p> <p>The markets we operate in are typically classified as essential industry and were accordingly classified during the Covid-19 crisis which enabled the business to remain operational throughout the whole of 'lockdown'.</p> <p>As a large portion of businesses reacted to the crisis by moving to remote working the need for robust technology to facilitate this increased which will inevitably create new opportunities for Filtronic.</p> <p>The defence and aerospace and public safety markets generally involve longer-term projects with large up-front commitments which provides reliability of revenue over a prolonged period and protection against some of the immediate economic fallout.</p> <p>The commercial team are also actively working on marketing initiatives effective in a remote sales environment.</p>

Risk	Nature	Mitigation strategies
Financial	<p>Increased market risk and reduced revenues heighten the liquidity risk whilst deterioration of the economic market heightens credit risk.</p> <p>Economic disruption may also impact financial markets including currencies, interest rates, borrowing costs and the availability of debt finance.</p>	<p>The Group was able to strengthen its cash position following the sale of the Telecoms Antenna Operation and an unwind of working capital in the second half of the financial year.</p> <p>A successful application to the Paycheck Protection Programme in the USA was made in May 2020 for \$237k (£192k). Adherence to certain criteria may result in the US government forfeiting this loan and converting it into a grant. In the UK, Barclays increased the advance rate on the invoice discounting facility to 70% from 65% giving additional access to borrowing.</p> <p>The Group is also tightly controlling overhead spend and actively reducing spend where possible.</p> <p>The Group has established policies in place to manage currency and credit risk as seen in the general business risk section and note 40. Whilst credit risk is elevated during economic downturns Filtronic generally supplies to large OEMs with strong balance sheets.</p> <p>The Group maintains relationships with a number of debt providers should we need to access debt finance, but capital expenditure on plant and machinery will be minimised to business critical spend only.</p>
Health and safety	<p>The health and safety of our employees is of paramount importance. There is a risk that our colleagues may come into contact with carriers of Covid-19 and bring it in to our facilities. In order to manage the risks and adhere to government guidelines the Group had to change the method of operation and implement measures to mitigate the risk.</p>	<p>The Group was quick to set up a Covid-19 Business Continuity Team and implement a range of measures to combat the risks of Covid-19. This included asking all employees to work from home that were able to do so. This worked well as our principal IT systems are cloud based and being a defence supplier requires us to have strong cyber security protocols.</p> <p>As a manufacturing business a large percentage of our employees were not able to work from home. Therefore, we implemented a range of measures which included changing factory layouts to allow social distancing, adjusting shift and staff movement patterns, increased cleaning routines and the cleaning product inventory, additional PPE and introduction of Perspex screens in both the manufacturing and office environment.</p>
Cyber security	<p>Covid-19 has increased cyber threats from cyber criminals and other malicious groups who are targeting businesses by deploying Covid-19 related scams and phishing emails. Employees working from home have also heightened cyber security risks.</p>	<p>Filtronic has effective cyber security controls and has increased the focus on addressing security alerts as soon as they arise. Security education of employees has been increased with emails regularly distributed highlighting security threats.</p>

Corporate social responsibility report

Acting with integrity and behaving responsibly is central to the execution of our strategy and underpins our business model. This report covers how Filtronic interacts with its stakeholders, its approach to key issues and its aims for the future.

Health and safety

The Board is committed to ensuring the health and safety ("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.

Employees

The Group's success depends on its employees and the Board recognises that it is their commitment and contribution that is vital to the execution of the Group's strategy.

Our focus is on creating a high performance culture through effective employee engagement, excellent people development and resource management.

Employee development

Employee development is an important element of employee retention and motivation. The Group has an education and training policy in place which is being implemented through developing a Group-wide infrastructure to support the identification of staff development needs through meetings and staff appraisals. The aim is to provide quality staff development which supports the Group's strategic objectives, whilst simultaneously aiding talent management and succession planning. Progress on specific talent management objectives will be reported to the Board in FY2021.

Looking to the future

Filtronic continues to work towards future-proofing the business to ensure we have the right skills for the future to support business growth. Succession planning was an area of focus in FY2020 and a number of promotions were made. Structural change and potential new roles were created to action our strategic growth plan.

Equal opportunities

The Group is committed to a policy of equal opportunity by which it ensures that all employment-related activities are based on merit and suitability for the job alone. Further information on our equal opportunities policy may be found on our website: www.filtronic.com/group-policies/.

Diversity and inclusion

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

The Executive Chairman is the board member responsible for human resources.

Human rights

Filtronic applies human rights considerations to the way it does business, for example through our supplier 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 health and safety, 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.

The environment

Care for the environment is an integral part of the Group's business activities. It is the Group's policy to ensure that its facilities are safe and the Group is committed to ensuring that its impact on the environment is minimised. The Group supports and trains its personnel to act responsibly in matters relating to the environment. 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.

Our site in Sedgefield, Co. Durham is certified under the ISO 14001 Environmental Management Systems Requirement.

Charitable and community support

We have established a charity forum made up of volunteer employees from across the Group, the aim of which is to ensure we are more involved in supporting our local communities through charitable work. 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

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

The implementation of these management systems, which are designed to monitor and control processes such as quality, the environment and health and safety, 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 health and safety of our employees and our broader stakeholders who contribute to our success. We are continuing with the roll-out of a customer relationship management system in Filtronic that complements this approach.

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

The FY2020 Strategic report, has been reviewed and approved by the Board of Directors on 3 August 2020 and signed on its behalf by

Reg Gott
Chairman
3 August 2020



Governance report

Board of Directors



Executive Directors

Reginald (Reg) Gott (aged 63) has been a Non-Executive Director since 2006. He was appointed as Chairman of the Board at the AGM held in 2015 and became Executive Chairman on 1 November 2019 until a new Chief Executive Officer is recruited. He was Chief Executive of Resource Group Limited until early 2016. From 2002 to 2008, he was an Executive Director of FKI plc, an international diversified engineering group, and from 2009 to 2012 he was Chief Executive of Nuaire Group. He has an extensive background in the machinery, automation and controls segments of the capital goods markets across Europe and North America.



Michael Tyerman (aged 41) was appointed as Chief Financial Officer with effect from 1 April 2016. Prior to joining Filtronic, Michael held various positions within Procter and Gamble, Huntsman Polyurethanes and Komatsu. He joined Filtronic in 2007 as Financial Controller of Filtronic Broadband and was promoted to the position of Group Financial Controller in 2009. He was Interim Head of Finance for the Filtronic Group from June 2015 and served in this position until his appointment to the Board on 1 April 2016. Michael is a Chartered Management Accountant.



Non-Executive Directors

Michael Roller (aged 55) was appointed as a Non-Executive Director on 1 June 2013; and was appointed Chairman of the Audit Committee on 27 November 2015. In January 2020, Michael was appointed CFO of Circassia Group plc (formally Circassia Pharmaceuticals plc). From March 2014 to May 2019, Michael was a member of the board of Bioquell plc as Group Finance Director. Michael has previously been Finance Director of a number of quoted companies, such as Corin Group plc. He has also held a number of other senior finance roles in a broad range of listed and private companies. Michael qualified as a Chartered Accountant with KPMG.



Peter (Pete) Magowan (aged 53) was appointed as a Non-Executive Director on 19 November 2018 and as Chairman of the Remuneration Committee in March 2019. He 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 Bachelor of Science degree in Electrical and Electronic Engineering from the University of Manchester Institute of Science and Technology and a Diploma in Marketing from the University of Bristol Business School.

Photographs of directors by Simon Hill

Introductory letter from the Chairman of the Board on the Governance Report

The Board recognises the importance of good corporate governance in promoting the long-term success and sustainability of the business for the benefit of our shareholders and wider stakeholders. As Chair, I am responsible for ensuring the Company has corporate governance arrangements in place which are appropriate for the size and complexity of the Company and that these arrangements are followed in practice.

During the year we have applied the principles of the Quoted Companies Alliance Code 2018 ("the QCA Code"). We have continued to consider and reflect on the principles of the QCA Code and their application throughout the year as the business has evolved. The Board is committed to delivering growth in long-term shareholder value and seeks to put in place an efficient, effective, dynamic management framework underpinned, above all, by good communication, with employees, shareholders, customers and suppliers, to achieve this.

Following the resignation of the previous CEO in October 2019, I stepped in, to act, on a temporary basis, as Executive Chairman while the Nominations Committee sought a replacement CEO. The search process has gone well, and we expect the new CEO to be in post in good time before the AGM.

In my role as Executive Chairman, it's been my privilege to observe, first-hand, the values and behaviours among our staff that have helped Filtronic successfully navigate the difficult times presented firstly during the sale of the Telecoms Antenna Operation, then immediately followed by the Covid-19 pandemic. Having had the opportunity to observe and reflect on these values in operation, we have taken the decision to articulate them into ten core Filtronic values. These values represent the best of Filtronic. They should be visible in every aspect of our business and should help us to establish a stronger, more resilient culture, in the face of rapid change, as we move forward, together, to innovate, grow and succeed. The Group values act as a complement to the Group policies and can be found in the corporate governance section of our website.

We keep our governance arrangements under constant review. A formal Board evaluation exercise was conducted again this year the findings of which are being implemented. I hope you find this report helpful in understanding our ongoing commitment to good governance.

Reg Gott
Chairman

Long-term value and strategy

The Company's business model is focussed on promoting long-term value for all stakeholders. It is explained in detail in the Objectives and strategy section of this Annual Report.

Shareholder engagement

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

Risk management

For full details on how the risk management framework is embedded and how the Board ensures that the Company's risk management system identifies and manages the relevant risks, please see the Risk management section of this report.

Maintaining a well-functioning, balanced team led by the Chair including a governance framework that is fit for purpose

At present, while the recruitment of a new CEO is on-going, the Board is currently comprised of an Executive Chairman (Reg Gott), one Executive Director (Michael Tyerman, CFO) and two Non-Executive Directors (Pete Magowan and Michael Roller). Michael Roller is the Senior Independent Non-Executive Director and he, together, with Pete Magowan are regarded by the Board as being independent Non-Executive Directors. The Board is supported and assisted by the Company Secretary and General Counsel (Maura Moynihan), who attends, contributes to and minutes each board meeting. All members of the Board have access to the advice and services of the General Counsel and Company Secretary and are able to take independent professional advice at the Company's expense in the discharge of their duties. The Company has procedures to deal with directors' conflicts of interest and the Board is satisfied that these procedures operate effectively. There is a formal schedule of matters reserved for the Board which is summarised below. To enhance the Board's communication with management and achieve greater operational transparency the Chief Commercial Officer, Chief Operations Officer and Chief Technology Officer also attend the performance review part of the board meeting where these officers present their reports in person.

Governance report continued

Board meetings

The Board meets regularly each month against a defined reporting timetable and at times in between the scheduled meetings when required. As far as is reasonably practical, the board meetings are held at the Company's operational sites to enable local management teams to present operational and strategic programme progress to the Board. The Board believes this arrangement fosters greater transparency and enhanced relationships between the management and the Board. During the year, the Board held meetings at its sites in Sedgfield and Yeadon.

Remit of the Board

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

- Strategy and oversight of the management of the Company;
- 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 Executive Chairman or where appropriate to the relevant Board committee.

Committees

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

Audit Committee

The primary function of the Audit Committee is to assist the Board in fulfilling its financial and risk oversight responsibilities.

During the year, it met three times. The committee reviews items such as the half-year and full-year results and then make a recommendation to the Board. The Audit Committee is chaired by Michael Roller and includes Reg Gott and Pete Magowan.

Nominations Committee

The Nominations Committee is chaired by Reg Gott and includes Michael Roller and Pete Magowan. The Nominations Committee's duties are confined to the nomination of appointments, reappointments and termination of employment or engagement of directors and the Company Secretary.

Remuneration Committee

The Remuneration Committee is chaired by Pete Magowan and includes Michael Roller and Reg Gott. The members of the Remuneration Committee have no personal interest in the matters considered other than as shareholders. No potential conflicts of interest exist in relation to any member of the committee and their duties. The Remuneration Committee's responsibilities include ensuring that the remuneration policy of the Company and its implementation are appropriate. It ensures that levels of remuneration are sufficient to attract, retain and motivate directors, senior managers and executives of the quality required to run the Company successfully whilst avoiding paying more than is necessary for this purpose. During the period of Reg Gott acting as Executive Chairman his remuneration and benefits were decided by a Remuneration Sub-Committee comprising Pete Magowan and Michael Roller.

Directors' attendance FY2020

The Board normally schedules at least 10 meetings during the year. Last year the Board met 12 times.

Attendance at board meetings and Committee meetings during the year ended 31 May 2020

	Board	Audit	Remuneration	Nominations
Total meetings in FY2020	12	3	3	3
Reg Gott	12	3	3	3
Michael Roller	12	3	3	3
Pete Magowan	12	3	3	3
Michael Tyerman	12	N/A	N/A	N/A
Rob Smith*	5/5	N/A	N/A	N/A

*Rob Smith resigned on 31 October 2019

Board Composition, Skills, Time Commitment, Performance and Performance Evaluation

At present, the Board is making progress on recruiting a new CEO after which Reg Gott will revert to being Non-Executive Chairman. The Board believes that, once these changes have been implemented, its overall size and composition will again reflect an appropriate balance of sector, financial and public markets skills and experience. Composition of the Board will 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 and diversity.

The Board receives regular updates from the Company's Nominated Adviser (NomAd) and from time to time the Company's lawyers. All members of the Board have access to the advice and support of the Company Secretary who is also responsible for facilitating an induction programme for new directors.

All directors are expected to devote such time as is necessary for the proper performance of their duties. This includes the need to make themselves available if an event occurs that requires Board involvement. It is expected that Non-Executive Directors who chair committees and/or who are the Senior Non-Executive Director will increase their time commitment to the Company accordingly.

A formal board evaluation process is normally carried out once every calendar year. The evaluation questions the performance of the directors individually both in their capacity as board member and for their specific role as well as the performance of the Board itself and each of its committees. The 2020 evaluation took place in July 2020.

Company Culture and Values

Acting with integrity and behaving responsibly are central to the execution of our strategy and underpin our business model. During the year, the Company adopted a set of ten Group values that together with a comprehensive suite of Group policies were communicated to all employees in the Spring of 2020. Employees have been invited to share thoughts on these values and how they are adopted, recognised and respected. The Group values and policies are available to view and download on the corporate governance section of the Company's website at: www.filtronic.com.

The Company has a Procedures and Authorisations Manual ("PAM"), updated when required, which sets out among other matters the approved authority levels within the Filtronic Group. To reinforce the values and cultures of Filtronic, training on the Group policies and PAM is periodically provided at all sites where each employee is reminded of the essence of each policy and its objective.

A new HR system was implemented during the year which, amongst other advanced features, enables employees to provide valuable feedback on how the company is living up to its culture and values ambitions.

Communications

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

Engaging with our employees helps to ensure the values and culture the Board wants to promote are embraced throughout the Group. The Company encourages open two-way communication to promote innovative and collaborative working. Communications with employees takes place ordinarily through communications sessions at each of the Company's sites as well as through the recently implemented HR system, team meetings, health and safety meetings and training sessions. As the new HR system is embedded there will be further opportunities for employee feedback (anonymously if desired) on any aspect of the business. A technology leadership recognition policy was implemented in the year as a mechanism to reward those whose inventions or publications achieve acclaim and promote and progress the company's technology roadmap.

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 overseen by the Chief Commercial Officer. Customers are solicited for feedback on products and business operations performance, market landscape and demand trends.

Regular contact and an open-door policy are key to maintaining good and stable relations with our supply chain. The procurement department, aided by clear website sections, ensures that Filtronic's key policies and values, or their equivalent, are adopted by the supply chain including but not limited to its policies on bribery, modern slavery and conflict minerals. Engagement with suppliers is overseen by the Chief Operating Officer.

Governance report continued

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 2020, the Board consider that they have individually and collectively acted in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole having regard to the six matters listed in s. 172 (1) (a) to (f) of the Companies Act 2006. In order to achieve long term success for the benefit of all shareholders, the Board recognises the importance of building and maintaining relationships with key stakeholders as well as considering the likely consequences of its decisions in the long term.

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, including the disposal of the Telecoms Antenna Operations, are set out in the Executive Chairman's Review. That decision in particular underlined the Board's long-term objective of serving 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.

Stakeholder Engagement

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

Stakeholder	How we engage	Key outcomes
Customers	<p>The Board receives feedback from its customer facing teams. Each key account has dedicated account management who act as "the voice of the customer". The Chief Commercial Officer briefs the Board each month as to how we are performing with each of our customers.</p> <p>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.</p> <p>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</p> <p>Customer feedback is regularly sought and collected by the business through a wide range of channels. This information is processed and analysed as part of our business improvement initiatives.</p> <p>We regularly participate in a wide range of trade shows, conferences and symposia. They play an important role in our business development planning. Covid-19 prevented attendance at most events this year, including Mobile World Congress and APCO.</p>	<p>Increased level of engagement with customers at strategic level.</p> <p>A greater understanding of both customer and market trend requirements better informs the development and refinement of our own strategy.</p> <p>A board-level engagement with our customers will help us convey our commitment to understand and meet their business needs.</p> <p>Disclosure of our product development and technology roadmaps to customers increases the opportunity to align our mutual interests but the NDA protects our IP interests.</p> <p>Listening to "the voice of the customer" enables us to be more effective in pre-empting and meeting their evolving needs and wants.</p> <p>Trade show and conference attendance not only allows us to present a shop window for attracting the widest range, and deepest concentration of potential clients over a short time period, but also enables us to observe in one place the broader market mood, emerging trends and in particular allows us to benchmark ourselves directly against competitors. The Board receives a summary report on all such events that we participate in.</p>

Stakeholder	How we engage	Key outcomes
Employees	<p>The Executive Directors communicate with employees through 'communication sessions' to update them on the performance of the business and progress on key initiatives. Employees are encouraged to ask questions in a Q&A session at the end of the meetings.</p> <p>The Group relies upon highly specialised skill sets that are in increasingly short supply. We are therefore actively developing a new talent management strategy.</p> <p>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.</p> <p>A Covid-19 Business Continuity Team ("BCT") was established early in 2020 to ensure the safety of our employees as a principal objective during the crisis. The BCT ensures that government guidance is adopted across the company and provides a two-way forum for ensuring staff concerns are heard and addressed.</p> <p>Participation in the Company Sharesave scheme.</p>	<p>Wider and deeper communication leads to greater transparency throughout the business and facilitates a more engaged, motivated and effective team.</p> <p>The Group aims to become a "destination employer" by providing a rewarding long-term personal development opportunity environment.</p> <p>A better informed and consulted workforce is more likely to be both better motivated and more effective.</p> <p>We maintained full 24/7 operations during the Covid-19 lockdown with no Covid-19 related sickness and no deterioration in overall sickness and absenteeism. We met all customer delivery targets.</p> <p>Share scheme participation has aligned interests of UK shareholders and employees and enabled staff to hold a stake in the business.</p>
Investors	<p>The Executive Chairman 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.</p> <p>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.</p> <p>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.</p> <p>The Company's broker, finnCap, provides briefings to the Board on shareholder opinions and independent feedback from investor meetings. Their views are sought on all market related matters or announcements.</p>	<p>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 such as the disposal of FTAO. All material information that is worthy of investor announcement is made available simultaneously to both shareholders and potential shareholders.</p> <p>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.</p> <p>We respect that not everyone is "on-line" and continue to provide shareholders with a choice.</p> <p>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.</p>

Governance report continued

Stakeholder	How we engage	Key outcomes
Suppliers	<p>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.</p> <p>Our Group policies are flowed down to our supply chain to ensure compliance with social responsibility and good governance policies</p> <p>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.</p> <p>The Group aims to play fair with its suppliers and pay in line with the contractual payment terms.</p>	<p>The Group's supplier base is a key part of the company's ecosystem and effective relationships with our suppliers are essential to the delivery of Group performance. We engage with our suppliers through our engineering and operations teams and we work closely with key suppliers to ensure we take advantage of innovative technical and commercial solutions in the supply chain in order to secure a competitive advantage.</p> <p>We minimise our exposure to supplier related risks by requiring them to adhere to our Group policies and for them to confirm they are not in conflict with these policies before or during engagement.</p> <p>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 regarding key supplier performance metrics and any issues under review.</p> <p>By playing fair with our suppliers we gain their respect, support and commitment to meeting our own business objectives.</p>

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

Standards of Business Conduct

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

Audit Committee Report

During the year the Audit Committee comprised three independent Non-Executive Directors:

Michael Roller (Chairman), Reg Gott and Pete Magowan.

The Audit Committee's terms of reference include the following roles and responsibilities:

- Monitoring and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;
- Advising 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;
- Monitoring and making recommendations to the Board in relation to the Company's internal financial controls and financial risk management systems;
- Annually considering the need for an internal audit function;
- Making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration the relevant UK professional and regulatory requirements;
- Monitoring the extent to which the external auditor is engaged to supply non-audit services; and
- Ensuring 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.

The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review. The terms of reference are available on request from the Company Secretary and are available on the Company website, www.filtronic.com. The Audit Committee meets at least three times a year and has direct access to PricewaterhouseCoopers LLP ("PwC"), the Company's external auditor. The Board considers that the members of the Committee are independent and collectively have the skills and experience required to discharge their duties effectively, and that the Chairman of the Committee has recent and relevant financial experience.

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 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.

During the year ended 31 May 2020, the Audit Committee discharged its responsibilities by:

- Reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- Reviewing the external auditor's plan for the audit of the Company's financial statements, including the identification of key risks;
- Reviewing the Company's internal financial controls operated in relation to the business and assessing the effectiveness of those controls in minimising the impact of key risks;
- Reviewing the appropriateness of the Company's accounting policies;
- Reviewing the Company's draft Annual Report and Accounts, Interim Report and interim management statements prior to Board approval;
- Reviewing the external auditor's detailed report to the Committee on the annual financial statements; and
- Reviewing the need for an internal audit function, and determining what aspects of the Company's operations should be subject to outsourced internal audit scrutiny.

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

- Group - Going concern as a result of Covid-19
- Group - Discontinued operations and related exceptional items; and
- Group - Goodwill
- Parent Company – Carrying value of the investment in the subsidiary.

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

Going concern as a result of Covid-19:

The Group's going concern assessment is set out in the Directors' report on page 34. The Group disposed of the Telecoms Antenna Operation in the year receiving an initial consideration of \$5.5m which strengthened the cash reserves of the business and left it well positioned to mitigate any downside scenario that may result from Covid-19 and an economic downturn.

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

Audit Committee Report continued

The Committee also considered the short-term and long-term impacts of the Covid-19 pandemic on the Group. The business has navigated through the crisis to date with limited impact due to several mitigating actions taken to reduce disruption to the business. A second paper was presented by management that assessed an additional downside scenario where the pandemic adversely affected forward-looking demand to levels significantly lower than those initially modelled. It stress-tested the model further by assuming a more restrictive lockdown during a second wave of the Covid-19 virus that would be more disruptive to the business than the first wave. The Committee concluded that the Group still had sufficient cash and debt facilities to handle the crisis and agreed with the management's view to adopt a going concern basis of preparation.

Discontinued operations and related exceptional items:

The Group sold the Telecoms Antenna Operation for an initial consideration of \$5.5m in January 2020. IFRS 5 dictates that revenues and expenses incurred whilst operating the antenna business are presented separately from the continuing operations in the financial statements. The Group consequently makes judgements to allocate revenues and expenses between the discontinued and continuing operations.

The Committee was satisfied that the criteria of IFRS 5 to present the Telecoms Antenna Operation as a disposal group was met in FY2019 and the discontinued operation was separately disclosed in the prior year financial statements. Consequently, the income statements presented in the monthly board papers during FY2020 separated the income statement of the disposal group to evaluate performance of the continuing business. The Committee assessed the monthly allocation presented by management and concluded the nature of the revenue and expenses were analysed correctly.

The exceptional items incurred by the Group required judgement as to how they were allocated and presented in the financial statements. The Committee evaluated a paper from management analysing the exceptional items expensed between continuing and discontinued operations including the amount, nature of the cost and the related narrative. Having considered the paper and challenged the output, the Committee concluded the judgement applied was appropriate and accurately categorised the nature of the expenses.

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 17 and 18 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 Parent Company accounts was necessary.

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

In addition, the Chairman of the Committee has discussions by telephone and in person with the audit lead partner outside the formal committee process throughout the year.

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

After careful consideration of the advice of the Audit Committee, the Board has concluded that the 2020 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

Annual statement on remuneration

On behalf of the Board, I am pleased to present the Filtronic Directors' remuneration report for the year ended 31 May 2020.

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 and so provides the following remuneration report.

The remuneration report sets out payments and awards made to the directors.

The Remuneration Committee comprises the Non-Executive Directors, including the Chairman. It defines the Company's policy on remuneration, benefits and terms of employment for Executive Directors and senior management. The Committee also reviews and approves general increases in staff salaries and bonus arrangements and takes these into

account when setting remuneration packages for Executive Directors and senior management.

The Remuneration Committee has reviewed the remuneration packages of the Executive Directors and senior management to ensure they continue to attract, retain and motivate talented people, while recognising wider shareholder interest. The Committee reviews all incentive-based rewards before they are awarded and has full discretion to adjust awards downwards if deemed appropriate.

The Remuneration Committee terms of reference are available to view at www.filtronic.com/investors/.

The Remuneration Committee met formally three times during the year with additional ad hoc meetings when needed.

Pete Magowan
Chairman, Remuneration Committee
3 August 2020

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

Name	Executive service agreement appointment date	Key current terms	Notice period
Reg Gott Executive Chairman	Appointed to the Board on 13 July 2006 Nominations Committee Chairman	Base salary £180,000 Annual bonus Health Insurance	6 months
Michael Tyerman Chief Financial Officer	Appointed to the Board on 1 April 2016	Base salary £120,000 Car allowance Annual bonus Health insurance Pension	6 months

Name	Role	Non-Executive terms of appointment date	Fee	Notice period
Michael Roller	Audit Committee Chairman	Appointed to the Board on 1 June 2013	£40,000	3 months
Pete Magowan	Remuneration Committee Chairman	Appointment to the Board on 19 November 2018	£40,000	3 months

Directors' remuneration report continued

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. The information in these tables has been audited by the Company's independent auditor.

£000	Salary or fee		Bonus		Benefits		Long-term incentive		Total remuneration excluding pension contributions	
	FY2020	FY2019	FY2020	FY2019	FY2020	FY2019	FY2020	FY2019	FY2020	FY2019
Executive Directors										
Reg Gott	133	60	71	-	-	-	-	-	204	60
Rob Smith ¹	246	162	52	-	15	11	-	31	313	204
Michael Tyerman	102	92	76	-	8	8	19	16	205	116
Non-Executive Directors										
Michael Roller	40	40	-	-	-	-	-	-	40	40
Pete Magowan	40	20	-	-	-	-	-	-	40	20
Total	561	374	199	-	23	19	19	47	802	440

¹Rob Smith received contractually governed exit payments as part of his remuneration in the year, see 'payments to past directors and exit payments' below.

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

Taxable benefits

Taxable benefits in kind were unchanged in FY2020 and comprised car allowance and private health insurance. In addition to these taxable benefits, the Executive Directors are provided with life assurance.

Incentive outcomes for FY2020

Michael Tyerman and Reg Gott were awarded a bonus in recognition of the key role they played in successfully completing the sale of the Telecoms Antenna Operation. They also accrued a bonus payment during the year for delivering profit targets aligned to the FY2020 business plan.

Rob Smith was awarded a bonus of £41,000 during the year for his achievement of securing agreement with a customer relating to a warranty settlement.

Annual performance-related bonus plan

An annual performance-related bonus plan has been introduced for the year ending 31 May 2021 which will reward Executive Directors and key management cash bonuses for delivering stretching profit targets aligned to the 2021 business plan.

Payments to past directors and exit payments

Rob Smith, the Group's former CEO, resigned during the year on 31 October 2019. Included in the salary column of the table entitled 'total single figure for remuneration for directors' is £166k for payment in lieu of notice paid to him, equivalent to 12 months salary. This is payable in twelve monthly instalments at the end of each month concluding in October 2020. Mr Smith will also be paid a pro-rata performance bonus based on delivery of the annual profit targets in the FY2020 business plan.

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 compared to the previous year. The information in these tables has been audited by the Company's independent auditor.

£000	Pension contributions	
	FY2020	FY2019
Rob Smith	5	13
Michael Tyerman	8	7
Total	13	20

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

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

Directors are not required but are expected to have holdings in the ordinary share capital of the Company. The information in the following tables has been audited by the Company's independent auditor.

The interests of the directors, who were serving as at 31 May 2020, in the Company's ordinary shares, which excludes interests under the share option schemes, are set out below:

	2020		2019	
	Shares	%	Shares	%
Michael Tyerman	339,478	0.2%	11,882	0.0%
Reg Gott	455,369	0.2%	354,429	0.2%
Michael Roller	101,762	0.0%	101,762	0.0%
Pete Magowan	750,000	0.4%	750,000	0.4%
	1,646,609	0.8%	1,218,073	0.6%

The above shareholdings include holdings of directors' connected parties.

Management share option scheme - audited

The Executive Directors who were serving at 31 May 2020 held the following options over the ordinary shares of the Company:

	Plan	Exercise period	Option price	2020	2019
Michael Tyerman	ESOP	01/03/2019–28/02/2026	5.37p	300,000	300,000
Michael Tyerman	SAYE	01/06/2019–30/11/2019	5.20p	-	275,478
				300,000	575,478

The 2010 ESOP scheme award introduced in May 2016 was open to Executive Directors and key management across the Group with the specific intent to retain staff by awarding share options for delivering a significant increase in the share price, which if sustained for a defined minimum period will trigger vesting, but which can only be exercised by directors after three years of the scheme opening. However, 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. Information relating to share options can be found in note 35.

The closing middle market price on 31 May 2020 was 10p, and on 31 May 2019 it was 8p. The range of middle market share prices during the year ended 31 May 2020 was 12p–5p.

There were no changes in directors' interests between 31 May 2020 and 3 August 2020. 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 2020.

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 12.

After a review of forecasts including projections of profitability and cash flows for the year to 31 May 2021, the directors believe that the Group has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and Company financial statements. The basis of preparation, in note 1, provides more detail on this. The Group undertook a review of the potential impact of Covid-19 over a three year period by modelling a severe downside scenario to form this view.

Directors and their interests

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

Rob Smith (Resigned 31 October 2019)
 Michael Tyerman
 Reg Gott
 Michael Roller
 Pete Magowan

Details of directors' interests in the share capital of the Company are set out in the remuneration report on page 33.

Reg Gott, having served on the Board for more than nine years, 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. In addition, certain directors benefit from an indemnity from the Company, to the extent not prohibited by law, in respect of losses incurred as a result of the discharge of their duties in the management or supervision of any Company in the Group. The indemnity does not automatically terminate when the indemnified person ceases to be a director.

Top Investors

Rank	Investor	31 May 2020	%
1	Mark & Diana Dixon	46,523,085	21.77
2	Canaccord Genuity Group Inc	18,702,626	8.75
3	Mr David Newlands and Mrs Monique Newlands	18,240,000	8.54
4	River & Mercantile Asset Mgt	15,395,061	7.20
5	Techinvest	7,691,515	3.60
6	Mr John S Rockliff	7,319,990	3.43

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 (2019: £1.2m), of which £0.7m was capitalised (2019: £0.2m). Amortisation/impairment of development costs in the year was £0.1m (2019: £nil).

Substantial shareholdings

Up to 31 May 2020, the Company had been notified, in accordance with chapter 5 of the disclosure and transparency rules, of the following voting rights as shareholders of the Company. An analysis of shareholders as at 31 May 2020 (as disclosed by shareholders via TR1) is set out in the table below. As at 31 May 2020, the Company had issued share capital of 213,698,416 ordinary shares of 0.1p each.

Financial results and dividend

The results for the year are set out in the income statement on page 41. The position at the end of the year is shown in the balance sheet on page 43.

The directors are not recommending payment of a dividend (2019: £nil).

Future developments

The Group's future developments for FY2021 are disclosed in the Strategic Report on pages 3 to 21.

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 November 2019.

Political and charitable contributions

No contributions were made for political purposes (2019: £nil). The Group made charitable donations of £404 in the year (2019: £1,004).

Equal opportunities

The directors are committed to ensuring that there are equal opportunities throughout the Group for all employees with no discrimination on account of race, gender, age, sexual orientation, disability, political views or religious beliefs.

Employee communication

Employee engagement with our strategy and values is vital to the success of the Group. The directors place great importance on keeping employees informed on matters that affect them as employees as well as matters that affect the performance of the Group. This is achieved through formal and informal meetings as well as through Group communication sessions.

Annual General Meeting

The Annual General Meeting of the Company will be held on 29 October 2020 at 11am at Plexus building, 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 Annual Report, the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, 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 parent company will continue in business.

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent 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 parent 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 and parent 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 and parent 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.

On behalf of the Board
Maura Moynihan
Company Secretary
3 August 2020

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 2020 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 May 2020; 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

Materiality

- Overall group materiality: £171,810 (2019: £205,000), based on 1% of revenue.
- Overall company materiality: £120,570 (2019: £122,000), based on 1% of total assets.

Audit scope

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

Key audit matters

- Going concern as a result of COVID-19 (Group and company)
- Discontinued operations (Group)
- Carrying value of goodwill (Group) and investments (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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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.

Key audit matter	How our audit addressed the key audit matter
<p>Going concern as a result of COVID-19 (Group and company)</p> <p>From February 2020 the scale and impact of the COVID-19 pandemic on the global economy has increased significantly. Although this has not had a significant impact on the group results for the 2020 financial year it has increased the level of uncertainty in the market and future outlook of the business. Therefore it has been necessary for management to consider the impact that the pandemic has had or may have on the group's balance sheet, cash flows, liquidity and accordingly its ability to continue as a going concern.</p> <p>In order to conclude that it is appropriate for the financial statements to be drawn up on a going concern basis, management have prepared a detailed 'base case' cashflow model and applied various sensitivities in order to model a number of scenarios given the period of uncertainty. Note 1 to the financial statements indicates the challenges posed by the COVID-19 pandemic and the impact this has on the group's and the company's ability to continue as a going concern, along with detail on the key assumptions included in management's modelling and sensitivities calculated.</p> <p>Management have a reasonable expectation that the group and company will have adequate resources to continue in operation and have therefore adopted the going concern basis of accounting in preparing the financial statements.</p>	<p>We challenged management on the key assumptions included in the scenarios and determined that management's mitigating actions are within their control.</p> <p>We assessed management's forecasts and stress test scenarios including levers available to management to mitigate the impact on the group's and company's liquidity should the downside scenarios arise.</p> <p>We have reviewed the trading results from February 2020 to the financial year end and assessed the impact of COVID-19 on these results.</p> <p>We have reviewed the trading results up to February 2020 and 'looked back' to compare them with management's original budget, to consider historical forecasting accuracy when assessing forecast results for future periods.</p> <p>We evaluated management's disclosures in relation to the COVID-19 impact and found them to be consistent with the stress test scenarios performed and the accounting framework.</p> <p>Based on the information available at the time of the directors' approval of the financial statements, we consider the scenarios to be reasonable and that preparation of the financial statements on a going concern basis remains appropriate, whilst noting that the impact of COVID-19 on future trading performance is difficult to quantify with certainty.</p>
<p>Discontinued operations (Group)</p> <p>During the year the Group completed the sale of the Telecoms Antenna operation, resulting in a gain on sale of £671,000. See note 15.</p> <p>We focused on this area due to the detailed requirements of IFRS in determining the appropriate classification of income statement and balance sheet items between continuing and discontinued operations.</p> <p>A number of exceptional costs have been recognised in relation to both the sale and restructure of the group. A key focus was to ensure that all costs which had been drawn out as exceptional met the criteria to be categorised as such and have been classified correctly between the continuing and discontinued operations.</p>	<p>We obtained an understanding of the disposal and agreed the transaction to signed sale agreements.</p> <p>We substantively tested management's carve out process, assessing the assets and liabilities included in the disposal group and the after tax result from discontinued operations, including the gain on disposal, to be presented in the consolidated income statement.</p> <p>We have obtained a detailed listing of the costs classified as exceptional and management's assessment of whether these costs related to either the continuing or discontinued operations. We obtained supporting documentation for the costs recognised and understood the classification of the costs.</p> <p>Based on the procedures we performed we were able to obtain sufficient audit evidence in respect of the appropriate classification of exceptional costs and application of IFRS 5 in the Annual Report.</p>

Independent auditors' report to the members of Filtronic plc continued

Key audit matter	How our audit addressed the key audit matter
<p>Carrying value of goodwill (Group) and investments (Company)</p> <p>We focused on this area due to the material goodwill balance held on the consolidated balance sheet and the material investment balance held on the company's balance sheet and the estimates and judgements required to determine their value in use.</p> <p>Both the investment carrying value and the goodwill relates to Filtronic plc's investment in the Wireless operation as held by Isotek (Holdings) Limited.</p> <p>An impairment totalling £4,013,000 has been recognised against the investment in the company financial statements. As such, any change in assumptions applied would alter the impairment charge recognised. See note 17.</p>	<p>We considered the carrying value of the investment in the company balance sheet and the goodwill in the consolidated balance sheet by reference to the 'value in use' model prepared by management, which was based on discounted cash flows of the continuing Wireless operation.</p> <p>We tested the inputs to the model to Board approved budgets, which included growth rates and capital expenditure forecasts.</p> <p>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 further impairment was required.</p> <p>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.</p> <p>Based on the procedures we performed we were able to obtain sufficient audit evidence in respect of the carrying value of the investment balance and the goodwill balance.</p>

How we tailored the audit scope

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

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

Filtronic plc is also subject to a full scope audit of its financial information, due to the separate presentation of these financial statements within this report. All audit work supporting the group opinion was performed by the PwC UK engagement team, with the exception of existence 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:

	Group financial statements	Company financial statements
Overall materiality	£171,810 (2019: £205,000).	£120,570 (2019: £122,000).
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 £170,000 and £25,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £8,600 (Group audit) (2019: £10,250) and £6,000 (Company audit) (2019: £6,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

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

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

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 May 2020 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 Annual Report, the Directors' report and the financial statements set out on page 35, 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.

Independent auditors' report to the members of Filtronic plc continued

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the 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
3 August 2020

Consolidated income statement

for the year ended 31 May 2020

	Note	Group	
		2020 £000	2019 £000
Continuing operations			
Revenue		17,181	15,932
Adjusted earnings before interest, taxation, depreciation, amortisation and exceptional items		1,165	664
Amortisation	18	(18)	(75)
Impairment of development costs	18	(89)	-
Depreciation	19, 20	(677)	(355)
Adjusted operating profit		381	234
Exceptional items	6	(569)	-
Operating (loss)/profit	5	(188)	234
Finance costs	12	(277)	(154)
Finance income	13	36	55
(Loss)/profit before taxation		(429)	135
Taxation	14	(89)	2,099
(Loss)/profit for the year from continuing operations		(518)	2,234
Loss for the year from discontinued operations	15	(1,437)	(3,547)
Loss for the year		(1,955)	(1,313)
Basic loss per share	16	(0.93p)	(0.63p)
Diluted loss per share	16	(0.93p)	(0.63p)

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

The notes on pages 48 to 78 form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 May 2020

	Note	Group 2020 £000	2019 £000
Loss for the year		(1,955)	(1,313)
Other comprehensive (expense)/income			
Items that are or may be subsequently reclassified to profit and loss:			
Transfer to income related to business disposal	32	117	-
Currency translation movement arising on consolidation	32	(111)	60
Total comprehensive expense for the year		(1,949)	(1,253)

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

For the Company, there were no items of comprehensive (expense)/income other than the loss for the year. Accordingly, no Company statement of comprehensive income has been presented.

The notes on pages 48 to 78 form part of these financial statements.

Consolidated balance sheet

for the year ended 31 May 2020

	Note	Group	
		2020 £000	2019 £000
Non-current assets			
Goodwill and other intangible assets	18	1,847	1,247
Right of use assets	19	2,685	-
Property, plant and equipment	20	1,124	1,030
Deferred tax	21	1,868	1,982
		7,524	4,259
Current assets			
Inventories	22	2,945	2,081
Trade and other receivables	23	4,848	4,220
Cash and cash equivalents		2,028	2,625
Assets held for sale	24	-	5,046
		9,821	13,972
Total assets		17,345	18,231
Current liabilities			
Trade and other payables	25	3,463	2,316
Provisions	26	1,110	2,265
Deferred income	27	568	81
Financial liabilities	28	177	231
Liabilities directly associated with the assets held for sale	24	-	2,207
Lease liabilities	29	662	-
		5,980	7,100
Non-current liabilities			
Financial liabilities	28	144	118
Lease liabilities	29	1,867	-
		2,011	118
Total liabilities		7,991	7,218
Net assets		9,354	11,013
Equity			
Share capital	30	10,794	10,789
Share premium	31	11,000	10,715
Translation reserve	32	(552)	(558)
Retained earnings	34	(11,888)	(9,933)
Total equity		9,354	11,013

The total equity is attributable to the equity shareholders of the Parent Company, Filtronic plc.
Company number 2891064.

The notes on pages 48 to 78 form part of these financial statements. These financial statements have been approved by the Board on 3 August 2020 and signed on its behalf by

Reg Gott
Chairman
3 August 2020

Consolidated statement of changes in equity

for the year ended 31 May 2020

	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 31 May 2018	10,788	10,640	(618)	(8,649)	12,161
Loss for the year	-	-	-	(1,313)	(1,313)
New shares issued	1	75	-	-	76
Share-based payments	-	-	-	29	29
Currency translation movement arising on consolidation	-	-	60	-	60
Balance at 31 May 2019	10,789	10,715	(558)	(9,933)	11,013
Loss for the year	-	-	-	(1,955)	(1,955)
New shares issued	5	285	-	-	290
Currency translation movement arising on consolidation	-	-	(111)	-	(111)
Transfer to income related to business disposal	-	-	117	-	117
Balance at 31 May 2020	10,794	11,000	(552)	(11,888)	9,354

Company statement of changes in equity

for the year ended 31 May 2020

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 31 May 2018	10,788	10,640	(4,245)	17,183
Loss for the year	-	-	(819)	(819)
New shares issued	1	75	-	76
Share-based payments	-	-	63	63
Balance at 31 May 2019	10,789	10,715	(5,001)	16,503
Loss for the year	-	-	(5,440)	(5,440)
New shares issued	5	285	-	290
Balance at 31 May 2020	10,794	11,000	(10,441)	11,353

The notes on pages 48 to 78 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 May 2020

	Group	
	2020 £000	2019 £000
Cash flows from operating activities		
(Loss)/profit for the year from continuing operations	(518)	2,234
Loss for the year from discontinued operations	(1,437)	(3,547)
Gain on sale of the Telecoms Antenna Operation	(671)	-
Taxation	100	(2,059)
Finance income	(36)	(55)
Finance costs	280	154
Operating loss including discontinued operations	(2,282)	(3,273)
Share-based payments	-	29
Profit on disposal of plant and equipment	-	(2)
Depreciation	677	459
Amortisation of intangible assets	18	217
Impairment of intangible assets	89	512
Movement in inventories	(731)	(348)
Movement in trade and other receivables	85	1,669
Movement in trade and other payables	(1,054)	(657)
Movements in provisions	(1,155)	1,780
Change in deferred income	488	(279)
Tax received/(paid)	1,227	(127)
Net cash used in operating activities	(2,638)	(20)
Cash flows from investing activities		
Capitalisation of development costs	(678)	(666)
Acquisition of intangible assets	(27)	(11)
Acquisition of plant and equipment	(384)	(380)
Acquisition of right of use assets	(154)	-
Proceeds on sale of the Telecoms Antenna Operation - net of sale costs	3,652	-
Proceeds on sale of assets	-	59
Net cash generated from/(used in) investing activities	2,409	(998)
Cash flows from financing activities		
Interest paid	(258)	(103)
Proceeds from bank loans	192	-
Exercise of employee share options	290	76
Repayment of lease liabilities	(375)	-
Repayment of interest-bearing borrowings	(202)	(182)
Net cash used in financing activities	(353)	(209)
Movement in cash and cash equivalents	(582)	(1,227)
Currency exchange movement	(15)	58
Opening cash and cash equivalents	2,625	3,794
Closing cash and cash equivalents	2,028	2,625

The notes on pages 48 to 78 form part of these financial statements.

Company balance sheet

at 31 May 2020

	Note	Company	
		2020 £000	2019 £000
Non-current assets			
Investments in subsidiaries	17	6,551	10,564
Intangible assets	18	28	19
		6,579	10,583
Current assets			
Trade and other receivables	23	5,286	6,148
Cash and cash equivalents		192	196
		5,478	6,344
Total assets		12,057	16,927
Current liabilities			
Trade and other payables	25	704	424
Total liabilities		704	424
Net assets		11,353	16,503
Equity			
Share capital	30	10,794	10,789
Share premium	31	11,000	10,715
Share based payments	36	-	63
Loss for the year	34	(5,440)	(819)
Retained earnings brought forward	34	(5,001)	(4,245)
Total equity		11,353	16,503

Company number 2891064.

The notes on pages 48 to 78 form part of these financial statements. These financial statements have been approved by the Board on 3 August 2020 and signed on its behalf by

Reg Gott
Chairman
3 August 2020

Company cash flow statement

for the year ended 31 May 2020

	Company	
	2020 £000	2019 £000
Cash flows from operating activities		
Loss for the year	(5,440)	(819)
Finance costs	60	38
Operating loss	(5,380)	(781)
Amortisation of intangibles	12	30
Impairment of investments in subsidiaries	4,013	-
Share-based payments	-	63
Movement in trade and other receivables	862	5,380
Movement in trade and other payables	289	(4,949)
Net cash used in operating activities	(204)	(257)
Cash flows from investing activities		
Acquisition of intangible assets	(21)	(2)
Sale proceeds of assets	-	75
Net cash (used in)/generated from investing activities	(21)	73
Cash flows from financing activities		
Proceeds from exercise of share options	290	76
Payment of lease liabilities	(9)	-
Interest paid	(60)	(38)
Net cash generated from financing activities	221	38
Movement in cash and cash equivalents	(4)	(146)
Opening cash and cash equivalents	196	342
Closing cash and cash equivalents	192	196

The notes on pages 48 to 78 form part of these financial statements.

Notes to the financial statements

for the year ended 31 May 2020

1 Accounting policies

Reporting entity

Filtronic plc is a Company registered in England and Wales, domiciled in the United Kingdom, and listed on AIM on the London Stock Exchange.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 as applicable to companies using IFRS.

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 2020, the Group had cash at bank of £2.0m and access to undrawn invoice discounting facilities of £3.0m and \$4.0m in the UK and US respectively. The sale of the Telecoms Antenna Operation provided \$5.5m of cash creating a net positive position from a net debt position and a much-improved cash reserve. The cash and borrowing capacity therefore provide sufficient funds to meet the foreseeable needs of the Group.

As referred to in the Strategic report, the business continuity plans implemented during the Covid-19 pandemic have limited the adverse impact to date. The Board recognises the uncertain macroeconomic environment that the world now 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 the pandemic may adversely affect forward-looking demand to levels significantly lower than those initially modelled in the base case scenario.

A further model was prepared with a severe downside stress-test applied to the model by assuming a more restrictive lockdown resulting in a 36% drop in revenue across the projected period following a second wave of the Covid-19 virus that would be more disruptive to the business than the first wave. It was also assumed demand would not recover to base case levels after the lockdown with demand only achieving 75% of base case demand thereafter.

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

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

The accounting policies have been applied consistently throughout the Group.

Basis of consolidation and foreign currency translation

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

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group, and are not consolidated from the date that control ceases. Intragroup transactions and balances are eliminated on consolidation.

In publishing the Parent Company financial statements here together with the Group financial statements, the Company has taken advantage of the exemptions in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these approved financial statements. On consolidation, the financial statements of subsidiaries with a functional currency other than sterling are translated into sterling as follows:

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

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

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

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

1 Accounting policies (continued)

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.

Discontinued operations

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

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

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale under IFRS 5.

When an operation is classified as a discontinued operation, the comparative income statement and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

Revenue

IFRS 15 establishes principles for determining when and how revenue arising from contracts with customers should be recognised. Filtronic recognises revenue when it transfers goods or services to a customer with an amount of consideration to which we expect to be entitled in exchange for fulfilling our performance obligations 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: identify the contract(s) with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) a performance obligation is satisfied.

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

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

Revenue is measured at the fair value of consideration received or receivable for goods and services provided or performed in the normal course of business net of value added tax or sales tax.

Sale of finished goods product

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

Sale of consignment inventory

Filtronic supports one of its customers by holding inventory in a third-party location near to the customer's production facility. Revenue is recognised when the goods have been moved out of the location by the customer and a consumption advice has been provided. The performance obligation is satisfied when control has passed to the customer. This treatment has not changed following the adoption of IFRS 15.

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 input cost basis. Based on the performance of the contract to date, 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.

Notes to the financial statements continued

for the year ended 31 May 2020

1 Accounting policies (continued)

A credit is made to equity equal to the share-based payment charge in the period.

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.

Business combinations

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- The fair value of any existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a gain is recognised immediately in the consolidated income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the consolidated income statement. Where contingent consideration is linked to continued employment it is classified as an employment cost and recognised in the consolidated income statement over the relevant period.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

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.

Goodwill is measured at cost less accumulated impairment losses.

Goodwill, which is allocated to cash-generating units, is tested for impairment at least annually and when there is an indication of impairment. The goodwill carrying value is written down to its recoverable amount. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Internally-generated intangible assets

All research costs are expensed as incurred.

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

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

Development costs incurred on projects are capitalised where firstly, the technical feasibility can be tested against relevant milestones, secondly, the probable revenue stream foreseen over the life of the resulting product can support the development, and thirdly, 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 because they are incurred in response to continual customer demand to enhance the product functionality and to reduce product selling prices.

1 Accounting policies (continued)

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.

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. 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. 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 lease liability is presented as a separate line in the consolidated statement of financial position.

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.

Notes to the financial statements continued

for the year ended 31 May 2020

1 Accounting policies (continued)

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:

- Land Not depreciated
- Buildings 50 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 scrapping 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 together with attributable direct labour and overheads. Net realisable value is the estimated selling price less estimated costs of completion and sale.

Trade and other receivables

Trade and other receivables are stated net of any provision for doubtful debts.

Cash and cash equivalents

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

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities.

Once classified as held-for-sale, intangible assets are no longer amortised and property, plant and equipment are no longer depreciated.

Defined contribution pension schemes

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

Financial liabilities

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

Current tax

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

Deferred taxation

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

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

1 Accounting policies (continued)

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

Grants

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

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

Warranty provision

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

Dilapidations and onerous leases

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

Share capital

Ordinary shares issued are classified as share capital in equity.

Dividends

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

Forward currency contracts

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

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:

Effective from 1 June 2020:

- IFRS 17 Insurance contracts
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 3 Definition of a Business
- Amendments to IAS 1 and IAS 8 Definition of Material
- Conceptual framework Amendments to References to the Conceptual Framework in IFRS

Notes to the financial statements continued

for the year ended 31 May 2020

2 Adoption of IFRS 16 – new accounting standard on leases

The Group has adopted IFRS 16 “Leases” with effect from 1 June 2019, replacing IAS 17 “Leases”. This means that previously unrecognised operating leases are now recognised in the Statement of financial position as ‘lease liabilities’ and ‘right of use’ assets. Rent payments on these leases are no longer treated as a charge within operating expenses in the Income Statement. Instead a depreciation charge on the right of use assets and an interest expense on the lease liabilities are now recognised in the income statement.

On adoption of IFRS 16 the Group has used the simplified approach to transition. When applying IFRS 16, the Group has used the following practical methods on transition:

- reliance on previous identification of a lease under IAS 17;
- exclusion of initial direct costs from the measurement of the right of use asset at transition;
- the classification of all long leases which had less than 12 months remaining at transition date as short-term leases;
- the measurement of the value of right of use assets on transition as an amount equal to the corresponding lease liability adjusted for any prepaid lease payments;
- the use of hindsight in determining the length of the lease.

The Group is applying the accounting policy recognition exemptions set out in paragraph 5 of IFRS 16 in respect of short-term leases (leases of less than 12 months) and small value leases.

The Group has applied judgement in its assessment of the length of certain leases where there are break clauses or options to extend the lease. The conclusions drawn by management in deciding whether lease break clauses or lease extension options are likely to be applied are based on its current assessment of the longer-term growth expectations of the Group and its associated future office space requirements.

The Group is applying the simplified approach to transition and has therefore not restated any prior period information. Accordingly, the results for the year ended 31 May 2020 are not directly comparable with those presented in the prior period under the previously applicable accounting standard IAS 17 “Leases”.

In order to show the impact of IFRS 16 and to facilitate a comparison of results with the prior year, a reconciliation is presented below of results for the year ended 31 May 2020 as reported on an IFRS 16 basis with the former IAS 17 basis.

	FY2020 IAS 17 basis £000	IFRS 16 Impact £000	FY2020 IFRS 16 basis £000
Operating overheads	8,816	(310) ¹	8,506
Adjusted EBITDA	855	310	1,165
Depreciation	(450)	148	(302)
Right of use asset depreciation	-	(375)²	(375)
Amortisation	(18)	-	(18)
Impairment of intangible assets	(89)	-	(89)
Adjusted operating profit	298	83	381
Exceptional items	(569)	-	(569)
Operating loss	(271)	83	(188)
Finance costs	(159)	(118)³	(277)
Finance income	36	-	36
Loss before taxation	(394)	(35)	(429)

2 Adoption of IFRS 16 – new accounting standard on leases (continued)

The impact on the income statement is summarised as follows:

1. Reduced lease rental charges on IFRS 16 basis;
2. Additional depreciation on right of use assets recognised under IFRS 16;
3. Additional interest costs on finance leases recognised under IFRS 16.

The outcome of this is that adjusted EBITDA and adjusted operating profit are higher on a comparative basis but the loss before taxation is lower.

The adoption of IFRS 16 on 1 June 2019 has impacted certain categories of assets and liabilities in the Group Statement of financial position as set out below:

	At 1 June 2019 IAS 17 basis £000	IFRS 16 Impact £000	At 1 June 2019 IFRS 16 basis £000
Non-current assets			
Right of use assets	-	1,327	1,327
Current liabilities			
Lease liabilities	-	243	243
Non-current liabilities			
Lease liabilities	-	1,084	1,084

The right of use assets recognised under IFRS 16 are in respect of facilities and office premises the Group leases under non-cancellable agreements and finance agreements for plant and equipment.

There was no overall impact on Net Assets or Equity from the initial adoption of IFRS 16 on 1 June 2019.

Reconciliation of IAS 17 to IFRS 16

The reconciliation below demonstrates how operating lease commitments presented in the Annual Report and Accounts 2019 under IAS 17 at the end of FY2019 and before the application of IFRS 16 changes with the opening lease liability presented in the consolidated balance sheet at the start of the FY2020 on 1 June 2019.

	£000
IAS 17 operating lease commitments based on gross cash flows	2,059
Discounted using an incremental borrowing rate of 7%	(345)
Discounted using an incremental borrowing rate of 5%	(94)
Reclassified to assets held for sale	(293)
IFRS 16 lease liability as at 1 June 2019	1,327

Notes to the financial statements continued

for the year ended 31 May 2020

3 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 of the future, that are believed to be reasonable under the circumstances. Actual results may differ from the expected results.

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

Goodwill and other intangibles—impairment

Goodwill and other intangibles are tested for impairment by reference to the expected cash generated by the business unit. This is deemed to be the best approximation of value, but is subject to the same uncertainties as the cash flow forecast being used.

Investments in subsidiaries

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

Inventory

Inventories are stated at the lower of cost and net realisable value. The assessment of the net realisable value of inventory requires forecasts of the future demand and selling prices of inventory based on sales order book, market intelligence and inventory ageing.

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. 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.

Warranty provision

Warranties are given to customers on products sold to them. A warranty provision is recognised when products are sold and is based on historical warranty data. Actual warranty costs in the future may differ from the estimates based on historical performance. The level of warranty provision required is reviewed on a product-by-product basis and adjusted accordingly in light of actual experience.

Capitalisation of development costs

In line with the requirements of IAS 38, the Group's policy is to capitalise development expenditure as intangible assets when all of the following criteria are met:

- The technical feasibility of completing the asset so that it will be available for use or sale;
- The intention to complete the asset and use or sell it;
- The ability to use or sell the asset;
- The asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the asset, if it is to be used internally;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell it; and
- The ability to measure reliably the expenditure attributable to the intangible asset.

This process is continually reviewed to ascertain whether any development costs meet the criteria for capitalisation. This requires various judgements by management as to whether the various criteria have been met. The period over which development costs are amortised is reviewed on a case-by-case basis in line with the expected product life.

The Group does not consider there to be any critical accounting judgements.

4 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 Executive Chairman, who reviews internal monthly management reports, budget and forecast information as part of this. Accordingly, the Executive Chairman is deemed to be the CODM.

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

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

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

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

- Customer A - 44%
- Customer B - 27%
- Customer C - 16%

Geographical information

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

	Continuing operations		Discontinued operations		Total	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Revenue by destination						
United Kingdom	4,764	3,658	-	-	4,764	3,658
Europe	7,985	4,818	-	-	7,985	4,818
Americas	3,945	4,913	65	4,504	4,010	9,417
Rest of the world	487	2,543	991	134	1,478	2,677
	17,181	15,932	1,056	4,638	18,237	20,570

	2020 £000	2019 £000
Split of non-current assets by location		
United Kingdom	6,329	1,898
Americas	1,195	2,361
	7,524	4,259

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 2020

5 Operating (loss)/profit from continuing operations

	2020 £000	2019 £000
Revenue	17,181	15,932
Material cost of goods sold	8,079	8,073
Wages and salaries	5,325	4,105
Social security costs	518	434
Pension costs	276	239
Share-based payments	-	29
Exceptional redundancy and resignation costs	417	-
Staff costs	6,536	4,807
Impairment of development costs	89	-
Amortisation	18	75
Depreciation	677	355
Depreciation and amortisation	784	430
Other operating income	(5)	(152)
Non-salary related exceptional items	152	-
Other expenses	1,823	2,540
Total operating costs	9,290	7,625
Operating (loss)/profit	(188)	234

Development costs of £678,000 were capitalised in the year (2019 : £250,000).

6 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 charging exceptional items as follows:

	2020 £000	2019 £000
Costs relating to the FTAO business disposal	145	-
Restructuring costs	184	-
Directors' resignation	240	-
	569	-

Transaction costs of the FTAO business disposal are the costs incurred in the period relating to sale of the Filtronic Telecoms Antenna Operation ("FTAO") to Microdata Telecoms Innovation Stockholm AB on 2 January 2020 for an initial consideration of \$5.5m.

Following the disposal of FTAO the Group undertook a programme to restructure the business to align the cost base and operation of the continuing business. Action was taken to significantly reduce our presence in China with a major reduction in employee headcount and the successful onshoring of manufacture of our public safety products to our site in the USA.

Rob Smith resigned as CEO of the Company on 31 October 2019, the costs relating to his departure were £240,000.

7 Operating items

	2020 £000	2019 £000
Operating (loss)/profit is stated after charging/(crediting):		
Depreciation	677	355
Research and development costs in the income statement	1,152	1,026
Amortisation	18	75
Foreign exchange gains	(235)	(27)

8 Auditor's remuneration

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

	2020 £000	2019 £000
Company auditor:		
Audit of the Group and Company financial statements	25	25
Company auditor and their associates:		
Audit of subsidiaries' financial statements pursuant to legislation	49	44
Other services pursuant to legislation	-	2
Other services	17	-
	91	71

9 Employees

The average number of employees comprised:

	Continuing operations		Discontinued operations		Group	
	2020 Number	2019 Number	2020 Number	2019 Number	2020 Number	2019 Number
Manufacturing	99	62	9	13	108	75
Research and development	21	17	14	13	35	30
Sales	5	6	1	2	6	8
Administration	16	15	2	3	18	18
	141	100	26	31	167	131

Notes to the financial statements continued

for the year ended 31 May 2020

10 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 31 to 33. The compensation of the directors was:

	2020	2019
	£000	£000
Salary or fees	561	374
Bonus	199	-
Benefits	23	19
Long term incentives	19	47
Total remuneration excluding pension contributions	802	440
Pension contributions	13	20
	815	460

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.

11 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 £432,000 (2019: £432,000) and a royalty charge of 1% of sales of filters and antennas to Filtronic Wireless Limited of £40,000 (2019: £184,000). 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 23 and 25 through the movement in the Company's intercompany receivables and payables.

Transactions with key management personnel

Key management personnel are considered to be the Executive Directors of the Company. The remuneration given to these individuals is disclosed in the Directors' remuneration report on pages 31 to 33.

12 Finance costs

	2020	2019
	£000	£000
Interest expense on loans for plant and equipment	18	19
Interest expense for lease arrangements	118	-
Minimum service costs and interest charges on invoice discounting facilities	125	69
Revaluation of foreign currency denominated intercompany balance	16	66
	277	154

13 Finance income

	2020 £000	2019 £000
Revaluation of foreign currency denominated intercompany balance	36	55
	36	55

14 Taxation

	2020 £000	2019 £000
Recognised in the income statement		
Current tax charge/(credit)		
Overseas taxation in the period	25	268
Adjustment in respect of prior year – R&D tax credit	240	(728)
R&D tax credit	(310)	(628)
Total current tax credit	(45)	(1,088)
Deferred tax charge/(credit)		
Origination and reversal of temporary differences	145	(971)
Total deferred tax charge/(credit)	145	(971)
Income tax charge/(credit)	100	(2,059)

	2020 £000	2019 £000
Income tax charge/(credit) is attributable to:		
Continuing operations	89	(2,099)
Discontinued operations	11	40
	100	(2,059)

The reconciliation of the effective tax rate is as follows:

	2020 £000	2019 £000
(Loss)/profit before tax from continuing operations	(429)	135
Loss before tax from discontinued operations	(2,097)	(3,507)
Loss before taxation	(2,526)	(3,372)
Loss before taxation multiplied by standard rate of corporation tax in the UK (19%)	(19%) (480)	(19%) (640)
Disallowable items	12% 286	7% 231
Income not taxable	- -	0% 6
Deferred tax asset not recognised	24% 598	23% 777
Enhanced R&D tax credit	(25%) (630)	(19%) (628)
Adjustment in respect of prior year R&D tax credit	9% 240	(22%) (728)
Foreign tax not at UK rate	1% 25	4% 138
Recognition of deferred tax asset previously unrecognised	- -	(7%) (244)
Recognition of deferred tax asset from prior year	4% 61	(29%) (971)
Taxation	6% 100	(62%) (2,059)

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

Notes to the financial statements continued

for the year ended 31 May 2020

15 Discontinued operations

The Group sold the Filtronic Telecoms Antenna Operation ("FTAO") for an initial consideration of \$5.5m (£4.1m) to Microdata Telecom Innovation Stockholm AB on 2 January 2020. This may rise based on contingent consideration arising on an equal share of the gross profit that outperforms the mutually agreed gross profit targets of \$2.0m and \$3.0m over the next two calendar years. The directors have opted not to recognise a fair value for this consideration in the results for the year.

As a result of the sale, FTAO is reported in the current period as a discontinued operation. Financial information relating to the financial performance and cash flow information of the discontinued operation for the period to 2 January 2020, the date of disposal, and the year ended 31 May 2020 is set out below.

	2020 £000	2019 £000
Revenue	1,056	4,638
Material cost of goods sold	903	3,393
Wages and salaries	936	1,770
Social security costs	169	274
Pension costs	141	245
Staff costs	1,246	2,289
Amortisation of other intangible assets	-	142
Impairment of development costs	-	512
Depreciation	-	104
Depreciation and amortisation	-	758
Exceptional items	724	1,584
Other expenses	277	121
Total operating costs	2,247	4,752
Operating loss	(2,094)	(3,507)
Finance costs	(3)	-
Loss before taxation	(2,097)	(3,507)
Taxation	(11)	(40)
Loss for the year from operating activities	(2,108)	(3,547)
Gain on sale of discontinued operations	671	-
Loss for the year from discontinued operations	(1,437)	(3,547)

Details of the gain on sale of discontinued operations

	2020 £000	2019 £000
Consideration received	4,146	-
Carrying amount of net assets sold	(2,864)	-
Costs directly associated with the sale of FTAO	(494)	-
Currency translation adjustment	(117)	-
Gain on sale of discontinued operations	671	-

15 Discontinued operations (continued)

Cash flows generated from/(used in) discontinued operations

	2020 £000	2019 £000
Net cash used in operating activities	(1,937)	(1,205)
Net cash generated from investing activities	3,652	-
Net cash used in financing activities	(3)	-
Net cash flows for the year	1,712	(1,205)

16 (Loss)/earnings per share

	Continuing operations		Discontinued operations		Total Group	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
(Loss)/profit for the year	(518)	2,234	(1,437)	(3,547)	(1,955)	(1,313)
	000	000	000	000	000	000
Basic weighted average number of shares	211,021	207,578	211,021	207,578	211,021	207,578
Dilution effect of share options	-	3,370	-	-	-	-
Diluted weighted average number of shares	211,021	210,948	211,021	207,578	211,021	207,578
Basic (loss)/earnings per share	(0.25p)	1.08p	(0.68p)	(1.71p)	(0.93p)	(0.63p)
Diluted (loss)/earnings per share	(0.25p)	1.06p	(0.68p)	(1.71p)	(0.93p)	(0.63p)

Due to the Group having losses in each of the financial years, the fully diluted loss per share for disclosure purposes, as shown in the income statement, is the same as the basic loss per share.

Notes to the financial statements continued

for the year ended 31 May 2020

17 Investments in subsidiaries

**Company
investments in
subsidiaries
£000**

Cost	
At 1 June 2018, 31 May 2019 and 31 May 2020	21,110
Impairment	
At 1 June 2018 and 31 May 2019	(10,546)
Impairment in the year	(4,013)
At 31 May 2020	(14,559)
Carrying amount at 31 May 2019	10,564
Carrying amount at 31 May 2020	6,551

The Company's subsidiaries are related parties.

The subsidiaries at 31 May 2020, 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
Filtronic Inc ²	USA	US\$1 ordinary shares	100%	Dormant Company
Owned by Isotek (Holdings) Limited:				
Filtronic Wireless Limited ¹	UK	1p ordinary shares	100%	Design and manufacture of filters and related products for telecommunication systems
Filtronic Wireless Inc. ²	USA	US\$1 ordinary shares	100%	Design and manufacture of filters and related products for telecommunication systems
Isotek Limited ¹	UK	1p ordinary shares	100%	Dormant Company
Owned by Filtronic Wireless Limited:				
Isotek Hong Kong Holdings Limited ³	Hong Kong	HK\$1 ordinary shares	100%	Holding Company
Owned by Isotek Hong Kong Holdings Limited:				
Isotek Suzhou Limited ⁴	China	US\$350,000 paid in share capital	100%	Design and manufacture of filters and related products for telecommunication systems
Filtronic Wireless Suzhou ⁴	China	US\$162,000 paid in share capital	100%	Design and manufacture of filters and related products for telecommunication systems

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

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

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

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

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. The calculation of the value in use was based on the following key assumptions:

- Budgets incorporating post-tax cash flows have been prepared to 31 May 2021 based on past experience, actual operating results, known future cash flows and estimates of future cash flows;

17 Investments in subsidiaries (continued)

- Cash flows for a further three years have been extrapolated from the year to 31 May 2021. A revenue growth factor of 10% was applied to the projections together with cost inflation of 3%. A perpetuity factor has been applied based on the year to 31 May 2025. A long-term growth factor of nil was applied to the perpetuity cash flows; and
- The Group's discount rate of 12% (2019:12%) was applied in determining the recoverable amount of the unit, being the estimated weighted average cost of capital for the CGU.

The investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. At 31 May 2020 it was identified that the investment in the CGU responsible for RF conditioning products would need to be impaired by £4.0m based on discounting the future cashflows following a review of budgets. The recoverable amount of £6.6m was determined based on a value-in-use calculation which requires the use of key assumptions. The calculation used to determine the carrying value of the investment is based on the same model and assumptions referenced above. A key input of the model is the discount rate used. Therefore a +/- 1% difference in the discount rate would impact impairment by £617,000.

18 Goodwill and other intangible assets

Group	Goodwill £000	Other intangibles (core technology) £000	Licence agreement £000	Software costs £000	Development costs £000	Total £000
Cost						
At 31 May 2018	3,235	10,884	160	543	722	15,544
Additions	-	-	-	11	666	677
Reclassification to assets held for sale	(2,261)	-	(160)	(27)	(1,038)	(3,486)
Exchange differences	-	-	-	15	-	15
At 31 May 2019	974	10,884	-	542	350	12,750
Additions	-	-	-	27	678	705
Exchange differences	-	-	-	4	-	4
At 31 May 2020	974	10,884	-	573	1,028	13,459
Amortisation						
At 31 May 2018	-	10,884	63	503	190	11,640
Provided in the year	-	-	14	24	179	217
Impairment of intangible assets	-	-	-	-	512	512
Reclassification to assets held for sale	-	-	(77)	(25)	(779)	(881)
Exchange differences	-	-	-	15	-	15
At 31 May 2019	-	10,884	-	517	102	11,503
Provided in the year	-	-	-	18	-	18
Impairment of intangible assets	-	-	-	-	89	89
Exchange differences	-	-	-	2	-	2
At 31 May 2020	-	10,884	-	537	191	11,612
Carrying amount at 31 May 2019	974	-	-	25	248	1,247
Carrying amount at 31 May 2020	974	-	-	36	837	1,847

Analysis of amortisation	2020 £000	2019 £000
Continuing operations	18	75
Discontinued operations	-	142
	18	217

Notes to the financial statements continued

for the year ended 31 May 2020

18 Goodwill and other intangible assets (continued)

Goodwill and other intangibles relate to the acquisition of Isotek (Holdings) Limited. Goodwill is allocated to the CGU responsible for RF conditioning products and this CGU 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 unit. The calculation of the value in use was based on the following key assumptions:

- Budgets incorporating post-tax cash flows have been prepared to 31 May 2021 based on past experience, actual operating results, known future cash flows and estimates of future cash flows;
- Cash flows for a further three years have been extrapolated from the year to 31 May 2021. A revenue growth factor of 10% was applied to the projections together with cost inflation of 3%. A perpetuity factor has been applied based on the year to 31 May 2025. A long-term growth factor of nil was applied to the perpetuity cash flows; and
- The Group's discount rate of 12% (2019:12%) was applied in determining the recoverable amount of the unit, being the estimated weighted average cost of capital for the CGU.

Based on this testing the directors do not consider any of the goodwill or intangible assets to be impaired, even allowing for a reasonable degree of sensitivity to the underlying assumptions, including the discount rate.

	2020	2019
	£000	£000
Company intangible assets - Software costs		
Opening Balance	19	122
Additions	21	2
Disposals	-	(75)
Amortisation provided in the year	(12)	(30)
Carrying amount at 31 May	28	19

19 Right of use assets

The Group has applied the simplified approach to the transition of IFRS 16 and has therefore not restated any prior period information. Consequently, the opening balance is effective from 1 June 2019 as detailed in note 2.

	Property leases	Plant and equipment	Total
	£000	£000	£000
Opening balance recognised on adoption of IFRS 16	1,327	-	1,327
Additions	-	1,727	1,727
Exchange differences	6	-	6
At 31 May 2020	1,333	1,727	3,060
Depreciation			
Provided in the year	226	149	375
At 31 May 2020	226	149	375
Carrying amount at 31 May 2020	1,107	1,578	2,685

The Group's lease commitments are made up of property leases and plant and equipment under asset finance agreements.

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

20 Property, plant and equipment

	Group plant and equipment £000	Company plant and equipment £000
At 31 May 2018	7,371	-
Additions	380	-
Disposals	(507)	-
Reclassification to assets held for sale	(667)	-
Exchange differences	19	-
At 31 May 2019	6,596	-
Additions	384	-
Disposals	(51)	-
Exchange differences	19	-
At 31 May 2020	6,948	-
Depreciation and impairment		
At 31 May 2018	5,960	-
Depreciation	459	-
Disposals	(435)	-
Reclassification to assets held for sale	(430)	-
Exchange differences	12	-
At 31 May 2019	5,566	-
Depreciation	302	-
Disposals	(51)	-
Exchange differences	7	-
At 31 May 2020	5,824	-
Carrying amount at 31 May 2019	1,030	-
Carrying amount at 31 May 2020	1,124	-

Notes to the financial statements continued

for the year ended 31 May 2020

21 Deferred tax

	Group	
	2020 £000	2019 £000
Deferred tax assets		
Opening balance	1,982	965
Tax losses recognised	61	971
Utilisation of tax losses	(206)	-
Exchange differences	31	46
	1,868	1,982

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.

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Deferred tax assets which have not been recognised:				
Depreciation in advance of capital allowances	1,077	1,957	455	455
Tax losses carried forward	11,336	10,817	9,638	9,449
Share options deferment	80	91	80	91
	12,493	12,865	10,173	9,995

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.

22 Inventories

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Raw materials	2,851	2,408	-	-
Work in progress	1,038	518	-	-
Finished goods	513	254	-	-
	4,402	3,180	-	-
Inventory provision	(1,457)	(1,099)	-	-
Inventories are stated net of provision	2,945	2,081	-	-

Raw materials, consumables and changes in finished goods and work in progress recognised in cost of sales in the year amounted to £8,982,000 (2019: £7,773,000).

The amount charged to the income statement in the year in respect of write-downs of inventories is £358,000 (2019: £nil). The amount credited to the income statement in the year in respect of reversals of write-downs of inventories is £nil (2019: £nil).

23 Trade and other receivables

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Trade receivables	4,147	2,419	-	-
Group receivables	-	-	5,221	6,105
Other receivables and prepayments	701	1,801	65	43
	4,848	4,220	5,286	6,148

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.

24 Assets held for sale

The directors committed to a plan to sell the Telecoms Antenna Operation in the previous financial year so the assets and liabilities were consequently presented as held for sale at 31 May 2019. The business was sold on 2 January 2020 to Microdata Telecoms Innovation Stockholm AB and is therefore reported in the current period as a discontinued operation. The following assets and liabilities were classified as held for sale in relation to the discontinued operation at 31 May 2019.

	2020 £000	2019 £000
Goodwill and other intangible assets	-	2,605
Property, plant and equipment	-	237
Inventory	-	406
Trade and other receivables	-	1,798
Assets held for sale	-	5,046
	£000	£000
Trade and other payables	-	2,207
Liabilities held for sale	-	2,207

25 Trade and other payables

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Trade payables	1,562	1,364	33	74
Other payables and accruals	1,901	952	671	350
	3,463	2,316	704	424

Notes to the financial statements continued

for the year ended 31 May 2020

26 Provisions

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Warranty provision				
Opening balance	2,205	425	-	-
Used during the year	(1,188)	(11)	-	-
Released unused during the year	(274)	(45)	-	-
Charge for the year	301	1,836	-	-
Exchange differences	9	-	-	-
	1,053	2,205	-	-

The provision for warranty relates to the units sold during the last two financial years and the remaining liability of the warranty settlement agreement for £0.4m (2019 : £1.6m). The provision is based on estimates made from historical warranty data.

	Group		Company	
	2020 £000	2019 £000	2019 £000	2018 £000
Dilapidation provision				
Opening balance	60	60	-	-
Released unused during the year	(5)	-	-	-
Exchange differences	2	-	-	-
	57	60	-	-

The Group leases 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.

	2020 £000	2019 £000	2020 £000	2019 £000
Total provision				
Warranty provision	1,053	2,205	-	-
Dilapidation provision	57	60	-	-
	1,110	2,265	-	-

27 Deferred income

Deferred income of £437,000 (2019 : £81,000) classified as current mainly consists of billings in advance of work completed for customers that will be recognised as income in the next year.

A capital grant was also secured in the year for £150,000 to assist with the purchase of plant and machinery to support the production ramp of our 5G Backhaul products. The carrying value of this grant at 31 May 2020 was £131,000 with a £19,000 credit to the income statement recognised in the year. The grant will be amortised over a period of four years.

Total deferred income was £568,000 (2019 : £81,000).

28 Financial liabilities

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

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Bank loans—current	65	100	-	-
Obligations under finance agreements—current	112	131	-	-
Total current financial liabilities	177	231	-	-
Bank loans—non-current	144	17	-	-
Obligations under finance agreements—non-current	-	101	-	-
Total non-current financial liabilities	144	118	-	-
Total financial liabilities	321	349	-	-

Terms and debt repayment schedule

	Currency	Nominal interest rate	Date of maturity	Carrying amount 2020 £000	Carrying amount 2019 £000
Bank loan	GBP	7.6%	31 August 2020	17	117
Bank loan	USD	1.0%	31 December 2022	192	-
Finance agreements	GBP	4.1%	31 May 2021	112	232
				321	349

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

Debt reconciliation	Bank loans £000	Finance agreements £000	Total £000
Balance at 31 May 2018	217	301	518
Acquisition of finance agreements	-	31	31
Interest paid	(12)	(6)	(18)
Repayment of borrowings	(88)	(94)	(182)
Balance at 31 May 2019	117	232	349
Acquisition of finance agreements	192	-	192
Interest paid	(12)	(6)	(18)
Repayment of borrowings	(88)	(114)	(202)
Balance at 31 May 2020	209	112	321

Banking facilities

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

The bank loan, with a current carrying value of £17k, relates to an asset-based loan for plant and equipment at our facility in Sedgfield.

The Group secured a loan of \$237K (£192K) from the US Government as part of their Paycheck Protection Programme (PPP) to secure jobs in the USA during the Covid-19 pandemic which is included in the table as bank loans. Companies are required to start repaying the loan after 6 months for a two year period at a low rate of interest. The US Government have indicated they will forfeit repayment and turn the loan into a grant if recipients retain all of the employees the funds were secured for.

Notes to the financial statements continued

for the year ended 31 May 2020

29 Lease liabilities

	Group £000
Opening lease liability recognised on adoption of IFRS 16 (1 June 2019)	1,327
New leases entered into during the year	1,572
Payments made during the year	(375)
Exchange differences	5
At 31 May 2020	2,529
	2020 £000
Lease liability payable in less than a year	662
Lease liability payable in more than one year	1,867
	2,529

The Group adopted IFRS 16 using the simplified approach effective from 1 June 2019 and has recognised a lease liability at 1 June 2019 for leases previously classified as operating leases using IAS 17. The Group has measured lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. Details of the Group's liability in respect of right of use assets and their carrying amount are presented above with more detail in note 2.

30 Share capital

	Group and Company ordinary shares of 0.1p each	
	Number '000	£000
At 1 June 2018	206,910	10,788
Exercise of share options	1,219	1
At 31 May 2019	208,129	10,789
Exercise of share options	5,569	5
At 31 May 2020	213,698	10,794

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.

31 Share premium

	Group and Company £000
At 1 June 2018	10,640
Exercise of share options	75
At 31 May 2019	10,715
Exercise of share options	285
At 31 May 2020	11,000

32 Translation reserve

	Group £000
At 1 June 2018	(618)
Currency translation movement arising on consolidation	60
At 1 June 2019	(558)
Transfer to income related to business disposal	117
Currency translation movement arising on consolidation	(111)
At 31 May 2020	(552)

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

33 Dividends

The directors are not proposing to pay a dividend for the year ended 31 May 2020 (2019: £nil).

34 Retained earnings

	Group £000	Company £000
At 1 June 2018	(8,649)	(4,245)
Loss for the year	(1,313)	(819)
Share-based payments	29	63
At 31 May 2019	(9,933)	(5,001)
Loss for the year	(1,955)	(5,440)
At 31 May 2020	(11,888)	(10,441)

35 Share options

Sharesave plans

There are six sharesave plans that have been offered to employees at the date of this report. All of the schemes offered to employees have now closed. Under these plans employees who join the plan save up to £500 per month for three years. The members of the plans were 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 exercise price for an option for the first five schemes was the middle market quotation of Filtronic plc's ordinary shares as derived from the Official List of London Stock Exchange on the dealing day immediately prior to the plan offer date. The sixth scheme had an exercise price calculated by reference to the average of the middle market closing price of the shares on AIM for the three dealing days prior to the invitation date.

Sharesave Plan—Scheme 6

	Weighted average exercise price 2020	Number of options 2020	Weighted average exercise price 2019	Number of options 2019
Outstanding at the beginning of the year	5.2p	5,827,465	5.2p	5,965,899
Exercised during the year	5.2p	(4,419,469)	5.2p	(96,135)
Cancelled during the year	5.2p	(470,954)	5.2p	(42,299)
Lapsed during the year	5.2p	(937,042)	5.2p	-
Outstanding at the end of the year	5.2p	-	5.2p	5,827,465
Exercisable at the end of the year	5.2p	-	5.2p	5,827,465

A sixth sharesave scheme was offered to employees in June 2016, which is now closed.

Notes to the financial statements continued

for the year ended 31 May 2020

35 Share options (continued)

Management incentive plans

The options granted in the year to directors, key management and staff have specific performance targets attached to them. The target requires that the average mid-market closing price of a share over any period of 40 consecutive business days between the date of grant and the third anniversary of the date of grant is greater than 20 pence per share. Directors can only exercise their shares three years after grant after the target has been met. All other staff can exercise their shares in three equal tranches after each year if the performance target has been met during the relevant financial year. The exercise price for an option was the middle market quotation of Filtronic plc's ordinary shares as derived from the Official List of the London Stock Exchange or AIM depending on the timing of the award and the market Filtronic traded on the dealing day immediately prior to the plan offer date. The Remuneration Committee is able to adjust the outcome at its discretion to ensure it is fair and appropriate, taking into account the overall performance of the Group.

The following options under this scheme were outstanding at 31 May 2020:

Ordinary shares of 0.1p	Date granted	Earliest date exercisable	Latest date exercisable	Exercise price
2,406,251	01/03/2016	01/03/2017	28/02/2026	5.4p
300,000	01/03/2016	01/03/2017	28/02/2026	5.7p
300,000	11/04/2016	11/04/2017	10/04/2026	8.5p
233,333	30/09/2016	30/09/2017	29/09/2026	11.6p
200,000	28/09/2017	28/09/2018	27/09/2027	13.0p
200,000	28/03/2018	28/03/2019	27/03/2028	9.0p
200,000	11/02/2020	11/02/2021	11/02/2030	9.3p
3,839,584				

The weighted average price of options of the outstanding options under this scheme at 31 May 2020 was 6.82p.

	Number of share options 2020	Number of share options 2019
Outstanding at the beginning of the year	5,483,584	6,906,250
Granted during the year	200,000	-
Cancelled during the year	(694,000)	(300,000)
Exercised during the year	(1,150,000)	(1,122,666)
Outstanding at the end of the year	3,839,584	5,483,584
Exercisable at the end of the year	3,503,584	5,085,251

36 Share-based payments

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Share options expense	-	29	-	63
	-	29	-	63

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		Company	
	2020	2019	2020	2019
Number of share options granted	200,000	-	200,000	-
Weighted average share price	9.25p	-	9.25p	-
Expected volatility	50%	-	50%	-
Expected life	3.0 years	-	3.0 years	-
Risk-free interest rate	0.1%	-	0.1%	-
Weighted average fair value	3.1p	-	3.1p	-

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

37 Pension costs

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Defined contribution schemes	417	485	32	38

38 Capital expenditure commitments

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	9	134	-	-

39 Analysis of net (debt)/cash

	1 June 2019 £000	Cash flow £000	Other changes £000	31 May 2020 £000
Cash and cash equivalents	2,625	(582)	(15)	2,028
Bank loans	(117)	(92)	-	(209)
Lease liability - plant and machinery	-	192	(1,573)	(1,381)
Lease liability - property lease	-	183	(1,331)	(1,148)
	2,508	(299)	(2,919)	(710)

Notes to the financial statements continued

for the year ended 31 May 2020

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

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

	2020 £000	2019 £000
Movement in cash and cash equivalents	(582)	(1,227)
Movement in lease liability - plant and machinery	(1,381)	-
Movement in lease liability - property lease	(1,148)	-
Movement in bank loans	(92)	100
Exchange differences	(15)	58
Movement in net (debt)/cash	(3,218)	(1,069)
Opening net cash	2,508	3,577
Closing net (debt)/cash	(710)	2,508

Cash at bank earns interest at floating rates based on daily bank deposit rates.

IFRS 16 requires the recognition of property leases on the balance sheet which is classified as a debt item. Previously, these have been off-balance sheet as operating lease commitments. The lease liability related to plant and equipment shows an increase of £1.4m at 31 May 2020 as asset finance was used to purchase machinery at our Sedgefield site in order to increase production capacity and capability.

40 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.

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

Liquidity risk

The Group has cash at bank of £2.0m whilst the Company has cash at bank of £0.2m. 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.

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 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 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 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 as follows:

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Cash and cash equivalents	2,028	2,625	192	196
Trade and other receivables	4,848	4,220	5,286	6,148
	6,876	6,845	5,478	6,344

40 Financial instruments (continued)

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.

Credit risk is primarily related to trade receivables. The Group's businesses are concentrated on long-term relationships with a small number of larger 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.

The Company has no trade receivables.

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

	Group	
	2020 £000	2019 £000
Customer one	2,293	830
Customer two	1,415	786
Customer three	286	468
Other customers	153	335
	4,147	2,419

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

	Group	
	2020 £000	2019 £000
Not past due	3,699	2,251
Past due less than three months	424	122
Past due more than three months	24	46
	4,147	2,419

No trade receivables have been provided for in either FY2020 or FY2019.

Interest rate risk

Cash is generally held on short-term bank deposits which earn interest at variable money market deposit rates. At 31 May 2020, there was £nil held on short-term deposit. The remaining cash in the Group is held in very low interest rate accounts. Sterling interest rates are very low and therefore interest rate risk is considered to be low.

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

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

Notes to the financial statements continued

for the year ended 31 May 2020

40 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.

Cash is mainly held in sterling and the US dollar.

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

	Group							
	2020				2019			
	SEK £000	EUR £000	RMB £000	USD £000	SEK £000	EUR £000	RMB £000	USD £000
Cash and cash equivalents	-	165	6	890	98	-	188	1,635
Trade receivables	-	10	-	2,702	-	-	-	1,589
Trade payables	-	(400)	(54)	(253)	-	(175)	-	(667)
Net exposure	-	(225)	(48)	3,339	98	(175)	188	2,557

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 2020, then the Group operating profit would have been £70,000 higher/lower.

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.

Shareholder information

Directors

(All at Filtronic House, 3 Airport West,
Lancaster Way, Yeadon, Leeds,
West Yorkshire, LS19 7ZA, UK)

Michael Tyerman - Chief Financial Officer

Reg Gott - Executive Chairman

Michael Roller - Non-Executive Director

Pete Magowan - Non-Executive Director

Company Secretary

Maura Moynihan

Company number

2891064

Registered office

Filtronic plc
Filtronic House
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Lancaster Way
Yeadon, Leeds
West Yorkshire
LS19 7ZA
Tel: 0113 220 0000

Auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central South Square
Orchard Street
Newcastle upon Tyne
NE1 3AZ

Bankers

Barclays Bank plc
10 Market Street
Bradford
BD1 1NR

Financial public relations

Walbrook PR Limited
4 Lombard Street
London
EC3V 9HD
Tel: 020 7933 8780

Annual General Meeting

The Company's Annual General Meeting will be held at 11am on 29 October 2020 at Plexus building, Thomas Wright Way, Netpark, Sedgefield, County Durham, TS21 3FD.

Registrars

Link Asset Services

Enquiries regarding shareholdings, change of address or similar particulars should be directed in the first instance to our Registrars, Link Asset Services whose address is: The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, or call +44 371 664 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 Asset Services at www.signalshares.com. This is an online service enabling you to quickly and easily access and maintain your shareholding online – reducing the need for paperwork and providing 24 hour access for your convenience. Through the shareholder portal you can:

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

Filtronic website

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

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