TRUSTED TECHNOLOGY FOR DEMANDING APPLICATIONS

SOLID STATE

Annual Report & Accounts 2023

Welcome to our Annual Report 2023

What we do
We supply components and systems, primarily designed for demanding applications. This enables our customers to focus on their core business with confidence by delivering trusted technology where safety, performance, reliability and quality are critical.

Our Purpose
To deliver trusted technology for demanding applications in the quest for innovation.

Our Mission
To establish our position as an international leader in providing sustainably engineered electronics technology systems and components enabling our stakeholders to realise value, maximise efficiencies, and reduce waste.

Our Vision
To be the enabler that allows our customers to innovate and to solve the problems that the electronic community can't solve alone.

400+
Employees

14
Locations

50+
Years of innovation and strategic growth

58+
Countries we sell to

WELCOME FROM OUR CEO

Our Journey

"Solid State has had a really productive year, building on the pillars of our long-term growth strategy. The acquisition of Custom Power deepens sector specialism, broadens product offering and extends international reach to an increasingly global client base.

"By targeting structurally growing end markets and having a specialist technology-led workforce, the Board is optimistic for the continued success of the business. The Group remains ambitious to meet the new 2030 targets for the benefit of all stakeholders."

Gary Marsh
Chief Executive Officer

Solid State PLC.

Our values lead every aspect of our business operations and decision-making

Create a positive and collaborative workplace by putting our people at the heart of what we do.

Add value to all our stakeholders by being responsible, ethical and sustainable.

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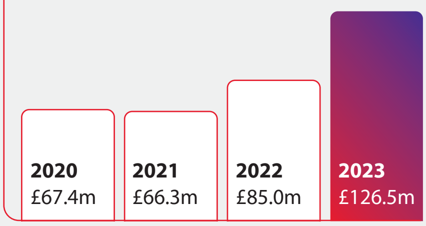
Find us online at
solidstateplc.com

GROUP HIGHLIGHTS

Financial highlights

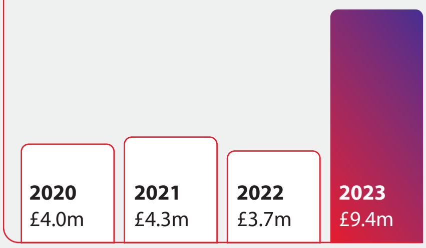
Revenue
(million)

£126.5m



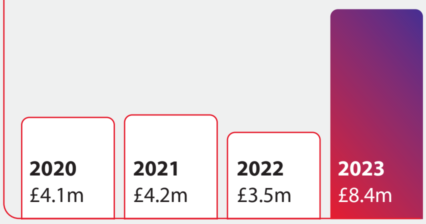
Reported Operating profit
(million)

£9.4m



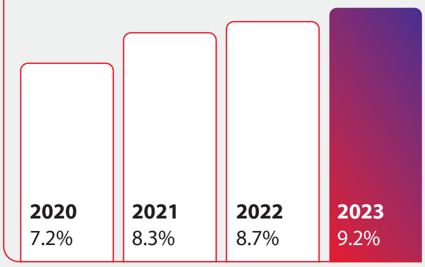
Reported profit before tax
(million)

£8.4m



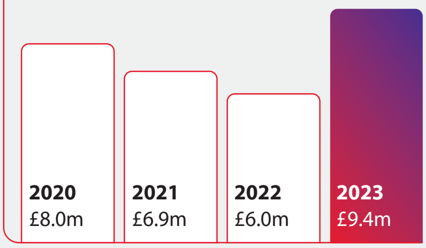
Adjusted operating margin
(%)

9.2%



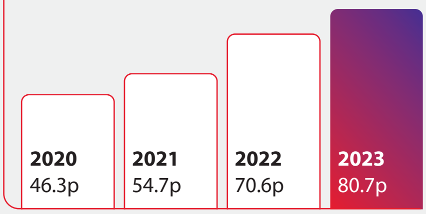
Underlying cash flow from operations
(million)

£9.4m



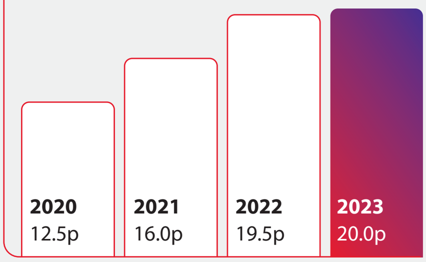
Adjusted fully diluted EPS
(pence)

80.7p



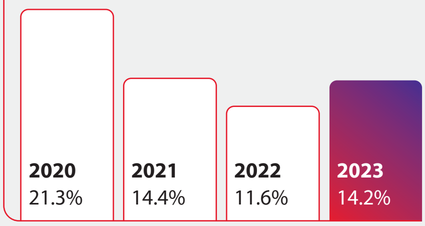
Dividend
(pence)

20.0p



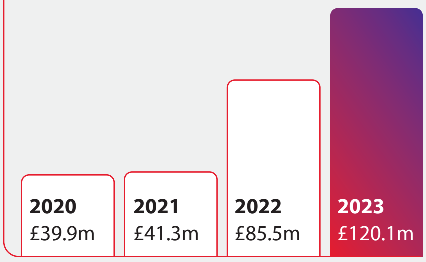
ROCE
(%)

14.2%



Open Orderbook
(million)

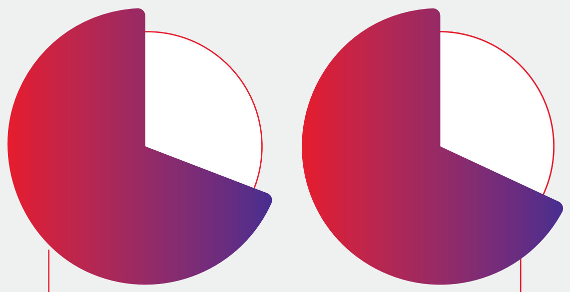
£120.1m



Alternative/Adjusted Performance Measures ("APMs"), including 'adjusted' and 'underlying', are applied consistently throughout the 2023 Annual Report and Accounts. APMs are defined and reconciled in Note 30 to the reported GAAP measures, and also include a narrative disclosure of the basis of recognition of the APMs and the impact of the differences compared to the statutory measures.

Operational highlights

Gender diversity



2022
M 69% **F** 31%

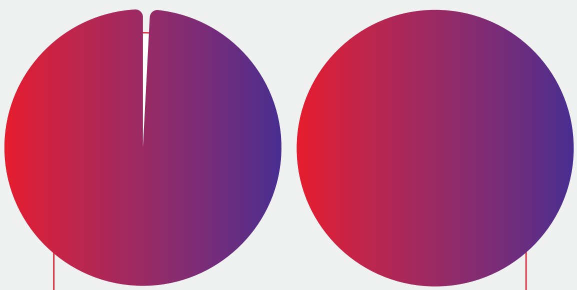
2023
M 68% **F** 32%

Employee retention

2022
92%

2023
91%

Lost time incidents



2022
1%

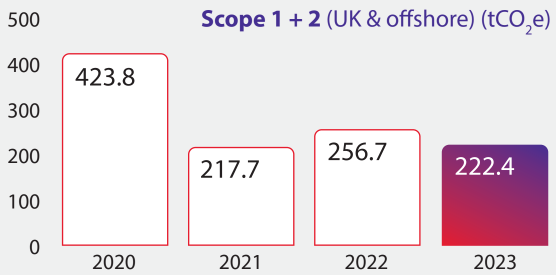
2023
0%

Sustainability highlights

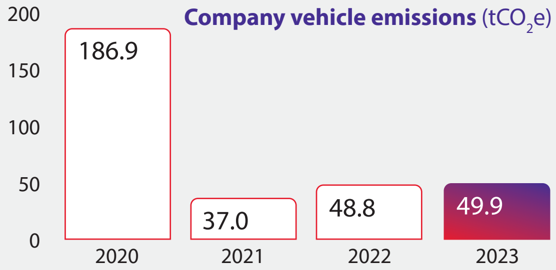
Introduction

This year we have formed an ESG committee chaired by the CFO to focus on progressing our ESG strategy and goals. Our key highlights for the year include:

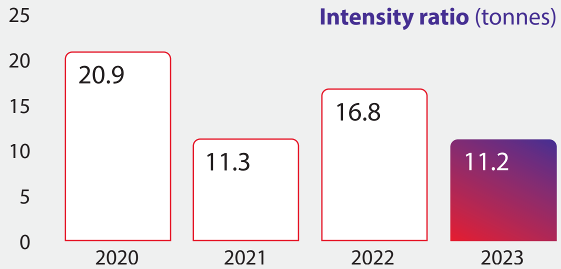
Overall reduction in our Scope 1 and Scope 2 (UK & offshore) emissions from the base year by 48%.This is driven by 38% reduction in Gas use and 20% in Electricity aided by the impact of the Covid-19 changes in working practice. The increase in 2022 reflects the impact of the acquisition of Active Silicon and Willow.



Adoption of electric or hybrid vehicles, reduced travel during Covid-19, increase in working from home and reducing business mileage has seen vehicle emissions reduce by 73% since 2020.



Our Intensity ratio has reduced from 20.87 in our base year to 11.20 in FY23. This is driven by the overall reduction In CO_2e aided by Covid-19, and significantly improved financial performance. FY22 saw intensity ratio increase due to the Willow acquisition. Positively, including the Custom Power acquisition FY23 has declined.



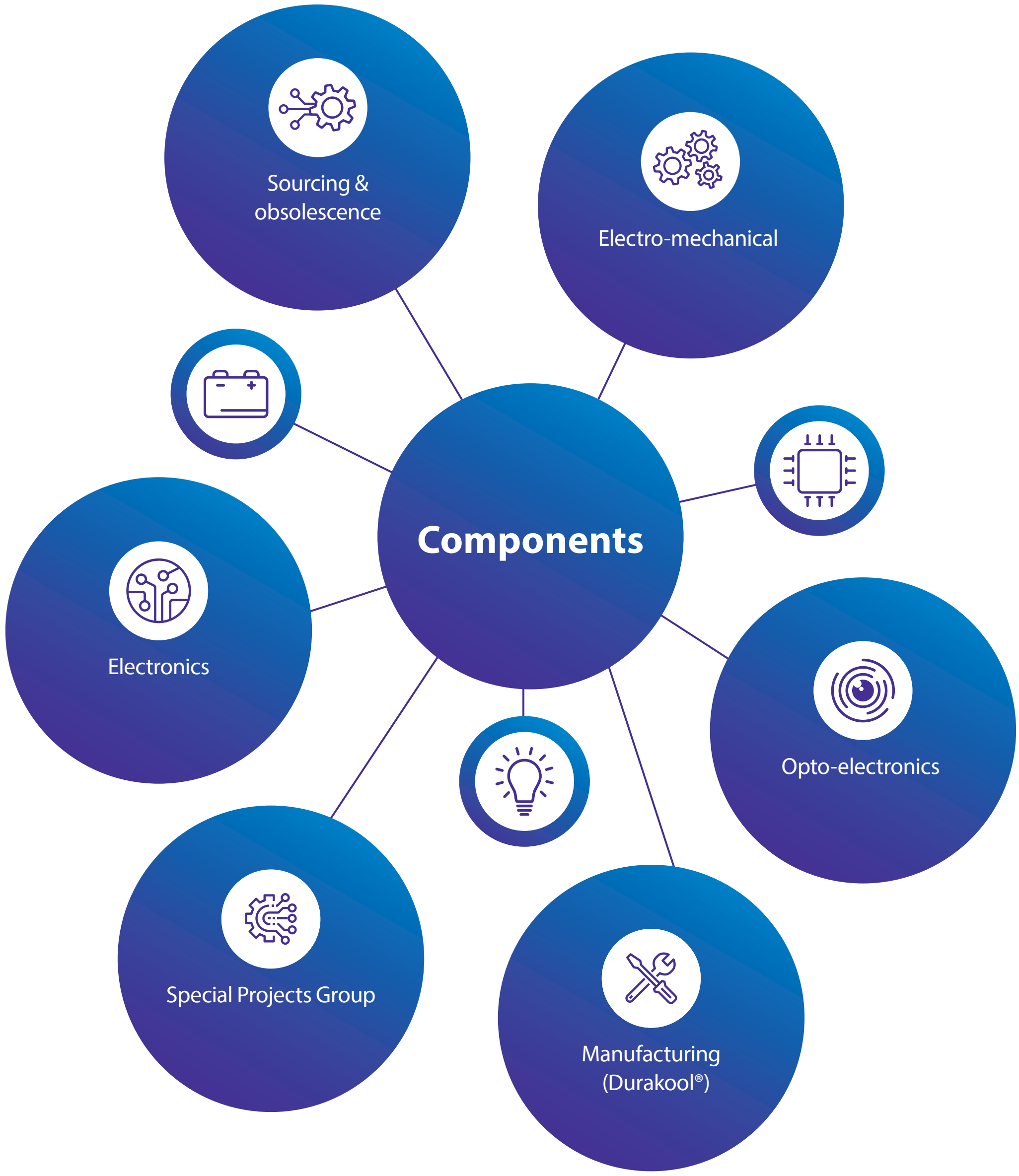
GROUP AT A GLANCE

Our divisions: Systems division

The systems division has market-leading capabilities in the design, manufacture, supply and through life support of high performance systems. The business provides systems solutions across three areas: industrial computing and vision systems, custom battery packs providing portable power and energy storage solutions and advanced communication systems, encompassing wideband antennas and high-performance radio products.

Our divisions: Components division

The components divisions business provides products and services in three areas: own brand manufactured components, franchised components, and the provision of value-added services such as sourcing and obsolescence management. It is a specialist in designing-in innovative, valuable, technical solutions for customers seeking cutting edge, electronic, opto-electronic, electro-mechanical components and displays with market-leading value-added capabilities.



GROUP AT A GLANCE
CONTINUED

Solid State provides specialist, trusted technology, components and systems for a broad range of applications. Performance and quality are key. Size, weight, and power are characteristics which often define our customers demanding requirements.

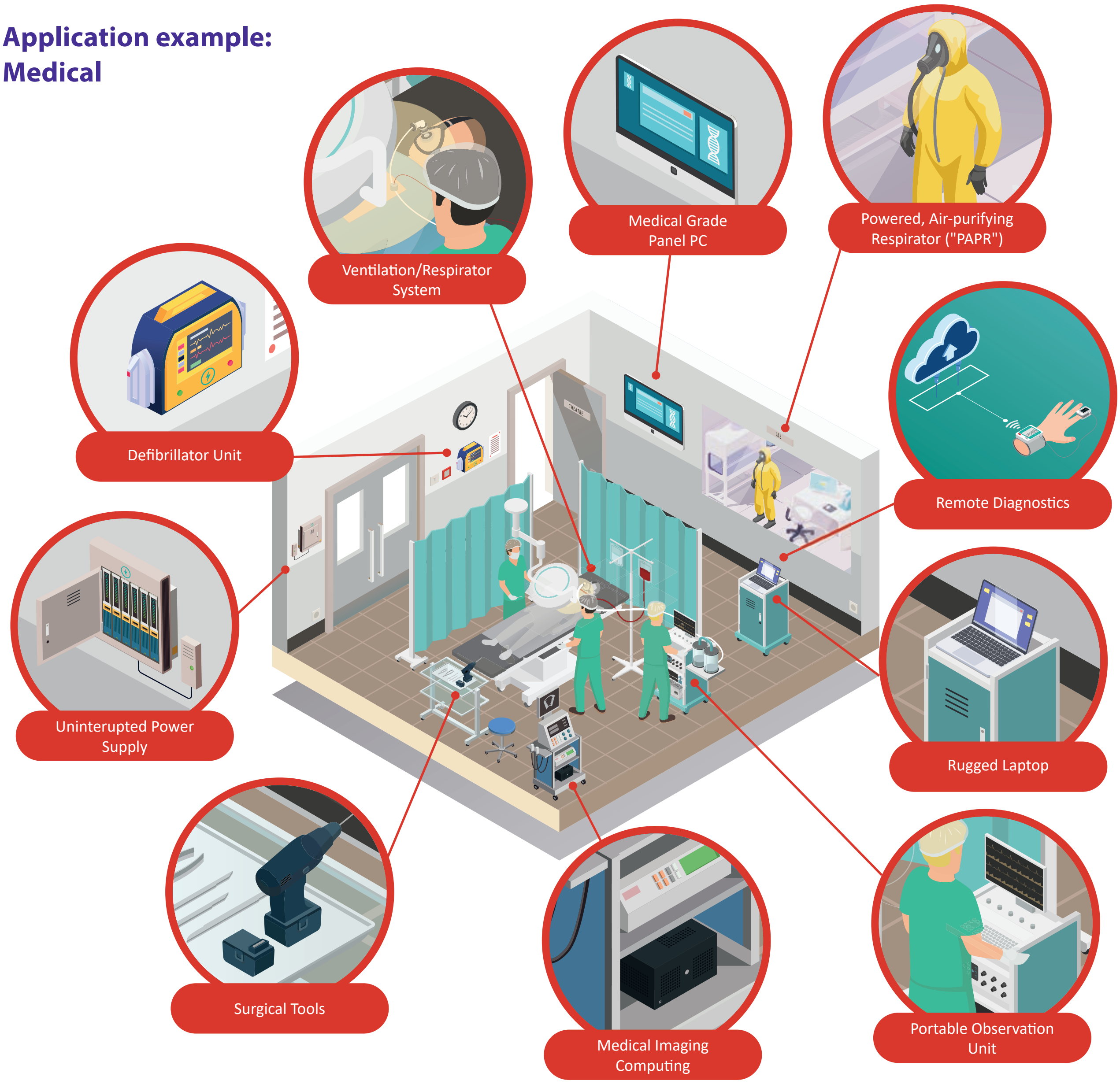
How we differentiate

Our combination of the two divisions gives us specialist industry and market knowledge which supports our product knowledge and technical expertise. This combined with our strong supply chain relationships enables us to form the foundation of our know how.

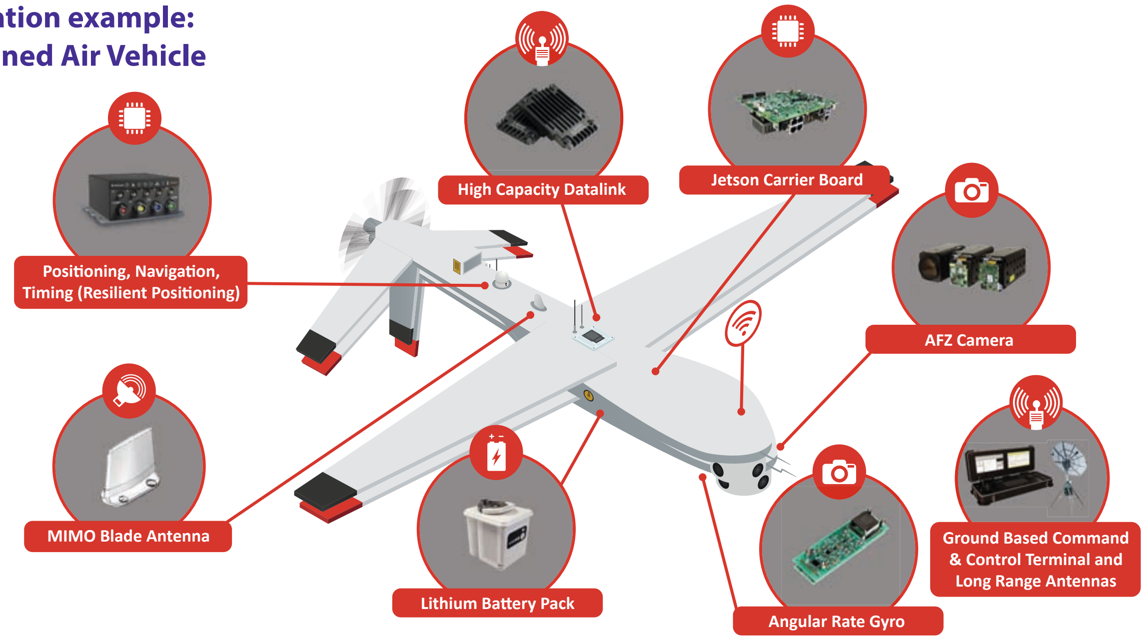
How we serve our customers

We build trusted long-standing relationships with our customers. We work with them to solve their technology challenges, turning ideas into plans and plans into products and systems, by linking up the electronics community in the quest for innovation.

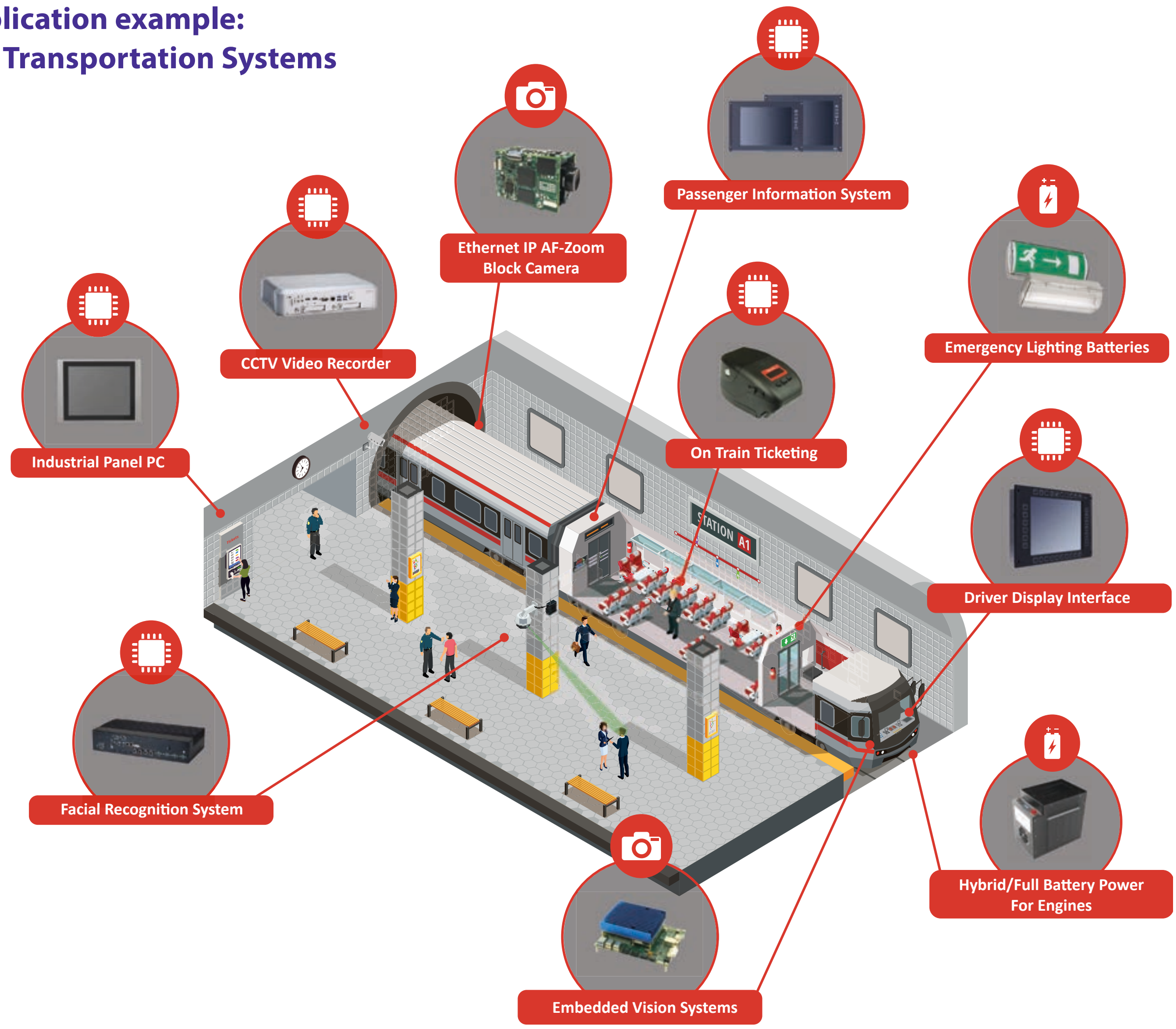
Application example: Medical



Application example: Unmanned Air Vehicle



Application example: Rail Transportation Systems



GROUP AT A GLANCE
CONTINUED

Our International Customer Base

We work with Tier 1 OEMs across all our key markets. In our key target markets of industrial, medical, transport and defence, our long standing relationships with Tier 1 global prime contractors provide recurring revenue streams where we add value through our technology and industry expertise.

Our Global Footprint

Developing our international sales channels across the UK, EU and USA to drive our growth strategy.

Revenue

£27.2m

United States

Revenue

£9.5m

Rest of the World

Revenue

£71.6m

United Kingdom

Revenue

£18.2m

Europe

GROUP AT A GLANCE
CONTINUED

Our operating structure:

Solid State PLC

Systems

Custom Power — Battery Systems and Energy Solutions

STEATITE — COMPUTING - POWER - COMMUNICATIONS

Active Silicon — COMPUTER IMAGING PRODUCTS

Power
Design and manufacture of battery systems providing portable power and energy storage solutions.

Communications
Advanced communication systems, encompassing wideband antennas and high-performance radio systems.

Computing
High specification industrial computers, circuit board level design and manufacturing providing embedded computing systems.

The markets we serve:

Industrial

Defence and Security

Medical

Transport

Components

Franchise
OEM components where we provide an engineering led design-in service to supply components.

Own Brand
Portfolio of complementary components which we manufacture or have manufactured under our own brands.

Value Added Services
Services to ensure we add value differentiating our component supply offering for customers securing long-term commercial partnerships.

Our investment case:

Unmatched technical knowledge and experience with a consultative approach
The Group is the subject matter expert for its customers, with deep industry knowledge and long-standing key supplier relationships. When designing-in solutions to address customer needs, the Group selects the most appropriate component, module, computing technology, cell chemistry or communications solution which ensures Solid State is a trusted partner.

A proven track record
The business achieved its financial objective to double fully diluted adjusted earnings per share ('AEPS') over the five years to 31 March 2022 where AEPS increased from 30 pence to 71 pence. The accelerated growth rate achieved in recent years, and the foundations which have been laid, allow us to continue to deliver and provide value to our stakeholders and invest in new opportunities, including through targeted acquisition as demonstrated through our previous sucessful acquisitions.

Trusted relationships with blue-chip customers
The business has long standing relationships with its diverse customers including Tier-one customers in medical and defence sectors. Our ability to adapt, our resilience and operating in markets with high barriers to entry provides our customers with the confidence to trust us to deliver high value, long life sustainable products that can operate in a harsh environment.

Best-of-breed product portfolio
Solid State constantly seeks to add value for its customers, who are typically looking to embrace the adoption of the enabling technologies where the Group has industry leading component and manufacturing expertise, such as electronic and optoelectronic component design-in, image processing, AI ("Artificial Intelligence"), IoT ("Internet of Things"), fossil fuel replacement, power switching, cordless & portable power, and leading-edge communications / antenna solutions.

Focused on high growth markets
The Group actively targets markets with high barriers to entry, requiring accreditations, long standing reputations and specialist test and measurement capabilities.

The demand for the Group's products and services is driven by the need for bespoke specialist electronic solutions to address complex needs, typically in harsh environments where enhanced durability and resistance to extremes of humidity, temperature, pressure, vibration, and wind is vital.

CHAIRMAN'S STATEMENT

I am delighted to announce the Group has delivered another year of record growth across both our divisions with a solid demand for our products in the market as reflected with our strong orderbook of £120.1m. Total shareholder return over the five years to 2023 has been circa 29% and the Board is committed to maintaining a level in excess of 20% going forward.

Nigel Rogers
Non–Executive Chairman

Performance

We successfully acquired Custom Power, the battery systems and energy solutions provider based in Southern California in the United States in August 2022, and I am pleased that the business is performing in line with our Board's expectations. This acquisition alongside previously acquired Willow Technologies & Active Silicon has strengthened our performance in the medical and transport sectors.

The geo–political environment continues to drive government spending in security and defence, with Group revenue in these sectors approaching 20%. Solid State has been successful in building on its relationships with Tier 1 customers to the security and defence sector. Additionally, the systems division won a notable contract with NATO to supply communications equipment to a client in the defence sector and provide a foundation for long-term recurring revenue in this market as the Group targets 'through–life' support opportunities.

The macro–economic environment continues to be challenging with higher inflation, higher interest rates and the on–going supply chain challenges still present, albeit there has been some stability in the component supply chain. The Group is continuing to pro–actively engage customers to manage the supply chains. The order book visibility (which extends approximately 18 months) is critical as we continue to work with our customers to manage our investment in inventory to support order fulfilment and supply chain risk.

Environmental, Social and Governance (ESG)

ESG is at the core of Solid State's strategy and we continue to focus on developing a governance framework that remains appropriate for our developing business, creating a long-term sustainable business which minimises our adverse impact on the Environment and maximising the value for our stakeholders.

We have established an ESG committee which meets regularly and is focused on developing the ESG strategy to deliver on our goals including achieving Net Zero in Scope 1 and Scope 2 emissions by 2050. This committee is working hard on how we enhance our communication of our approach to ESG to the stakeholders both internally and externally.

Our technology, products and systems are designed and engineered to be high quality, often upgradable with long life which inherently means we are starting from a strong position. These characteristics help to differentiate us from our competitors and enable us to be ambitious in how we do business, to maintain our position where we believe we are a business leading on ESG in our sector.

> "We are confident we are well placed to deliver on this ambition and are committed to making strategic investments both organic and M&A to ensure we have a sustainable and scalable business which will drive the mid and long-term growth in value for all our stakeholders."
>
> **Nigel Rogers**
> Non–Executive Chairman

Our employees

On behalf of the Board, I would like to thank all our employees for their commitment to the business. Our business has grown to over 400 employees and the investment in our people is essential in successfully delivering on our strategy and underpinning our long-term performance.

We are seeing the benefit of our investment in HR last year with key initiatives & activities being incorporated into the Group's people and talent development plans.

The energy crisis and increased cost of living has made it a challenging year for our employees. The Board has taken steps to supporting our employees including paying a one–off energy bonus and awarding an interim pay increase.

The Board & Governance

The Board strives to maintain the highest standards of corporate governance in line with principles of the Quoted Companies Alliance code on Corporate Governance. As a result of a Board evaluation, the Board is at an advanced stage in its recruitment of an additional independent non–executive Director in the UK. Subject to agreeing contractual terms and completing the AIM compliance we expect to be able announce the new appointment during the Summer, well ahead of our AGM.

This addition to the Board will provide an equal balance of executive and non executive directors with the Chair having a casting vote.

The 2022 ISS report has concluded that Peter Haining is not independent, and Nigel Rogers is overboarded. The Board has considered these conclusions fully. We agree Peter does not meet the definition of an independent non–executive, however we consider he acts with independence and integrity in fulfilling his non–executive director responsibilities. The Board consider that the recruitment of the additional independent director establishes an appropriate level of independent governance while enabling Peter to continue adding value to the Board with his experience.

The Board has evaluated my capacity to fulfil my role as Chair. This evaluation was led by the senior independent director and concluded that I have sufficient time to fulfil all the roles to the high standard required, even in the event of unforeseen circumstances which may require a significant increase in time commitment. In any event, it has subsequently been announced that I will be stepping down from one of the other roles towards the end of 2023.

Dividend

The Board is proposing a final dividend of 13.5 pence (2022: 13.25 pence) resulting in full year dividends of 20.0 pence (19.50 pence) which is covered 4.0 times by adjusted earnings (2022: 19.50 times). The Directors believe this policy allows a suitable balance between investment for growth and investor return.

Subject to approval of the final dividend by shareholders at the AGM on 6 September 2023, the final dividend will be paid on 29 September 2023 to shareholders on the register at the close of business on 8 September 2023, and the shares will be marked ex–dividend on 7 September 2023.

Outlook

The Board is confident it will continue to deliver further sustainable growth for shareholders as the Group expands its international presence, broadens its product and service offering, and continues to target complementary acquisitions.

Our 2030 ambition and strategy as presented on page 26 & 27 highlights our ambition to maintain compound annual growth in total shareholder return to be in excess of 20%. We are confident we are well placed to deliver on this ambition and are committed to making strategic investments both organic and M&A to ensure we have a sustainable and scalable business which will drive the mid and long-term growth in value for all our stakeholders.

Nigel Rogers
Non-Executive Chairman

4 July 2023

OUR ACQUISITION TIMELINE

1971
Solid State PLC
Company founded

1996
London Stock Exchange
Listed

2002
Steatite – Computing, Systems
Established 1938
£1.3M

2005
Wordsworth – Computing, Systems
£1.8M

2007
RZ Pressure – Battery Power, Systems
£1.3M

2010
Rugged Systems – Radio Comm's, Systems
£0.2M

2011
Blazepoint – Rail Printer, Systems
£0.2M

2021
Willow Technologies – E-Mech Components
£13.1M

2021
Active Silicon – Machine Vision, Systems
£8.9M

2022
Custom Power – Battery Power, Systems
£32.9M

2018
Pacer – Optoelectronics, Components
£3.7M

2016
Creasefield – Battery Power, Systems
£1.6M

2013
Q Par Angus – Antenna, Comm's, Systems
£1.0M

2013
2001 – Semiconductor, Components
£2.0M

2015
Ginsbury – Display, Components
£2.1M

STRATEGIC REPORT

In this section

> “Solid State’s growth strategy has proved itself over the last five years, building what is now a truly international, resilient, specialist technology business. We remain ambitious and have set ourselves targets based on delivering through 4 key pillars: broadening our complementary product portfolio; further internationalising the Group; developing our range of ‘own brand’ products; and, investment in, and development of, our pool of talent.”

Gary Marsh
Chief Executive Officer

CHIEF EXECUTIVE OFFICER'S REVIEW

I am pleased to report that despite the challenges in the macro–economic environment the Group has delivered significant progress in the execution of its growth strategy and resulting record financial results for the period, which continues to build on the strong performance we have seen over the last 5 years.

Gary Marsh
Chief Executive Officer

The acquisition of Custom Power reflects an important strategic step forward, enhancing our capabilities to service our international customers' demands for our battery pack technology adding USA production and engineering capabilities.

Our commitment to customer service and long–standing relationships, and a pro–active approach to managing the semiconductor supply chain challenges, enabled us to invest in inventory in partnership with our customers. This has been the key factor in enabling us to secure product and business over the last year which has been the cornerstone of our 18% organic revenue growth.

The last two years have highlighted the huge value of having two distinct divisions with the Components division supporting the delivery in the Systems Division and the Systems Division aligning itself to be in a position to deliver on significantly larger scale projects. It is the diversity of our business that reduces risk and sets us apart in the industry.

Strong Business Performance

The Group has delivered another record year of financial, strategic and operational performance which was achieved against a backdrop of component shortages, inflationary pressures, and volatile exchange rates.

I am very pleased to report 14% growth in adjusted diluted earnings per share over the prior year's record result and a significant step change in revenue year on year at £126.5m (2022: £85.0m), with second half revenues of £67.1m outperforming a strong H1.

Group adjusted operating margins are a key metric. We saw adjusted operating margins increase by 0.5% to 9.2% during the year. Operating margins this year have benefited from a strong mix in sales across both divisions and lower overheads as a result of the challenging labour market driven by recruitment taking longer.

During the year the Group raised £27m, placing 2.7m shares to assist in funding the acquisition of Custom Power. Group AEPS increased 14% to 80.7p (2022: 70.6p). During the first half, the Group invested a significant proportion of its operating cash generation into working capital. Pleasingly, in the second half we saw adjusted operating cash conversion increase to 145% with full year cash conversion of 81% (2022: 81%).

> “The Group has delivered another record year of financial, strategic and operational performance which was achieved against a backdrop of component shortages, inflationary pressures, and volatile exchange rates.”
>
> **Gary Marsh**
> Chief Executive Officer

Sector and Divisional review

The Components division delivered revenue of £70.0m (2022: £52.5m), a 33% increase on the prior year. This growth has been built upon the design work which commenced during 2020 when the shortages first started to arise, combined with work with customers to secure order schedules and inventory to ensure we could deliver product.

Our Systems division revenue increased by 77% to £57.5m (2022: £32.5m). This reflects a £16.7m benefit in the current financial year from the acquisition of Custom Power in August 2022.

In November 2022, the Systems division reported notable contract wins to supply communications equipment to a client in the defence sector through NATO. None of the revenue associated with Nato contracts which were announced in Q3 shipped in the current financial year, positioning the division to have a very strong first half to the FY2023/24.

While these contracts are likely to dilute the margin mix within the Systems business in the year ahead, they will contribute positively to the attainment of expectations for FY23/24 and provide a foundation for long-term recurring revenue in this sector as the Group targets ‘through–life’ support opportunities.

Key leadership

Pleasingly, in the second half of the year and into the new financial year, we have seen several internal promotions as well as continued investment in new talent in addition to the talent which has joined our senior team from the acquisition of Custom Power during the year. We are continuing to invest in our people and developing our Group leadership team as this is a key differentiator and driver for future growth as we strive to replicate recent successes.

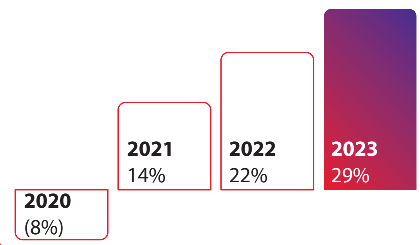
Acquisitions

Custom Power, the battery systems and energy solutions provider based in Southern California in the United States, acquired in August 2022 and integrated into the Power business unit, continues to perform in–line with management’s expectations. Positive co–operation with the Group sales and marketing teams and exposure to an existing customer base is generating new international opportunities in target markets. In the year ahead we plan to invest in and develop the technical sales team to complement and support the established representative sales network which Custom Power leverages to drive organic growth.

The Board continues to actively explore attractive acquisition opportunities across its target markets both overseas and in the UK.

TSR CAGR
(%)

29%



March 2020 reflects the COVID-19 share price dip

As we reported in the trading update, the Custom Power open order book was up 11% on the prior year at $18.6m (31 March 2022: $16.8m), giving the Board confidence in the growth prospects in the year ahead. Albeit due to the continued impact of supply chain challenges for both Custom Power and its customers, the higher, stretch earn out hurdle is not expected to be exceeded and as such the Group's obligations payable to the vendors will be reduced.

Strategy

Solid State's Strategy remains broadly consistent with prior years, combining an acquisitive and organic growth strategy to actively target strategic customers in growth sectors with high barriers to entry that require accreditations, long standing credibility, and specialist skills and experience where our technology adds tangible value. The Group's key target markets include industrial, security and defence, medical, transport, and energy.

We are continuing the implementation of our mid-term strategy where we have set goals to 2030 aligned with the adoption of key technology and geopolitical/ environmental agendas. (See further details on page 26 & 27).

Our four strategic pillars to drive growth remain:

- Internationalisation of the Group;
- Talent development embedding our ESG values;
- Broadening our complementary product and technology portfolio;
- Development of our "own brand" components and systems offering securing recurring revenue.

The following key milestones represent critical steps in delivery of our strategy and are cornerstones which our 2030 plans and ambitions will continue to build on:

- The acquisition of Custom Power;
- The development of the own brand Durakool® components range;
- Additional talent at Active Silicon to increase our technologies and engineering capabilities; and
- Formation of eTech Developments enhances engineering capabilities.

The team and the strategic foundation which the Group has put in place over recent years underpins the ambition to maintain in excess of 20% annual compound growth in total shareholder return ("TSR") over the next phase of the Solid State's development to 2030, maintaining the record performance which has been delivered over the last 5 years.

Our markets and business development

One of the Group's strategic strengths is the resilience that arises from servicing a broad range of growth markets with high barriers to entry where customers value the high performance, long life sustainably engineered components and systems that the Group provides. In the current year the geo–political environment continues to drive government spending in security and defence, where the Group revenue in this sector has seen strong organic growth and is now circa 18% (2022: circa 14%).

Solid State has been successful in building relationships with Tier 1 suppliers to the medical and the security and defence sectors, such as BAE, NATO and Siemens healthcare. This has been augmented by the acquisition of Custom Power who have strong customer relationships with Tier 1 defence and medical customers in the USA such as Flextronics International, iRhythem Technologies and General Atomics. The Group continues to see further growth opportunities within its strategic Tier 1 customers in its target growth sectors.

Our strategy has positioned the Group to take advantage of new opportunities and allowing us to enter 2023 with a strong pipeline and an order book of £120.1m at 31 March 2023 (31 March 2022: £85.5m). Our order book combined with our inventory management plan positions Solid State to proactively manage the well-publicised ongoing electronics supply chain issues with our customer and gives us confidence for the year ahead.

Sustainability and development

Our ESG strategy has developed significantly during the year. ESG is an intrinsic part of our overall purpose and strategy. During the year we have established an ESG committee which is working to challenge ourselves and as far as possible influence our stakeholders to "do the right thing". (See page 40 for details).

The initial findings of the ESG committee were that the business' established principles, values, and behaviours by which Solid State has operated for many years are fully aligned with good practice ESG principles, as a result we believe we are leading in this area in our sector.

However, we recognise that we have significant work to do to ensure we measure and communicate what we do both internally and externally. We recognise that capturing the right data practically, and communicating it, is becoming of increasing commercial importance. This is critical to ensuring that we can deliver on our ambition to differentiate.

Furthermore, as the Group continues to grow, to ensure we maintain the culture where the best practice principles, values and behaviours of ESG, continue to be embedded into what we do and how we do it.

Outlook

We are confident that the strategic progress and the associated growth from new bespoke strong project demand and recurring business will more than offset the potential short-term macro-economic and electronics sector headwinds which may arise from foreign currency and the potential for some level of destocking driven by improving component lead times and customers looking to normalise working capital levels.

The supply chain shortages meant our open orderbook visibility was extended throughout the year. Post year end higher interest rates have increased customer focus on working capital. For some components, lead times are starting to improve, which is resulting in customers looking to reduce order schedules back to more normal levels.

Current trading has been very strong with the benefit of Custom Power combined with significant shipments of product under the NATO contract announced in November 2022 resulting in record Q1 revenues which were significantly up over the prior year. We do anticipate that this is a short-term spike with revenues and profits being particularly strong in the first half compared to traditional norms.

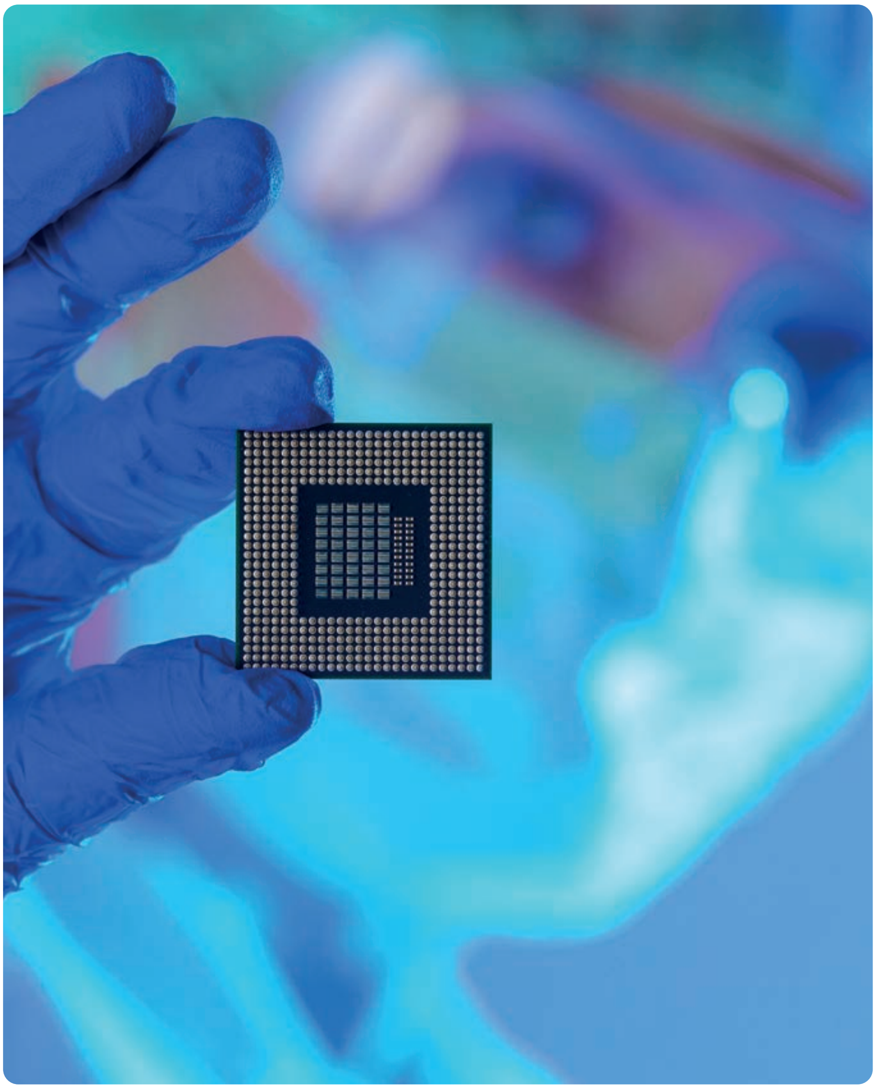
With strong Q1 shipments combined with customers looking to normalise order cover, our open orderbook at 31 May 2023 was slightly down at £116.2m (31 May 2022: reported £89.7m, like for like £104.5m) albeit it was up on the prior year both on a reported and like for like basis.

The Group's plans to drive its organic growth strategy and secure the delivery of the strong order book is continuing to progress. While recruitment of talent continues to be challenging, we have seen good progress and plan to add further talent in the remainder of H1 and into H2 to drive mid-term organic growth.

The very strong Q1 and the strength of the order book, balanced with the investments made and planned, means pleasingly we expect revenue in FY2023/24 to be ahead of current consensus, reflecting year on year growth in excess of 15% and adjusted profit before tax to be slightly ahead of current consensus reflecting circa10% year on year growth.

Gary Marsh
Chief Executive Officer

4 July 2023



9.2%

Adjusted operating margin in FY23

20%

Ambition to maintain TSR growth

18%

Organic growth in FY23

£116m

May open orderbook

BUSINESS MODEL

Our business model brings together synergetic and diverse operations that work across the electronics industry. It incorporates our industry expertise knowledge, key relationships with suppliers, customers, and our people which enables us to source, design and manufacture products that are built to provide sustainable long-term value added solutions.

Key resources

Our people

We have an industry leading team of technology and electronics experts upon which the Group's success is built. They enable us to add value to our customers in supplying our components and system solutions through product agnostic technology-led advice.

Our technology

Specialist components, sub-assemblies, and embedded systems, through to complete integrated electronic solutions.

Domain knowledge

The Group has more than 50 years of industry expertise and domain knowledge upon which it can draw on design-in, high quality, high performance, sustainably engineered, components and systems to apply 'industry know-how' in delivering innovative results.

Our relationships

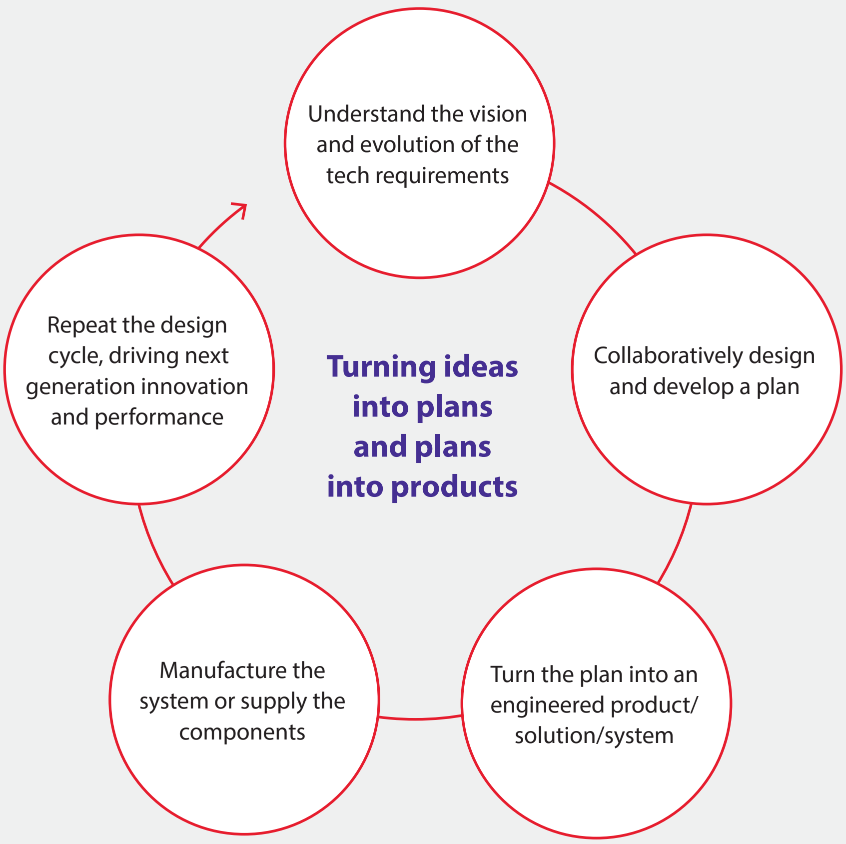
Our supply chain and technology partners and relationships ensure that we can reliably provide technology component and sub-systems at times of need and shortage.

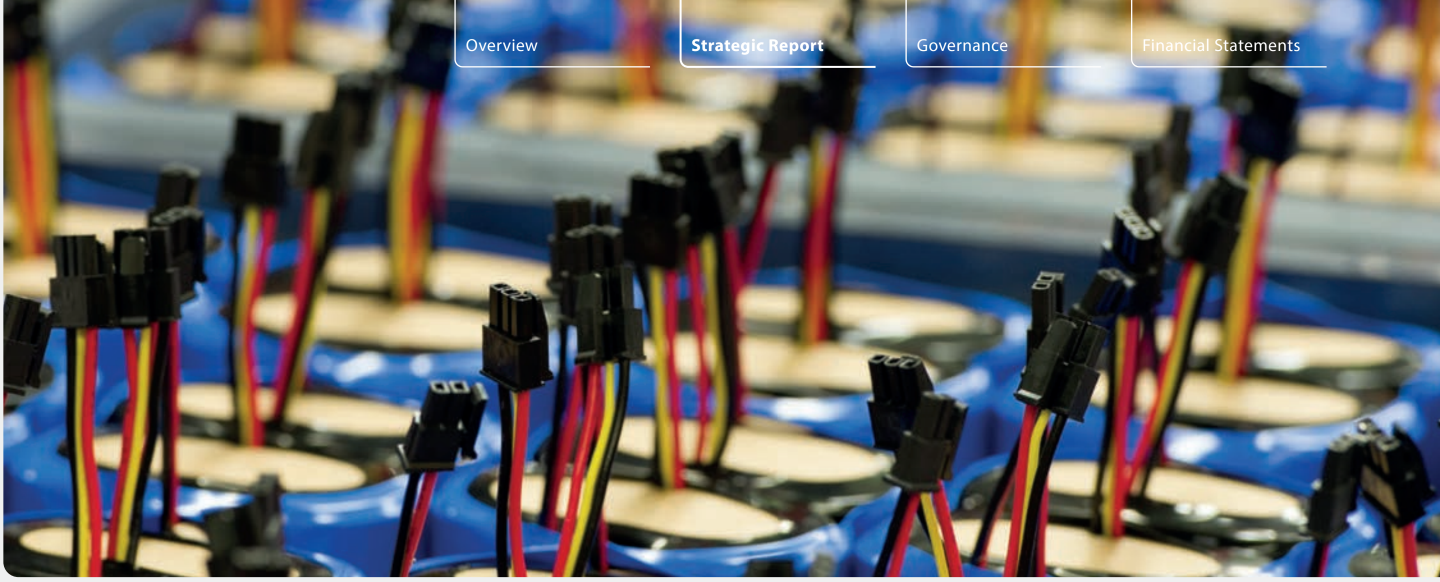
Our culture

The Solid State family culture is at the heart of how our teams build relationships internally and externally which is a cornerstone of how we deliver trusted technology for our customers demanding applications in the quest for innovation.

Key activities

Design in engineered solutions for our clients where we partner with clients to turn ideas into plans and plans into products. We are more than an electronic components distributor and systems solution provider. We are trusted experts with the technical knowledge, connections and adaptability to solve the problems our electronic community customers can't solve alone.

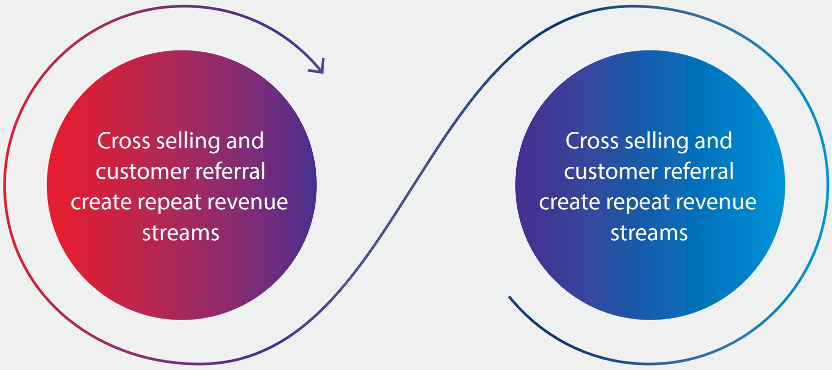




Value we add through our divisions

Systems division
The systems division has market leading capabilities in the design, development, manufacture, supply and support of high specification systems. The business provides systems solutions across three areas: industrial computing and vision systems, custom battery packs providing portable power and energy storage solutions and advanced communication systems, encompassing wideband antennas and high-performance radio products.

Components division
The components division's business provides products and services in three areas: own brand manufactured components, franchised components, and the provision of value-added services such as sourcing and obsolescence management. It is a specialist in designing-in innovative, valuable, technical solutions for customers seeking cutting edge, electronic, opto-electronic, electro-mechanical components and displays with market leading value-added capabilities.



Competitive advantage
1. Unmatched technical knowledge and experience
2. Complete supply solutions leveraging best-of-breed product portfolio
3. Consultative approach with trusted relationships

Value we deliver

Customers
We work collaboratively with customers to meet or exceed their expectations. We leverage our team's technology knowhow, product expertise, system performance delivering innovation and value-added solutions.

Employees
We are committed to delivering high quality rewarding employment opportunities, maintaining a high level of employee engagement and providing an environment where all employees can fulfil their potential.

Suppliers
We work in partnership with our suppliers to drive innovation and development. Designing-in the best technology to deliver the required performance for a given application, securing recurring revenue for us and our suppliers.

Communities & environments
We recognise our role as a local employer, and the importance of our environmental commitments to our local community. Our work with and for the communities in which we operate, is a critical part of influencing and maximising the social value.

Shareholders
As a well established public company we are committed to delivering long-term sustainable growth in total shareholder returns through a combination of capital growth and dividend income.

OUR MARKETPLACE

We provide high-performance, high-quality components, products and systems to the following key markets which have high barriers to entry and typically require accreditations. This ensures that our engineering value added is recognised and provides a differentiated offering to meet the demanding needs of the customers in our target markets.

Our key markets

Industrial

37% Of total revenue

43% Year on year growth rate

Defence & Security

19% Of total revenue

99% Year on year growth rate

Medical

16% Of total revenue

128% Year on year growth rate

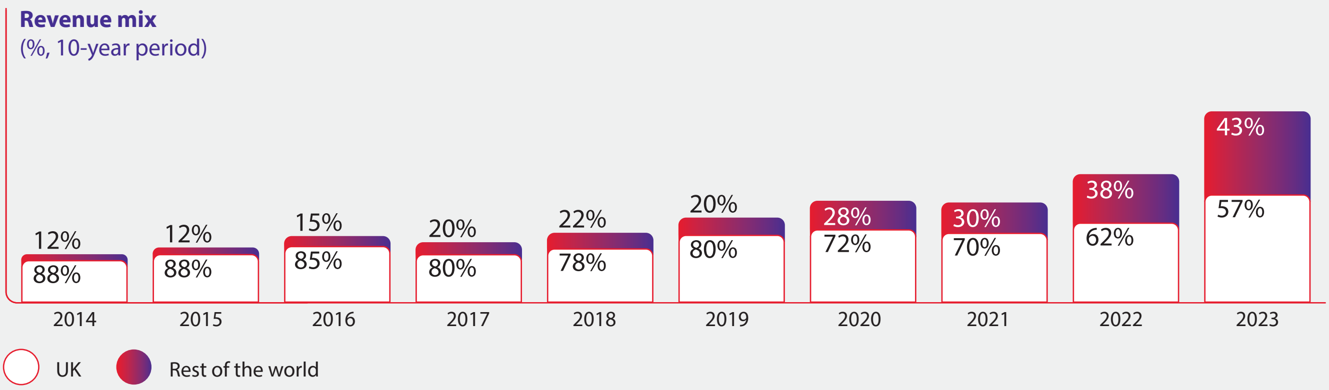
Transport

11% Of total revenue

7% Year on year growth rate

Other markets generate the remaining 17% of revenue, including Communications, Energy, Green Technology and Utilities.

Overall percentage of revenue UK vs Rest of the world



Market trends

Key market	Macro trends	Market drivers	Impact	How we are responding
Industrial	• Smart devices • Connected, wireless systems • Big data	• Industrial automation • Autonomy & robotics • ESG requirements • AI, 5G and IoT • Onshoring • Labour availability • Sustainability	• Machine learning and vision • 5G technology adoption • Smart factories	Systems • Embedded computing and vision systems • Portable and off grid battery power solutions • Products designed to last; meeting sustainability and environmental requirements Components • Wifi, Bluetooth, cellular, mesh and narrow band components and systems • Machine vision components • Sensors • Power and switching devices • Embedded processing devices
Defence & Security	• Unstable Geopolitical environment • Higher threat environment • Increased spending • Expanded NATO	• Evolving cyber threats • Autonomous systems • Integrated secure communications platforms • ESG requirements	• Investment in cyber defence technology • Adoption of green tech • Investment in autonomy • Secure communications • Drone solutions	Systems • Range of mesh communications radios, embedded computing command and control and TEMPEST products • Suite of RF antenna solutions • Portable and off grid battery power solutions for autonomous system Components • Mil grade Power supplies • FPGA semiconductors and portfolio of military grade displays • Mesh networking modules
Transport	• Green transport • Smart transport • Adoption of UAVs[1] AUVs[2] and UGVs[3] • Remote monitoring	• Electrification, • ESG requirements • Autonomy • Smart transport • EV infrastructure	• Next generation smart rail • Enhanced machine vision systems • ANPR adoption • Smart charging • Autonomous transport	Systems • Embedded edge computing systems for ANPR • On and off train embedded computing with low latency image capture and processing Components • EV & charging Power switching • Remote vision cameras • Embedded processing • Communication modules and modems supporting all standards
Medical	• Increasing life expectancy • Growing population • Increasing use of radiation technology (diagnosis & treatment) • Adoption of medical robots • Reducing pressure on the NHS infrastructure	• Sensing • Robotics • Analytics and AI	• Internet of medical things ("IoMT") • Medical Robotics • AI augments healthcare processes • Enhanced data analysis • Rapidly expanding use of wearable technology	Systems • High performance embedded computing for medical data processing • Portable and off grid battery power solutions for medical equipment Components • Portfolio of medical sensors • Portfolio of medical grade optical sensors and detectors • Portfolio of medical grade displays • Certification of manufacturing facility to ISO13485 – medical

1 Unmanned Arial Vehicle
2 Autonomous Underwater Vehicle
3 Unmanned Ground Vehicle

OUR STRATEGY

The Group's growth strategy is based upon a combination of strategic acquisitions to complement its organic growth strategy.

The Group is driving organic growth based on targeting the structural growth markets of security & defence, medical, transport, and industrial where there is significant Government and industry investment to drive the ESG agenda in the technology the group provides and is aligned to our strengths.

The Group has a clear and focused approach to targeting M&A opportunities, aligned with the strategy. We target specific opportunities where M&A provides a lower risk approach to accelerate in our four strategic pillars.

In implementing this strategy, the Group will continue to focus on building on its successful acquisition history and retaining its diverse, customer and sector exposure ensuring Solid State maintains the resilience it has benefited from in recent times.

Our key strategic pillars:

1 Investment and development of talent

The Group continues to invest heavily in the acquisition of new talent and training existing talent, believing that the key to success is having the right people in the right place at the right time with the right skills.

Achievements in 2022/23

- Establishing eTech Developments helped secure additional engineering talent for our Power BU.
- Successfully added significant talent across the business through recruitment and M&A with Custom Power.
- Progressed the recruitment of additional NED.
- Added highly experienced engineers to the business development team in the Components division.
- Enlarged Group HR team to accelerate future talent development.

Mid-term strategic goals for 2030

- Continue long-term succession and talent development pathways.
- Develop partnership with academic partners to secure talent pipeline.
- Scale our Engineering capability to form a dedicated engineering team to service tier 1 primes as the System Provider of choice for through life engineered service and support.
- Add high level brand and product managers to the Durakool® business.

2 Broaden complementary products/technology profile

The Group recognises that its best future customers are often its existing customers. Consequently, the businesses seek to sell more to, and add increased value for, our diverse customer base. Facilitating our customers to innovate through access to our growing portfolio of leading edge products ensures that the Group remains a key partner to its existing and new customers.

Achievements in 2022/23

- Customer specific developments leveraging the increased breadth of technology which has been established in last few years now driving organic revenue growth.
- Organic development of the component portfolio combined with the power switching portfolio from the Willow acquisition.

Mid-term strategic goals for 2030

- Continue to develop our complementary component portfolio.
- Expand the distributed product range.
- Develop our specialist computing capabilities around vision systems, Positioning, Navigation & Timing (PNT) and tempest capabilities to further leverage our engineering expertise.

3 Internationalise the group

The Group recognises that its business remains UK centric. However, recent acquisitions and new business wins have focused on internationalising the Group either through direct business or through the expansion and reorganisation of our overseas businesses to create greater scale and efficiency.

Achievements in 2022/23

- The acquisition of Custom Power establishing a Power capability to service the USA market.
- Commenced the refocusing of, and increased the scale of, the component division's USA sales channel to provide a platform to grow our USA components revenues.

Mid-term strategic goals for 2030

- Add US component franchises.
- Establish an EU components sales channel.
- Investigate high growth opportunities in other overseas markets and position to take advantage of them.
- Establish USA antenna production capability.

4 Develop our "own brand" product portfolio

The Group recognises that controlling its own brands and products increases the opportunity for growth and provides greater control of supply and margins. At the same time this allows the Group to take advantage of well developed sales networks through the Components business and through third party sales companies.

Achievements in 2022/23

- Increased investment in R&D which has accelerated product development such as the "Crib" and communications antenna portfolio.
- Continued investment to develop the Durakool® brand of contactors and relays.

Mid-term strategic goals for 2030

- Develop own brand portfolio of semi custom battery modules.
- Develop our system and programme support/training offerings providing annuity revenues at strong margins.
- Focus the Durakool® product range to meet the needs of the high growth power switching markets.
- Increase the market penetration of the Durakool® product ranges.
- Investigate other own-brand products for our target markets.

OUR STRATEGY IN ACTION

Custom Power

In August 2022, Solid State PLC acquired Custom Power based in Southern California.

The acquisition scales our combined Power operations to circa $40m today, with tremendous growth opportunities. Custom Power is a high-tech manufacturer of complex battery packs meeting the power needs of customers operating in the Aerospace, Defence, Medical and Industrial markets. Established for over 30 years, the business has focused on the design and manufacture of battery and energy solutions where safety, high reliability and performance are critical factors. Size weight and power are key considerations for products that are used in drones (commercial and defence) and other autonomous devices.

Execution of our strategy

Later this year the Enlarged Power Business unit will adopt the Custom Power brand internationally. The Custom Power, and Steatite Power business unit teams have a shared vision and ambition to grow the combined business addressing the unmet power needs of existing and prospective customers on an international scale.

Trends such as autonomy and robotics enabled by AI, onshoring and a politically unstable world are driving demand for innovative battery technologies on land, sea and in the air.

The business will exploit our rich heritage, reputation, international reach, technical skills, and experience to deliver transformational mid-term growth in line with Solid States' ambition. The acquisition of Custom Power aligns with all four pillars of our strategy and will provide the Company with commercial synergies across multiple areas, such as geographical, technology, market, customer & supply.

How Custom Power has been integrated into the Solid State Group

The Integration of Custom Power is going well. Both businesses having consistent business values & principles. Despite the geographic constraints Solid State team has invested considerable time with the Custom Power team. This followed a phased approach that initially was observation, then to engage and join in and then to recommend ways the business can develop and grow. Joint technical and commercial visits have taken place and cross pollination of customers and capabilities are now resulting in exciting opportunities.

As with prior acquisitions the measure of success will be the level of new business resulting from the union with the sum being greater than the parts.

Strategy	Custom Power Alignment
Investment & development of talent	The Custom Power acquisition significantly increased our battery expertise adding 100 employees, which included a very strong engineering team with decades of applied industry experience. Furthermore Custom Power has a strong rep and distribution network across the USA.
Broaden complementary product/technology profile	Custom Power manufactures a range of Battery technologies that complement our existing product portfolio. These include energy dense battery packs for autonomous devices and drone technologies with specific expertise in battery heating, fuel gauges, remote diagnostics and the use of lightweight materials.
Internationalise the Group	The Custom Power brand is established in the USA and therefore allows us to enter the USA high barrier market, particularly in Medical, Industrial & Defence markets. The enlarged Power business is now in a position to service the combined Tier 1 international blue-chip customers base who are looking for a battery technology partner who can support their requirements both sides of the Atlantic from our high-quality UK and US manufacturing facilities.
Develop own brand product portfolio	The acquisition will expand the existing products including the ability to develop in-house Battery Management Systems BMS and modular battery platform products. Furthermore there is future potential to offer a portfolio of higher voltage modular products.

Five key synergies:

1

Geographical
With access to North America and EMEA respectively

2

Technical
With complementary technology and manufacturing capacity

3

Markets
Existing medical and industrial complemented with military, energy, and autonomy

4

Customers
Mutual introductions to new global blue chip clients

5

Supply Chain
Common supplier base allows enhanced scale and strengthened relationships

OUR STRATEGY IN ACTION

Remote Patient Monitoring

Technology has enabled the introduction of remote monitoring of patients in their own homes, bringing a number of significant benefits to both patient and healthcare provider.

Remote monitoring systems can continuously track a patient's physical symptoms or the results of self-care processes at home, using a combination of sensors and telecommunications technology. Results and readings are gathered in a local home hub, which then transmits them securely to a central system where they can be accessed by the healthcare provider. Clinical staff are thus able to give healthcare recommendations based on the resulting data without necessitating a face to face consultation. Such "telehealth" systems can lead to better patient outcomes and higher patient satisfaction, as well as increased efficiencies for healthcare providers.

The Group has helped a key UK customer to develop a home hub for remote patient monitoring. Our product specialists have in-depth knowledge of how to deploy leading-edge technology in real-world applications. Working closely with the customer's engineering team, they were able to analyse the requirements for the monitoring system and advise on component selection which included the core microprocessors and digital control ICs, as well as touchscreen displays for the patient to interact with the hub (the human-machine interface or HMI).

Several different local communications protocols are employed in the system, including USB, Bluetooth and Zigbee, and 4G cellular technology is used to transmit the data back to the central system. As well as guiding the customer through the nuanced pros and cons of each of these protocols, our engineers also advised on the complex choice of wireless antennas for the project.

When off-the-shelf products are not readily available to meet a customer's exact specification, we can provide custom solutions to fit the bill. While supporting the customer's engineering team through the design process, our custom capabilities proved invaluable for this development.

The monitoring hub, designed and built in the UK, incorporates a customised display assembly involving a touchscreen and protective cover glass with screen printing of the customer's logo and various icons. The design and build of bespoke cables were also required to ensure that the hardware was able to fit into the customer's product casing. We were able to accommodate these customisations and tailor the solution to meet these requirements.


The last two years have highlighted the huge value of having two distinct divisions with the Components division supporting delivery in the Systems Division. This has given the Systems Division the opportunity to have exposure to significantly larger projects. It is this diversity that reduces risk and sets us apart in the industry.

CHIEF FINANCIAL OFFICER'S REVIEW

To provide a fuller understanding of the Group's ongoing performance, several adjusted profit measures as supplementary information are included on a consistent basis with that reported by the financial analysts that review our business. As detailed in Note 30, the adjusted measures eliminate the impact of certain non-cash charges and non-recurring items together with the associated tax impact.

Peter James
Chief Financial Officer

Revenues

Group revenues of £126.5m (2022: £85.0m) reflect the benefit of a significant foreign exchange tailwind (circa £9.3m due to the average US dollar rate moving from circa 1.37 in FY22 to 1.20 during FY23) and the revenue from the acquisition of Custom Power in August 2022. As previously reported, post-acquisition the performance of Custom Power has been in-line with management expectations. Organic constant currency revenue growth (calculated by applying the FY22 exchange rate to FY23 legacy Group figures) was approximately 18%.

The Components division achieved revenues of £69.0m (2022: £52.5m) reflecting very strong organic growth. This is an excellent result and reflects the benefits of the hard work over the last 18 months to leverage the increased component portfolio and secure additional design-ins, supported by our ability to source and invest in inventory to fulfil customer demand.

The Systems division reported revenue of £57.5m (2022: £32.5m), with Custom Power contributing £16.6m, meaning like-for-like revenue up £8.4m (25.8%) against a challenging macro-economic backdrop. Supply chain pressures, including component availability, and the requirement for board and system redesigns as a result, have caused some project delays.

Gross profit

Reported gross profit of £39.7m (2022: £27.5m) are up 44.4%, £12.2m year on year. There was an adverse impact of acquisition accounting charges in both years which have been excluded in the adjusted gross profit (see Note 30).

In managing foreign exchange risk, we look to mitigate exposure by quoting in the currency of main supply when possible. The reduction in the gross margin percentage is driven by the dollar exchange rate movement as a result of the Group benefiting from being largely naturally hedged against foreign exchange movements at a gross margin level. In the current year the revenue tail wind results in an estimated margin percentage headwind of circa 2.5%. Excluding the impact of foreign exchange, the underlying margins in both divisions reflect improvements benefiting from the richer sales mix with higher engineering value added sales.

Adjusted gross profit for the year is up £12.1m to £39.8m (2022: £27.7m), albeit because of the currency movements the Group's adjusted gross margin percentage has decreased to 31.4% (2022: 32.6%).

Components contributed adjusted gross profit of £17.5m (2022: £14.0m) and Systems contributed £22.2m (2022: £13.7m).

Sales, general and administration expenses

Reported Sales, general and administration ("SG&A") expenses increased to £30.3m (2022: £23.8m). Within SG&A, there were acquisition related and share based payments charges totalling £2.1m (2022: £3.5m). These items have been added back in reporting our adjusted performance (see Note 30) and are made up as follows:

- £0.3m credit (2022: £1.7m debit) from the Active Silicon earn-out provision true up;
- £0.3m (2022: £0.5m) in relation to acquisition costs;
- £1.6m (2022: £1.0m) amortisation of IFRS3 acquisition intangibles,
- £0.6m (2022: £0.3m) share-based payments charge; and
- £0.1m (2022: £nil) Imputed interest charges.

Adjusted SG&A expenses on an underlying basis increased by £7.8m to £28.1m (2022: £20.3m) reflecting the acquisition of Custom Power (adding approximately £5.5m to overheads in the period), the impact of inflation, and our planned investment to attract new, and retain our existing, talent, as we look to enhance our technical expertise and drive continued growth.

> "Solid State delivered a record financial performance in 2023, positioning the Group for sustained future growth by delivering on our key strategic objectives and maintaining a very strong financial position through leveraging our relationships with shareholders and debt providers."
>
> **Peter James**
> Chief Financial Officer

Operating profit

Adjusted operating margins increased to 9.2% (2022: 8.7%) with adjusted operating profit up to £11.6m (2022: £7.4m) reflecting the £1.4m contribution of Custom Power and stronger margins across the Group. Reported operating profit was up 154% to £9.4m (2022: £3.7m), additionally benefiting from the decrease in acquisition related accounting charges. The adjustments to operating profit are set out in further detail in Note 30.

Based on the R&D criteria, the Group is now a large company in terms of the classifications for UK R&D tax benefits. Under the large company scheme, we have recognised £0.29m (2022: £0.01m) within operating profit in respect of research and development expenditure credit ("RDEC"). These development programmes are a cornerstone of the Group's future high value add revenue streams.

Profit before tax

Adjusted profit before tax was up 50.0% to £10.8m (2022: £7.2m). Reported profit before tax was up 140% to £8.4m (2022: £3.5m). This is reported after adjusting items totalling £2.4m (2022: £3.7m) of which £0.1m (2022: £0.2m) is charged to cost of sales and the balance is within SG&A and interest set out above.

Profit after tax

The Group's underlying effective tax rate for the year is 21% (2022: 14%) compared to the standard rate of 19% (2022: 19%) in the UK.

The effective tax rate has increased primarily because of three factors: increased profits generated in the USA where the effective corporate tax rate is higher at circa 29%, increased profitability, diluting the benefit of R&D tax credits, and the fact the Group no longer qualifies for the more generous SME scheme.

Adjusted profit after tax was up 38.7% to £8.6m (2022: £6.2m). Reported profit after tax was up 168% to £6.7m (2022: £2.5m).

The corporation tax rate in FY23/24 is planned to increase to 25% from 19% which is expected to result in an increase in our effective rate of tax, albeit the increase has been reflected in the recognition of the deferred tax positions on the balance sheet which will unwind in the years ahead.

EPS

Adjusted fully diluted earnings per share for the year ended 31 March 2023 is up 14.3% to 80.7p (2022: 70.6p). Reported fully diluted earnings per share is up 118% to 63.1p (2022: 28.9p).

CHIEF FINANCIAL OFFICER'S REVIEW

CONTINUED

Dividend

The Board is proposing a final dividend of 13.50p (2022: 13.25p) for approval at the Annual General Meeting, giving a full year dividend of 20.00p (2022: 19.50p) as set out in the Chairman's statement on page 13.

Cash flow from operations

Having seen a significant working capital investment of £5.8m in the first half, cash inflow from operations reduced to £0.6m. In the second half we saw £1.5m of the H1 working capital investment unwind, delivering strong cash inflow from operations of £8.8m in H2. This results in a full year cash inflow from operations of £9.4m (2022: £6.0m).

The second half adjusted operating cash conversion percentage (cash generated from operations/adjusted operating profit) was 145% and full year of 81% (2022: 81%). The full year reported operating cash conversion percentage was 100% (2022: 161%).

The full year working capital cash outflow of £4.3m (2022: £2.5m) is driven by a significant increase in inventories of £12.5m, offset in part by an increase in payables of £6.4m and a decrease in receivables of £1.8m.

The increase in inventories and payables reflects a short-term increase in inventory of circa £4.4m in relation to the NATO contract announced in November 2022 which shipped post year end during Q1 23/24.

Post period end inventories have reduced, albeit as a result of our strategic investment in product to support our significant increase in customer orders our inventories remain inflated, but proportionate to the increase in committed orderbook.

Investing activities

During the year, the Group invested £1.1m (2022: £1.1m) in property, plant and equipment, and £1.2m (2022: £0.6m) in software and research & development intangibles. The Group's capital expenditure programme saw significant increase in the Systems R&D investment and an upgrade to our UK Power facility, with the investment in the refurbishment of the office space combined with the wire bonder and improved battery test equipment delivering a step change in the working environment and technology capabilities for the UK Power business unit.

In the Components division, there was continued investment to integrate the Willow businesses including the recognition of a decommissioning asset and an associated provision of £0.4m in relation to the planned decommissioning of the legacy mercury product production equipment. Furthermore, across the Group we have continued our programme to replace older vehicles with hybrid and electric models.

There are capital commitments of £0.2m (2022: £0.3m) at the balance sheet date, primarily relating to planned upgrades to existing IT systems and properties.

During the period, payments in respect of the acquisitions of Custom Power totalled £28.7m, and Active Silicon and Willow totalled £4.6m (2022: £2.6m). Furthermore, at year end we have released £0.3m of the Active Silicon deferred contingent consideration as a credit to profit and loss. A reconciliation of deferred contingent considerations of £5.7m (2022: £6.6m) is included in Note 21.

Financing activities

The Group has entered or extended leases during the period which has resulted in the recognition of £0.1m of additional right of use assets (excluding those acquired with Custom Power) with a corresponding right of use liability, in accordance with IFRS16. Cash payments were made in the period in respect of lease liabilities of £1.1m (2022: £0.9m).

The financing activities reflect loans drawn down of £15.9m, which includes the draw down of £13.0m of term loans and £2.9m of the revolving credit facility (RCF), offset by loan repayments of £2.8m which includes the first two quarterly repayments on the term loan of £0.65m.

Solid State continues to have a strong relationship with Lloyds Bank. Lloyds has authorised a $10m additional working capital short-term overdraft subsequent to year end ensuring the Group has facility headroom should there be any working capital delays arising from the NATO contracts previously announced. Furthermore, Lloyds have extended the term of the £7.5m (2022: £7.5m) Revolving Credit Facility ("RCF") which is now committed until 30 November 2024. At 31 March 2023 £2.4m of the RCF was drawn (2022: £1.5m).

The Group paid out £2.2m (2022: £1.5m) in respect of dividends and £0.2m (2022: £0.1m) for purchase of own shares.

Statement of financial position

During the year, the Group has continued to strengthen its balance sheet position. The Group's net assets have increased to £58.0m (2022: £27.1m), primarily reflecting the £27.0m equity raised for the Custom Power acquisition, £6.6m income for the year, less £0.9m foreign exchange and £2.2m dividends paid.

As a result of the unprecedented supply chain challenges combined with the acquisition of Custom Power and the short-term inventory built to fulfil the Q1 demand (in part arising from the NATO contract) the Group inventory has increased to £33.2m (2022: £17.6m).

As previously reported, the Group continues to pay suppliers on a proforma basis where required to secure inventory in short supply, however the strength of customer and supplier relationships has helped us to manage the cash challenges of the working capital investment effectively.

We have worked in partnership with customers who have, in many cases, made payments in advance to secure supply. The investment to secure product continues to be critical to manage the shortages ensuring product is available to fulfil customer demand. This approach has given us a competitive advantage, strengthened customer relationships and helped to secured growth.

Excluding deferred contingent considerations and IFRS16 lease obligations, the Group had a net debt position with banks of £2.4m at the year-end (2022: net cash £1.4m) having paid £33.5m of consideration for the acquisitions of Custom Power, Active Silicon and Willow. At 31 March 2023, the discounted fair value of the Group's deferred consideration liabilities are £5.7m, with circa £0.1m of discounting imputed interest to be charged to the P&L ahead of payment.

The deferred consideration payable in August 23 in relation to the acquisition of Custom Power is $5.0m for which the Group has cash on deposit. The Group will utilise cash and the RCF facility to fund the final £1.7m deferred consideration payment for Active Silicon which is expected to be paid during Q2 23/24.

Peter James
Chief Financial Officer

4 July 2023

KEY PERFORMANCE INDICATORS

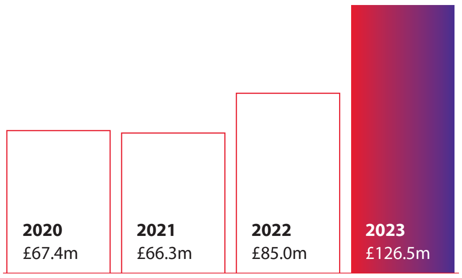
The following key performance indicators are used by the Group to monitor performance, working capital and forward prospects.

Revenue (million)

£126.5m

Definition
Revenue is measured as the value, net of sales taxes, of goods sold and services provided to customers.

Reason for choice
This is a key driver for the business, enabling us to track our progress in driving growth.

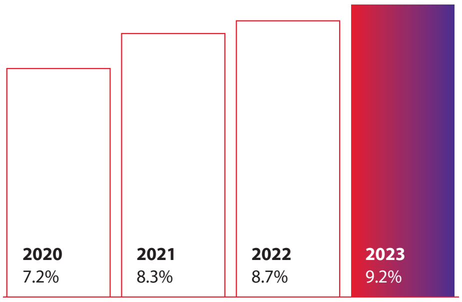


Adjusted operating profit (%)

9.2%

Definition
Earnings before interest, tax, amortisation of acquired intangibles, acquisition costs and other adjustments for one-off non-recurring items divided by revenue.

Reason for choice
Adjusted operating profit margin provides a consistent year-on-year measure of the trading performance of the Group's operations to enhance the quality of the earnings.

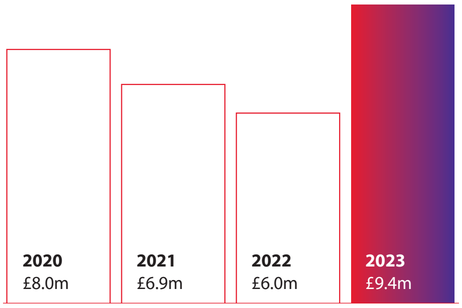


Underlying cash flow from operations (million)

£9.4m

Definition
Cash flow for operating activities excluding investing and financing activities.

Reason for choice
This provides a measure of the cash generated by the Group's trading and provides visibility of the cash impact of the working capital investment decisions. It represents the cash that is generated to fund capital expenditure, interest payments, tax and dividends.



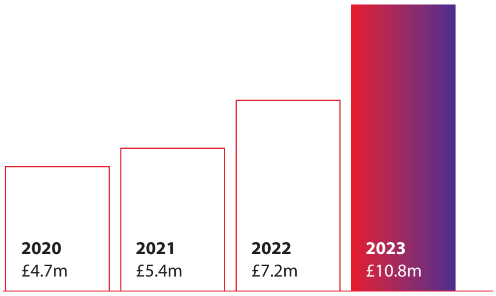
Alternative/Adjusted Performance Measures ("APMs"), including 'adjusted' and 'underlying', are applied consistently throughout the 2023 Annual Report and Accounts. APMs are defined and reconciled in Note 30 to the reported GAAP measures, and also include a narrative disclosure of the basis of recognition of the APMs and the impact of the differences compared to the statutory measures.

Adjusted profit before tax (million)

£10.8m

Definition
Profit before taxation, amortisation of acquired intangibles, acquisition related costs and charges, share based payments and other adjustments for one-off non-recurring items.

Reason for choice
This measure is the critical metric that the operational management control and influence delivering profit to drive the total return achieved for shareholders.

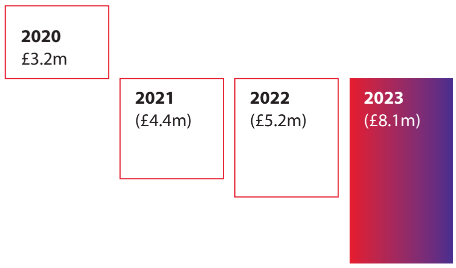


Net debt (million)

£8.1m

Definition
Cash less borrowings less deferred and contingent consideration obligations excluding rights of use lease obligations.

Reason for choice
The Group has financial covenants agreed with its lenders that are based on this definition of net debt, making it a KPI monitored to ensure compliance. Furthermore, net debt is used to monitor the Group's leverage position and ensure the Group maintains an appropriate capital structure.

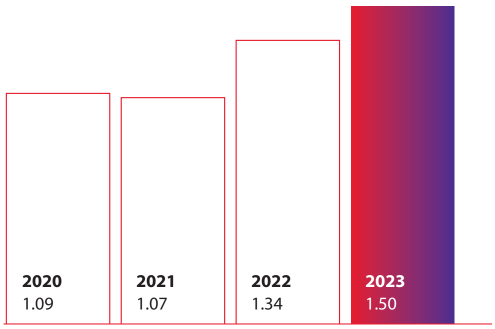


Book to Bill (rolling 12M)

1.5

Definition
Last Twelve Months ("LTM") order intake divided by LTM Revenue.

Reason for choice
Monitoring the book to bill ratio provides a metric to monitor growth in the open orderbook and therefore the prospects for sustainable growth. While the LTM basis does eliminate some of the short-term month to month volatility it should not be monitored in isolation from the absolute revenue and open orderbook as variations in bookings and billings will impact the ratio.

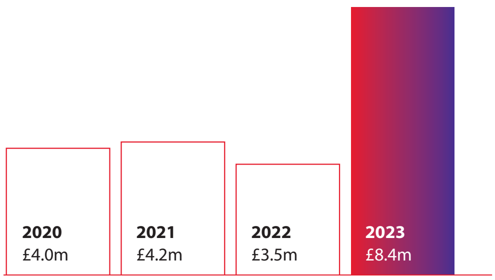


Reported profit before tax (million)

£8.4m

Definition
Profit before taxation.

Reason for choice
This measure is the critical statutory metric that the operational management control and influence delivering profit to drive the total return achieved for shareholders.



STAKEHOLDER ENGAGEMENT

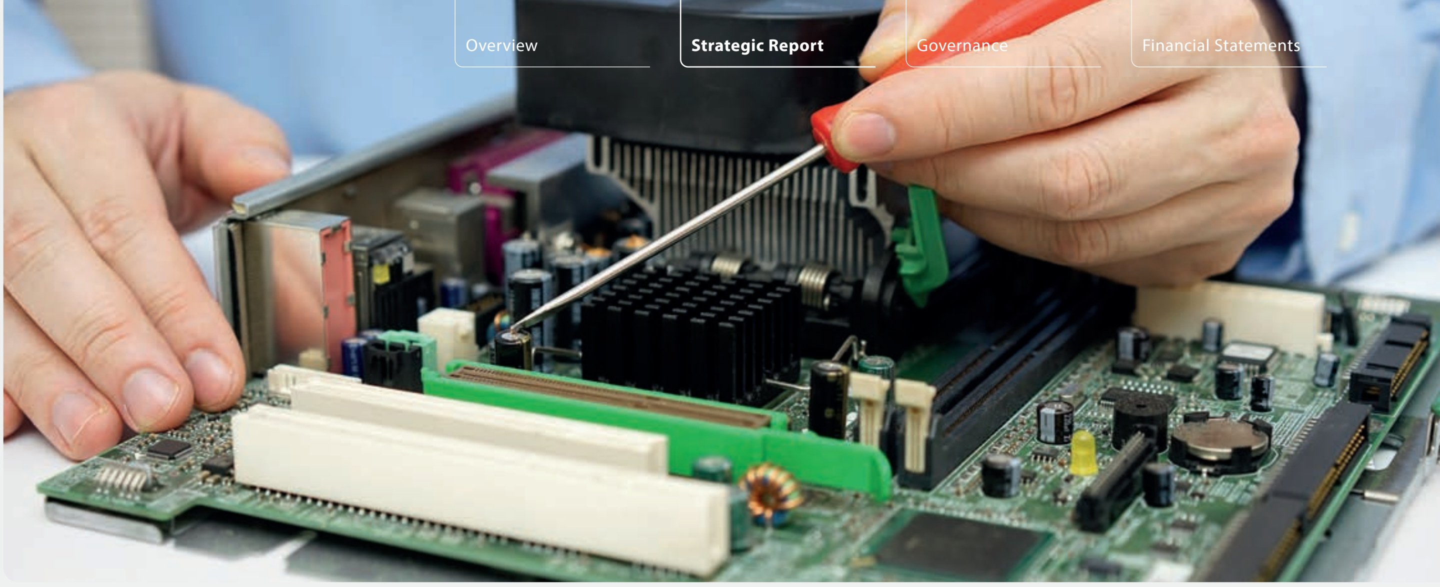
Section 172 Statement

The following disclosure describes how the Directors have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the factors set out in section 172(1).

When performing their duties under section 172 of the Companies Act, they have considered the long-term consequences of decisions, matters affecting the Company's employees and other stakeholder relationships, and the need to act fairly between members of the Company.

The Board has identified its key stakeholders to be its employees, investors, customers, partners, suppliers and our community.

Overview	Stakeholder focus	How we engage	FY23 decisions that impacted our Stakeholders
Investors & Shareholders			
The Board decisions are aligned to delivering on commitments and providing long-term shareholder value. The Group seeks to promote an investor base that is committed to a longer-term holding in the Company while supporting optimising shorter-term liquidity.	• Our ambition and strategy • Financial performance • Governance • Culture and ethics • ESG commitments and practices	The Board is committed to communicating with our investor & Shareholders on a timely and regular manner. We do this through: • Annual and half year accounts • Press releases and Stock Exchange announcements • AGM for shareholders • Company website incl videos & presentations • Investor roadshows and Investor Meet Company platform investor presentations • Investor open days/site visits • Regular meetings with corporate brokers, major shareholders, analysts and lenders	• Approval and communication on the recruitment plan for an additional Non executive Director in the UK • Initial approval on the Acquisition of Custom Power and regular update on key milestones and performance • Formation of an ESG Committee and overview on key metrics • Communicating financial results and performance
Employees			
Our people are critical to our business. The Group's success is built upon retaining the knowledgeable and skilled workforce who are committed to the Group and the delivery of the strategy. The Board is proud of the "Solid State family" culture, which is inclusive, friendly and supportive of all members of the team.	• Diversity & inclusion • Retention, training and progression • Safety & wellbeing • Recognition and reward • ESG commitments and practices	We engage with our employees through: • leadership events and Q&A sessions with members of the executive leadership and line managers • Employee inductions, feedback and surveys • Employee training and policies • Ongoing employee workplace safety and practice reviews • Provide resources to support employee wellbeing.	• Board changes with the announcement of the planned recruitment of an additional non executive Director in the UK • Acquisition of Custom Power,the integration, performance and changes to Group reporting • Formation of an ESG Committee with employee feedback provided • Communicating financial results and performance • Options awarded to employees under the AESP share plan



Overview	Stakeholder focus	How we engage	FY23 decisions that impacted our Stakeholders
Customers & Industrial Partners			
Our technical knowledge and collaborative approach with customers and industrial partners allows us to provide a tailored solution. The Group aims to understand, design-in, supply and manufacture to the highest quality, ensuring we meet the customer specific requirements.	• Technology partner providing product/component innovation and development • High quality, safe products and systems delivering value • Delivering on programme management, meeting supply requirements and contract service and support • Value added relationships with our direct and reseller sales network • ESG commitments and practices • Maintaining the highest levels of customer satisfaction	Our commercial engagement is built upon: • Customer engagement providing a technology partner relationship for customers • Proactive in design our current solutions out to deliver technology innovation and performance adding value to our customers • Exhibitions and roadshows to showcase our products • Actively engaging with and receiving customer feedback	• Building relationships with new and existing customers and industrial partners associated with Custom Power and communicating the acquisition • Formation of an ESG Committee and working together in delivering our ESG strategy • Supply Chain issues regarding component shortage and communicating timeline of deliveries
Suppliers			
The Group's extensive supply chain relationships with component manufacturers and technology partners are critical to ensuring that the Group can meet the customers' technical requirements for their specific application.	• Managing supply chain expectations • Insight on market demand • Feedback on quality and reliability • Engaged value added working relationship • Fair commercial terms and payment for products and services • ESG commitments and practices	Long-term supplier partnerships are established through: • New supplier due diligence and provision of Group policies • Continuous and open communication between our team and the suppliers • Regularly engaging with Group's suppliers on key issues and visibility of demand • Engagement on quality, performance, price and how to improve the supply chain relationship	• Supply Chain issues regarding component shortage
Community			
Solid State PLC continually works with and for the communities in which we operate, recognising our role as a local employer.	• Positive influence on local communities • ESG commitments and practices • Engagement to enhance the partnership	Our community relationships are underpinned by: • Community outreach and engagement aligned with the groups values • Internal ESG committee established • Local community sponsorship and charitable events • See further details in the ESG section page 40	• Formation of an ESG Committee • Continued involvement in activities within the community. See the ESG section for further details

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

Section 172 Statement

The Solid State Board is committed to creating a long-term sustainable business. Our focus on ESG is a core part of our strategy and is integrated in all areas of our business. The Group is focused on ensuring we operate in an ethically, socially, and environmentally responsible way "Doing the right things the right way".

The introduction of our ESG committee ensures we continue to make progress in improving our sustainability and challenging ourselves in making timely changes that benefit all stakeholders.

The Board have a clear focus on making a positive impact with our stakeholders on all three areas of ESG.

Environmental

- Reduce consumption, reduce waste
- Improving sustainability of products and solutions for our customers
- Improving sustainability of sourcing from suppliers

Social

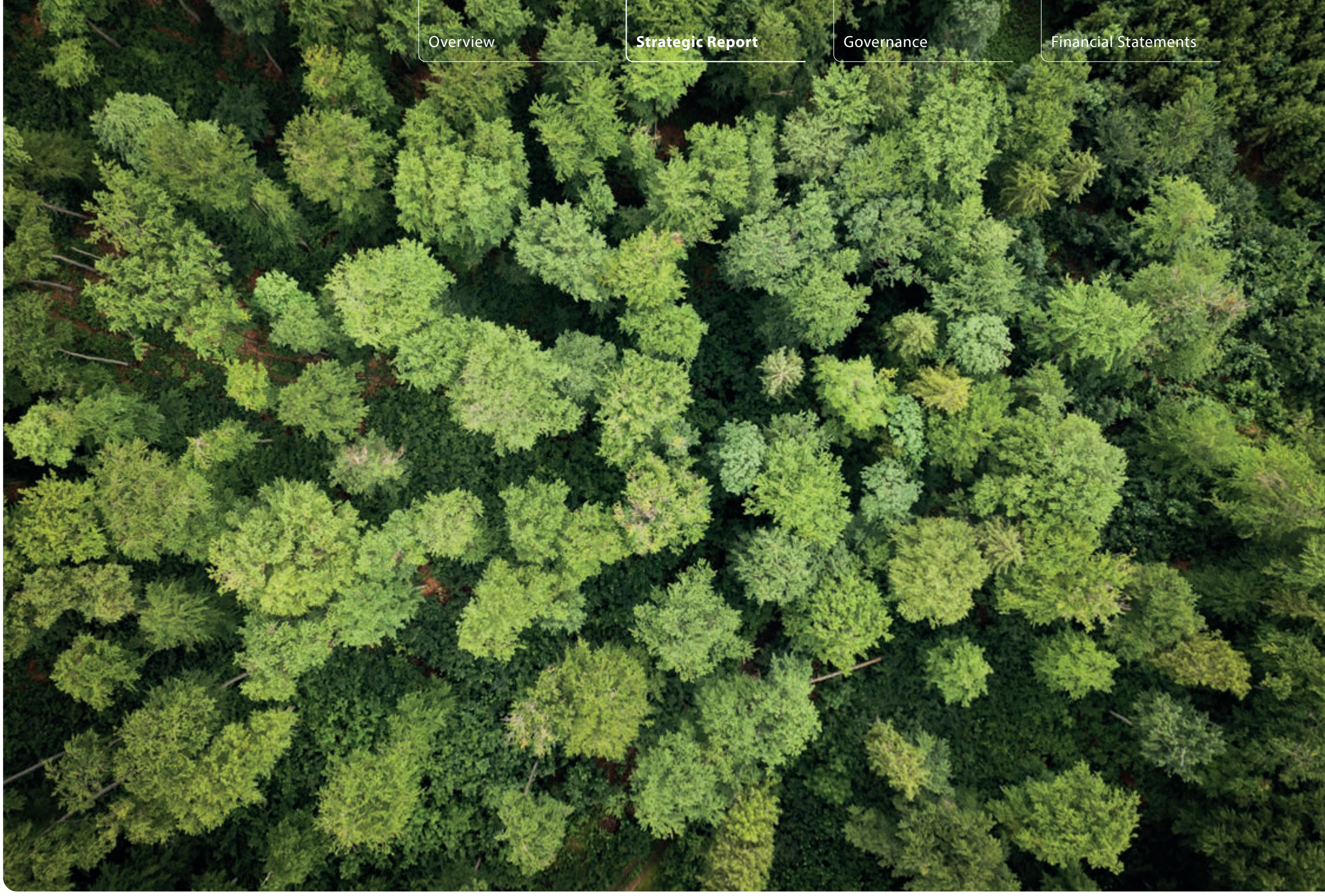
- Health, Safety & Wellbeing of our people
- Promoting equality, diversity and inclusion
- Supporting our communities and STEM outreach
- Engaging our People. promoting Learning & development

Governance

- Corporate governance framework
- Code of conduct including Anti-Bribery and corruption
- Business ethics and integrity

We have aligned our ESG goals with the United Nations Sustainable Development Goals. These being:

UNSDG	Link to Solid State PLC	Relevance to Solid State PLC	Progress so far
1 NO POVERTY	Supporting local communities	The Group continually works with and for the communities in which we operate, recognising our role as a local employer.	The business supports local foodbanks with the aim to reduce food poverty in our communities and we sponsor a room at the local YMCA all year round. From sponsoring grass roots community sports teams and charitable events, to our incredible employees who choose to raise money for many great causes. We are in the process of formalising our support for our employees to take time off to support local charities and community engagement.
3 GOOD HEALTH AND WELL-BEING	Health & Safety	The Board continue to actively promote a safety-first culture. We track accidents and incidents and have a global target to reduce our incident rate to zero.	The health and wellbeing of our employees is critical to us and throughout the year we provided training and share resources on how to look after their mental and physical wellbeing. This includes access to a wellbeing at work support programme for employees and their families. All employees are encouraged to take an active role in ensuring that our working environment is a welcoming, inclusive and safe place to work and visit by actively reporting all safety observations and incidents, being involved in safety audits, risk assessments and regular awareness training sessions.
5 GENDER EQUALITY	Our People	We are committed to maintaining a high level of employee engagement across all sites and providing an environment of equality where all employees can fulfil their potential.	The Board is proud of the "Solid State family" culture which is welcoming, friendly and supportive of all members of the team. We provide formal and informal training as part our internal "on the job" training as well as externally provided courses and training to promote progression. We have established a working Group with the aim to motivate, empower and support all employees. Focus on reviewing and updating the appropriate policies within the businesses such as flexible working, promoting equality and diversity and equal pay.



UNSDG	Link to Solid State PLC	Relevance to Solid State PLC	Progress so far
8 DECENT WORK AND ECONOMIC GROWTH	Economic growth	The Group's strategy continues to focus on economic growth for all our stakeholders through acquisition and organic growth.	The Group has been successful in achieving our five-year strategic goals providing our shareholders with total shareholder return in excess of 20%. Our acquisitions and organic growth have allowed us to increase our headcount to over 400 and drive improved margins and increased added value contribution for all our stakeholders. Our Growth provides employees with opportunities to develop and progress in their roles as well as recruiting new talent into the team.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Sustainable Innovative products	The Board are committed to providing our customers with sustainable products and encourage sustainable innovation during the design process of our products.	The nature of our products, systems and solutions mean we are starting from a strong position based on our technology, products and systems being designed and engineered to be high quality, often upgradable with long life to meet demanding customer requirements. By seeking to differentiate our premium products and systems based on quality performance and sustainability we aim to ensure we deliver secondary benefits for our customers as our products and technology strives to be more sustainable than incumbent technology solutions.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Sustainable sourcing and products	The Group's environmental objectives are to reduce consumption and to reduce waste.	The products we supply, and manufacture are typically long life, high performance, high quality premium products. We do not do typically operate in consumer or commodity markets as a result we design in products which are typically designed to deliver value through reduced consumption or reduced waste for our customers.
13 CLIMATE ACTION	Climate Change	Solid State PLC is committed to achieving net zero by 2050 in scope 1 & 2.	We are a relatively energy light business, and the focus on scope 1 and 2 reduction for 2050 is to further reduce our energy consumption, focusing on reduction of C emissions from the use of gas. None of the group's waste goes to landfill, and our management of waste is compliant with WBAR 2009 and the WEEE Directive. The company is moving to low carbon Hybrid or electric cars, and we will increase our use of sea freight in preference to air freight.

Environmental

Overview

Solid State PLC is committed in supporting the global journey in addressing climate change and we are pledging to mitigate our own impact on the environment. We recognise we have a responsibility in protecting our planet by reducing our environmental footprint and protecting the community in which we operate.

Solid State PLC's Emission Plan

Our Strategy	**Reduce Consumption & Reduce Waste**	
Scope	Scope 1 & Scope 2	Scope 3 – indirect emissions with our value chain
How it impacts Solid State PLC	Direct greenhouse ("GHG") emissions occur from sources that are controlled or owned by Solid State PLC. Indirect GHG emissions associated with the purchase of electricity, steam, heat & cooling.	All the emissions associated, but not wholly owned by the company itself, but that the organisation has a shared responsibility for, up and down its value chain.
Our targets	The UK and US Governments have committed to the respective grids being green by 2035. Providing the UK and US governments meet their commitments our strategy will result in our scope 1 and 2 emissions being eliminated by 2050.	Solid State is committed to working with its supply chain partners to ensure they are able to achieve net zero in scope 1&2 by 2050 which will eliminate our scope 3 emissions.

How we will achieve our strategy	**Near term**
	• Minimise CO_2e from electricity use by:
	  • switching electrical equipment off when there is no business benefit to leaving it on,
	  • Considering the environmental impact of new electrical equipment unless there are other compelling business reasons not to do so.
	• Minimise CO_2e from gas use by ensuring that the temperature in our workplaces is adequate but not excessive, and any warm-up times are reasonable.
	• Minimise CO_2e from use of company vehicles by:
	  • Reducing average CO_2e emissions of the fleet,
	  • Reducing the amount of company miles travelled by considering other alternatives to travel where feasible.
	• We will continuously challenge the status quo and look for other opportunities to reduce wasted energy.
	
	Medium Term
	• All new company vehicles will be battery powered unless operational constraints make this unworkable.
	• If there is no low carbon alternative for gas for heating by 2040, we will change to electric heating in all Business Units.
		Near Term
		• Freighting goods is one of our largest emissions. Solid State PLC is committed to minimising CO_2e from air freight by working with our customers to move from air freight to sea freight when possible.
		• Applying Waste Hierarchy to reduce waste.
		• We are reviewing the green credentials of our website hosting platforms and any external data storage providers we use, to ensure our carbon footprint in these areas is minimal. We are evaluating and adopting smart practices such as more efficient data archiving and more stringent information housekeeping to reduce the amount of data we store.
		
		Long Term
		• Freighting goods is currently predicted to be one of our largest emissions. Although leading freight carriers, such as DHL, are making great strides in decarbonising their processes e.g., battery vehicles, cleaner fuel for aircraft, etc., there is still great uncertainty in this area. There is currently no clear path to net zero by 2050 although as new technologies and cleaner fuels emerge this may change.
		• Our plan is to diversify our supply chain to open up new opportunities and work with all our partners to reduce carbon. We will continue to keep an open mind and review new options including the use of carbon offsets as they arise to meet our commitment to net zero by 2050.
		• We currently have a relatively small footprint for business miles in private vehicles.
		• Waste processing currently amounts for a very small proportion of our overall emissions. We will diversify our supply chain to open up new possibilities and work with all our partners to reduce the amount of waste in our supply chain.
		• The vast majority of our employees currently commute by car. By 2050 only cars older than 20 years will still be non-electric. Where this is the case, we will consider taking actions to encourage the change to electric vehicles and share the responsibility with the employees concerned including the use of carbon offsets to meet our commitment to net zero by 2050.

Challenges		Achieving net zero from freighting goods looks likely to be one of our biggest challenges. Bringing in all the carbon information to fully understand our carbon footprint is challenging but we are currently making good progress on capturing data from work from home, business miles in private vehicles and freighting goods.

Scope 1 & Scope 2 emissions

As a company quoted on AIM and subject to the reporting requirements for large companies under the Companies Act 2006 the Group is required to report its Scope 1 and Scope 2 CO_2e. The table below presents our Scope 1 and Scope 2 emissions and intensity metric.

Emissions for the Group are calculated using methodologies consistent with the Greenhouse Gas ("GHG") Protocol: A Corporate Accounting and Reporting Standard.

Data has been collected for the following CO_2 emission sources: electricity consumption; gas consumption; water consumption; company owned vehicles and waste processing. In collating this data, we have utilised the 2022 conversion factors (2022: 2020 conversion factors) to obtain a figure for the CO_2 consumption of the Group compared to the baseline reported.

Added value is used as the intensity ratio (CO_2e / £1M added value). The Group defined "added value" as the "gross margin" as it is believed that this best represents business output.

	FY20		FY21		FY22[1]		FY23[2]	
	UK and offshore	Global (excl. UK and offshore	UK and offshore	Global (excl. UK and offshore	UK and offshore	Global (excl. UK and offshore	UK and offshore	Global (excl. UK and offshore
Total Scope 1 emissions (tCO_2e)	284.03	0.00	116.20	0.00	128.69	71.52	**111.27**	**61.02**
Total Scope 2 emissions (tCO_2e)	139.79	6.26	101.47	2.86	128.01	130.32	**111.17**	**109.76**
Total Scope 1 and 2 emissions (tCO_2e)	423.83	6.26	217.67	2.86	256.70	201.84	**222.44**	**170.78**
Energy consumption (kWh) resulting in the above reported emissions[3]	1,843,758	24,505	1,015,162	12,266	1,332,277	999,865	**1,245,752**	**1,132,338**
Intensity ratio (tCO_2e per £m of Added Value)	20.9		11.4		16.8		**11.2**	

1 Includes Active Silicon, Willow and AEC

2 Includes Active Silicon, Willow, AEC and Custom Power

Environmental strategic highlights

We are pleased to report a reduction in our Scope 1 and Scope 2 emissions, equating to a 48% reduction from our base year for UK and offshore. The progress to our environmental strategy includes minimising CO_2e from:

- Electricity use by switching electrical equipment off when there is no business benefit to leaving it on.
- Gas use by continuing to focus on our mid-term investment to convert gas heating solution to electric heating solutions aligned with the government's commitment to the grid being green by 2035.
- Airfreight by working with our customers to move from airfreight to sea freight where lead-times / other operational constraints allow or purchase closer to the business unit where possible.
- Use of company vehicles by reducing Average CO_2e emissions of the fleet, and minimising company miles travelled by considering other alternatives to travel where appropriate. Additionally, the % of our fleet that are hybrid or electric cars has increased to 75% in FY23 compared to the 33% in our base year.

Our overall baseline intensity ratio has continued to decrease from 20.9 Tonnes in our base year to 11.2 Tonnes in FY23. This is a positive step particularly as we have included our recent acquisition of Custom Power. We continue to evaluate how we best approach capturing the data from our scope 3 emissions. This is an important step in continuing to deliver on reducing the Group's carbon footprint and working towards achieving our net zero target.

Social

The Group's success depends on its people. The Group recognises the important role its employees play, and that effective teamwork is critical to achieving its corporate goals.

The Group is committed to making Solid State a "great place to work" where the teams' actions and behaviours demonstrate this commitment each and every day. This is aimed at providing an environment of teamwork and collaborative respect, where the staff are all valued for their contribution, and everyone is proud to be part of "the Solid State team"

Employee engagement

We are committed to maintaining a high level of employee engagement across all sites and providing an environment where all employees can fulfil their potential. The Group regularly hosts leadership events with members of the Executive Board to allow the employees to voice their opinions and provides the Board with the opportunity to give updates on the business.

Our employee surveys provide employees with a further opportunity to provide feedback and suggest improvements on aspects such as leadership communication, wellbeing topics, team culture and work environment.

In supporting our employees, a one–off energy bonus was paid and an interim pay increase was rewarded in FY23.

Diversity & Inclusion

The Group is committed to maintaining and building an organisation that promotes diversity and inclusion in all areas of the business.

We are proud of what we have achieved so far in improving diversity in our organisation albeit we recognise there are opportunities to continue to improve and progress. The recruitment of electronics talent remains challenging with the talent pool being limited and not yet well diversified. As a Group we have made progress in increasing the diversity of our workforce in recent years, which has been underpinned by our family culture which is inclusive and understanding that work life balance is a critical motivating factor.

We are establishing a working Group with the aim to motivate, empower and support all employees, particularly those who may feel that they are in a minority, to understand themselves and their aims and how we might develop our organisation they might help us collectively ensure we achieve our goals of everyone feeling welcome and belonging.

Health, wellbeing & safety

The health and wellbeing of our employees is important to us and throughout the year we share resources with them on how to look after their mental and physical wellbeing. An example of the resources available include:

- Access to Westfield Health for our employees and their families.
- A fully funded Employee Assistant Program is available to help employees with financial, legal and/or mental health challenges.
- Access to a high street discount platform giving the opportunity to make savings on their daily purchases.

We continue to actively promote a safety-first culture. We have mandatory training and policies in place for all employees on workplace safety and practices. We track accidents and incidents on a monthly basis and have a global target to reduce our incident rate to zero, against which we are making progress.

Local community engagement

We recognise we have an important role within the communities in which we operate in and therefore we actively encourage all our employees to participate in supporting our community. Our employees are given time off to support local charities, sponsor local support teams and they engage in an annual charity walk. Throughout the business we support local foodbanks with the aim to reduce food poverty and we sponsor a room at the local YMCA all year round.

Governance

The Board of Directors are committed to conducting business activities in an honest and ethical manner and seek to act professionally, fairly and with integrity with all our stakeholders. We actively promote a culture where all employees have the confidence to speak up and raise concerns or suggestions on how we can improve in the way we conduct our business activities.

The business follows the guidelines of the QCA Corporate Governance and further information on how we adopt this code can be found on page 54.

Code of business conduct

We work with our partners to adopt best business practices, and we have a range of policies in place that we require our employees and other stakeholders to adhere to. These can be found in further detail on our website and include the following:

Anti-bribery and corruption Act

The Group implements and enforces effective systems to uphold a zero tolerance approach to bribery and corruption. We continually review our policy to ensure that it is compliant with regulatory requirements and communicate any changes to our employees. To ensure all our stakeholders principles of anti-bribery & corruption are consistent with the Groups, all agents and third parties who act on behalf of the Group are obliged by written agreement to comply with standards set out in the Group's Anti-corruption & Bribery Policy.

In our dealings with customers

The business is committed to being open and honest about our products and services by communicating with customers all appropriate information they need to ensure we consistently meet their expectations. We ensure that any issues or problems are dealt with efficiently and in a timely and fair manner. We actively seek feedback to benchmark and evaluate what we do in order to help us deliver continuous improvement in our products and services to maintain our value.

Human rights and modern slavery

Solid State PLC is committed to respecting the human rights of all those working with or for us. We do not accept any form of child or forced labour and we will not do business with anyone who fails to uphold these standards.

The Group has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all its business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in its business or in any of its supply chains.

Confidentiality

The Group's policies emphasise the need for confidentiality to be maintained in all our business activities. Maintaining confidentiality is a critical part of our culture. Our policy and practices help to ensure that all staff understand what constitutes confidential information and restricts internal access based on a "need to know basis". Information relating to third parties is not disclosed without the third parties' written consent. Where the Group conducts work for customers, including government agencies, where specific confidentiality requirements exist such as The Official Secrets Act, process and procedures are in place to ensure the Group complies with these requirements.

In our dealings with suppliers

Our suppliers are a critical element of our company, and we are committed to ensuring that the suppliers we work with operate with the same ethical business standards as we do. We ensure to communicate our supplier code of conduct with our existing and new suppliers and regularly review our policy to ensure we are operating at best practise.

PRINCIPAL RISKS & UNCERTAINTIES

The Group has a process for the identification and management of risk as part of the governance structure operated by the Board. Management of risk is the responsibility of the Board of Directors. In managing and mitigating risk, a comprehensive and robust system of controls and risk management processes has been developed and implemented by the Board.

The Board's role in risk management includes:

- promoting a culture that emphasises integrity at all levels in the business;
- embedding risk management within the core processes of the business;
- setting the appetite for risk;
- determining the principal risks;
- ensuring that these are communicated effectively to the businesses; and,
- setting the overall policies for risk management and control.

The principal risks affecting the Group are identified by the Group Executive team within their functional areas of responsibility and are reviewed by the Board.

In identifying the business risks below, the Group analyses risks across four key areas:

- strategic risk;
- commercial risk;
- operational risk; and,
- financial risk.

The assessment of the potential impact is the pre-mitigation assessment and the year on year change reflects the change in likelihood of the risk having a significant impact on the business.

Business risk	Mitigation and Strategy	Year on year change in likelihood:
Acquisition risk (Strategic risk)		
• Loss of key customers. • Loss of key employees. • Loss of key suppliers. • Erosion of Intellectual property base. • Failure to identify and complete profitable acquisitions. • Failure to mitigate FX risk arising due to international acquisitions. • Failure to integrate management reporting structures and control disciplines.	During August 2022 the Group completed the acquisition of Custom Power LLC. In managing acquisitions, the following processes are adopted: • Rigorous due diligence to ensure that acquisitions can be effectively integrated, and all the relevant stakeholders are engaged, supportive and aligned. • Pro-active and early engagement with: – key customers and suppliers; and, – employees through the on-site presence of Solid State PLC management. • Preparation and execution of a cross functional integration plan. • Continued investment in development of technology in the acquired businesses. • Integration into existing internal control frameworks, processes and reporting systems.	> **Effect:** Integration of acquired business is not effective
Legislative environment and compliance (Strategic risk)		
• Increased complexity in the international legislative and trading environment in which the Group operates post Brexit. • Overseas competitors are favoured in their domestic markets. • Failure to comply with applicable legislation, to include but not limited to: – Export Control and International Traffic in Arms Regulations ("ITAR"); – Bribery Act; – General Data Protection Regulation ("GDPR"); and – Employment legislation and company legislation.	• International trade Post Brexit has seen increase in the administrative burden. As the Group's international exposure is increasing as it delivers on the strategy the Group continues to consider establishing a mainland EU operation to support the Group's international growth ambitions. The Board believes that the Group's size and diversified structure gives it resilience and the resources to meet the administrative burden. • Regular reporting of export/ITAR compliance, and detailed internal control processes and procedures. • Continuing education of the Group's employees on the legislative developments and requirements. • Internal reviews and external audits. • Adopt suitable software systems where appropriate to aid export control procedures and assist with other compliance issues. • The individual operating companies maintain operating procedures and are certified to internationally recognised standards, e.g. ISO 9001–2015, AS9100, AS9120, SC21.	V **Effect:** Trading may be disrupted/restricted, reduced sales volumes and profitability.

Key:

Risk change:	Potential Impact:
/\ Increase	High
\/ Decrease	Medium
> No change	Low

Business risk	Mitigation and Strategy	Year on year change in likelihood:
Competition risk (Commercial risk)		
• Loss of distribution supplier franchise agreement would result in significant loss of product lines and customers. • Loss of a major contract/customer or business to a competitor. Price/margin erosion due to predatory pricing from a competitor.	• Setting a commercial strategy to gain share by: – Focusing on quality, value and customer service; – Develop and maintain close relationships with suppliers and customers to become the "partner of choice", by forming multi-level partnerships; – As a trusted partner providing product solutions from design, to pilot & volume production; and, – Winning additional business from existing customers and capturing new customers and revenue streams. • Continue to invest in product development to ensure competitive advantage. Continued investment in the recruitment of high quality personnel.	> (High) **Effect:** Loss of market share, reduced sales volumes and profitability
Product / Technology change (Commercial risk)		
• Failure to maintain the Group's leading technical capabilities and knowledge which allows us to develop electronic solutions in partnership with the Group's customers. • Failure to manufacture solutions that meet the agreed specification. Failure of key distribution franchises to innovate and introduce new products.	• Continued investment in the technical training and development of sales, engineering and operations staff, building their capabilities. • Investment in joint R&D programmes with partners to ensure the Group is at the forefront of technical electronic solutions. • Maintain rigorous quality and engineering control processes to ensure that the Group's products meet the required specifications. • Perform all necessary detailed product testing to ensure that products are fit for purpose. Continuously seek new franchises, suppliers and partners at the forefront of electronics technology.	> (Medium) **Effect:** Sales volumes and profitability
Supply chain interruption and cost inflation (Operational risk)		
• The ongoing electronics supply chain challenges. • Dependency on significant suppliers or dependency on a qualified supplier within a controlled supply chain. • Risk demand falling due to customer de–stocking as a consequence of reducing inventories, over ordering, inability to obtain other necessary components and subsequent cancellation or rescheduling. • Risk of suppliers increasing component costs as a prerequisite to delivery placing margins at risk.	• Active programme to maintain cross qualified second sources of supply. • Rigorous supplier quality management processes. • Maintain close relationships with key suppliers to be aware of potential supply issues. • Place scheduled orders and hold buffer stock to minimise the effects of extended lead times. • Requiring customers to place orders on non-cancellable terms, and in some cases requiring cash deposits in advance providing milestone payments • Close monitoring of gross margins and supply chain cost escalation, with back-to-back pricing adjustments with customers. • The mitigation strategy meant that the Group has been able to manage the disruption and extended lead times with limited impact. However, as lead times improve the Group may see destocking and delays in projects/programmes in the current and subsequent years.	\/ (Medium) **Effect:** Quality issues, costs, sales volumes and profitability

PRINCIPAL RISKS & UNCERTAINTIES
CONTINUED

Business risk	Mitigation and Strategy	Year on year change in likelihood:
Retention of key employees (Operational risk)		
• Loss of key people and critical skills. • Insufficient skilled employees • Poor engagement and morale	• Retention & development of talent is critical to the long-term success of the Group. • Senior HR resource has been added to the team. Reviewing and refining contracts of employment and conditions for best practice. • Investment in the culture means we have been able to maintain low staff turnover, many employees having been with the Group for more than ten years. • The Group encourages and invests in CPD and training in core skills and competencies as appropriate. • The Group proactively looks to develop its own talent and will be making further use of the government apprenticeship schemes. • The Group proactively communicates with its employees. • The Group reviews & benchmarks employee rewards to ensure the Group is fairly rewarding its employees. • Active review of succession planning. • Investigation and sourcing of upgraded HR system to streamline people management processes.	> (Medium) **Effect:** Quality and or service level issues rise, and costs increased
Failure of or malicious damage to IT systems (Operational risk)		
• The inability to access business critical data. • The inability to efficiently run the operating companies.	• The existing systems are reliable and functional. • The Group has started to upgrade & standardise systems where appropriate providing improved functionality and support the development of the business. • Certified as meeting the "Cyber Essentials" standards and post period our Systems Division achieved "Cyber Essentials Plus" status. Also considering "IASME" where appropriate. • Where businesses are acquired, the Group implement the "Cyber Essentials" standards as a key priority if they do not already meet this standard and "Cyber Essentials Plus / IASME" in due course. • Automated daily back-ups of all business critical data. • Operates off site storage of business critical data. • Has established, documented, and tested disaster recovery plans.	> (Medium) **Effect:** Costs, sales, profitability and reputational damage
Natural disasters (Operational risk)		
• Natural disaster or medical epidemic/pandemic disrupts production capability, supply of materials or customer demand.	• The Group has a documented disaster recovery plan for each site. In addition, the Group has business interruption insurance, which subject to the terms of the cover purchased providing some insurance mitigation. • The Group has documented Covid-19 protocols to mitigate the impact of any further variants.	> (Low) **Effect:** Trading may be disrupted, reduced sales volumes and profitability
Forecasting and financial liquidity (Financial risk)		
• The business does not maintain sufficient funding and liquidity to meet its obligations as they fall due. • The business commits to a materially significant loss making contract.	• The Group prepares financial forecasts to evaluate the level of funding required for the foreseeable future. The Board review and approve these forecasts. • Based on these forecasts appropriate funding and liquidity solutions are put in place to ensure that adequate headroom is maintained. • The Group has a defined delegation of authority matrix and contract risk register. • The Group ensures sufficient funding is in place prior to completion of acquisitions. • Extensive disclosure has been provided in respect of going concern and longer-term viability (see pages 59, 60, 62, 87 and 88).	> (High) **Effect:** Going concern/ financial loss and reputational damage

Key:

Risk change:

Λ Increase V Decrease > No change

Potential Impact:

High Medium Low


WAVE RELAY

GOVERNANCE

In this section

"The Board of the Solid State Group follows the guidelines set out by the Quoted Companies Alliance in ensuring a high level of corporate governance. The 10 principles of governance set out by QCA ensure an appropriate balance of risk and reward for all stakeholders of the Group, with an increasing focus on the importance of ESG as a core tenet.

The Board continues to review its own performance to ensure the highest standards of corporate governance and accountability deliver long-term Group success and value for shareholders."

Nigel Rogers
Non-executive Chairman

OUR BOARD OF DIRECTORS

Nigel Rogers
Non–Executive Chairman
dob July 1961

Nigel joined the Board as an Independent Non-Executive Director in July 2019, and became Non-Executive Chairman in November 2020. He has more than twenty years' experience in leading AIM-listed engineering companies, including as Group CEO of both Stadium Group PLC (now part of TT Electronics PLC) and 600 Group PLC. He is currently Executive Chairman at Transense Technologies PLC and Chairman at Surgical Innovations Group PLC. His early career was as a Chartered Accountant with PwC in the U.K., Latin America and the Middle East.

Gary Marsh
Chief Executive Officer
dob April 1966

Gary Marsh joined the Company in 1986 having gained an HND in Business and Finance Studies. He has held various positions within the Group including that of Operations Director of Solid State Supplies prior to his appointment as its Managing Director in 1997. In addition to this role, Gary was appointed Group Managing Director in 2002 following the acquisition of Steatite. In 2010 following the acquisition of Rugged Systems Ltd he was appointed Chief Executive Officer of the Group.

Peter James
Chief Financial Officer
dob June 1979

Peter James qualified as a Chartered Accountant with PriceWaterhouseCoopers LLP in 2003. He was appointed to the Board of Solid State PLC in February 2017. Before joining Solid State PLC, Peter was Group Financial Controller at IQE PLC where he was key member of the senior leadership team successfully completing two significant transactions, funded through an equity fund raising and a global refinancing. Subsequently Peter was key member of the integration and standardisation team, aligning the enlarged Group with its customer markets serviced by manufacturing sites, delivering improved efficiency and material cost savings. As a Senior Manager with PriceWaterhouseCoopers LLP Peter gained a wide range of experience in Audit and Financial Due Diligence teams working with and advising a broad range of companies in a variety of sectors, including multinational main market and AIM listed companies. In addition on a voluntary basis Peter is a Non-executive Director for the British Water Ski and Wakeboard Federation Limited providing independent financial oversight as Chair of the Audit and Finance Committee.

John Macmichael
Director
dob April 1961

Following graduation John Macmichael worked as a development engineer for GEC Telecommunications before moving into applications engineering and ultimately sales at the electronic component distributor Steatite Ltd. John's career continued with worldwide responsibility for sales as International Sales Manager with Comlinear Corporation, a manufacturer of high speed analogue devices in the United States, before returning to the UK to establish the UK operation for Comlinear. Following the purchase of Comlinear by National Semiconductor John joined Breckenridge Technologies as Managing Director to lead the sales and design-in activity on behalf of National Semiconductor and Fairchild Semiconductor. Latterly John moved back into distribution joining Solid State Supplies in March 2006 firstly as Business Development Manager before being promoted to Commercial Director. In 2010 he was appointed Managing Director of Solid State Supplies Ltd. In addition, he was appointed Managing Director of Pacer Technologies following its acquisition in 2018.

Matthew Richards

Director
dob October 1963

Matthew Richards was appointed as Managing Director of Steatite Ltd in April 2016. Matthew comes to the Board with 30 years of experience in the defence electronics industry. He has a track record of success in both private and public companies, most recently as Senior Vice President and Managing Director at API Technologies Corp running operations in the UK, Canada and USA, specialising in RF and Security solutions with a focus on high reliability and harsh environment applications. Prior to that, Matthew held business development and sales leadership roles with the L3 Corporation. He has extensive experience dealing with the Government customers at home and abroad having travelled extensively in Europe, the Middle East and Asia. Matthew started his career installing and commissioning terrestrial and satellite antennas systems for broadcast and military users before moving into sales in the early 1980s.

Peter Haining

Non–Executive Director
dob September 1956

Peter Haining qualified as a chartered accountant in 1980 and later worked at Binder Hamlyn. He left Binder Hamlyn in 1992, together with three colleagues, to establish The Kings Mill Partnership, who were the Company's previous auditors. He has served as a Non-executive Director and Non-executive Chairman and Company Secretary, and then Executive Finance Director and Company Secretary, before being reappointed as a Non-executive Director and Company Secretary.

Pete Magowan

Non–Executive Director
dob August 1967

Pete joined the Board as an Independent Non–Executive Director and Chairman of the Remuneration Committee in January 2021. He was appointed Senior Independent Director of the Group in February 2021. Pete has over thirty years of experience in a combination of executive and Non-executive roles within the technology industry and investment community. Pete was previously an early employee and main Board member of ARM Holdings PLC, 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.

CORPORATE GOVERNANCE REPORT

Statement of compliance against the UK Corporate Governance Guidance

The Board of Directors believes in high standards of corporate governance and is responsible for ensuring that the Group has in place appropriate governance practices and is accountable to shareholders for the Group's performance in this area.

Solid State PLC, as a quoted company on AIM, a market operated by The London Stock Exchange PLC, is required in accordance with AIM rule 26 to adopt a corporate governance code. Solid State PLC has chosen to adopt the QCA corporate governance code (the "Code") over the FRCs UK Corporate Governance Code.

In adopting the Code, the Directors have provided corporate governance disclosures and explain how the Group and company adopt the ten principles of the Code in a manner that is considered appropriate. The Code is available on the QCA website at: www.theqca.com.

This statement describes how the Group is applying the relevant principles of governance, as set out in the Code. Throughout the year ended 31 March 2023, the Group has applied the principles of the Code. In adopting the Code, the Board has also been cognisant of the guidance issued from other regulatory bodies in respect of best practice corporate governance such as the FRC to ensure that the governance framework adopted at Solid State PLC is rigorous, robust and appropriate for its size and structure.

How the corporate governance principles are adopted at Solid State PLC

The Board considers that throughout 2022/23, Solid State PLC has sought to comply with the "Ten Principles" within the code and this report sets out how the Board has done this through the year. This statement addresses the main subject areas of the Code namely; delivering growth, maintaining a dynamic management framework, and building trust.

Principle	Compliance status	Explanation	Further disclosure(s)
Delivering growth			
Principle 1: "Establish a strategy and business model which promote long-term value for shareholders"	Fully compliant	Group business strategy is set out in the Chairman's statement and the Strategic Review above. Strategic issues, and the appropriate business model to exploit opportunities and mitigate risks, are under continuous review by the Board.	See the Chairman's Statement on pages 12 to 13, the CEO's review on page 20 and Strategic review on pages 22 to 23.
Principle 2: "Seek to understand and meet shareholder needs and expectations"	Fully compliant	Regular meetings are held with shareholders at the release of interim and full year results, the AGM and a number of additional ad hoc meetings.	See further reporting on the stakeholder engagement provided on pages 22 to 23 and pages 58 to 59 of this report and Strategic review on pages 38 to 41.
Principle 3: "Take into account wider stakeholder and social responsibilities and their implications for long-term success"	Fully compliant	Directors and the management team adopt a broad view during decision making to take meaningful account of the impact of its business activities on all key stakeholder groups.	See further reporting on the stakeholder engagement provided on pages 58 to 59 of this report and Strategic review on pages 38 to 41.
Principle 4: "Embed effective risk management, considering both opportunities and threats, throughout the organisation"	Fully compliant	The Group operates a system of internal controls to safeguard Group assets and protect the business from identified risks. These controls are subject to examination during the annual external audit process.	See the principal and emerging risks identified and the mitigation and the report on its risk management processes on page 56 of this report and the Strategic review on pages 46 to 48.

Principle	Compliance status	Explanation	Further disclosure(s)
Maintain a dynamic management framework			
Principle 5: "Maintain the Board as a well–functioning, balanced team led by the chair"	Fully compliant	At the year-end the Board comprises the Non-executive Chairman; Mr N Rogers, the Chief Executive Officer; Mr G S Marsh, three Executive Directors and two Non-executive Directors. The Board is at an advanced stage in its recruitment of an additional independent Non-executive Director.	See the Board and its sub committees' section in this report on pages 56 to 59.
Principle 6: "Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities"	Compliant	The Board is satisfied that the current composition provides the required degree of skills, experience, diversity, and capabilities and conducted continued professional development appropriate to the needs of the business. In seeking to appoint an additional independent Non–Executive Director, all short listed candidates offered greater breadth of diversity.	See the Board section in this report on pages 52 to 53.
Principle 7: "Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement"	Fully compliant	The Board completes an annual internal evaluation of performance which is led by the Chairman. The Chairman also actively encourages self-evaluation by all Board members, and feedback on the conduct and content of Board meetings. The Board will continue to keep under review whether a more structured independent review is required in future.	See the Board performance evaluation section in this report on page 58.
Principle 8: "Promote a corporate culture that is based on ethical values and behaviours"	Fully compliant	The Board expects high ethical and moral standards. The Board and all employees expected to be accountable for their actions and in compliance with the Company handbook. A Working Group has been established which aims to motivate, empower and support all employees. Employees are actively encouraged to participate in training courses and maintain CPD.	See the Board section in this report on pages 56 to 57 and Strategic review on pages 38 to 39 and ESG section pages 40 to 43.
Principle 9: "Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board"	Fully compliant	The Board as a whole take responsibility for ensuring appropriate corporate governance practices are adopted. The roles and responsibilities of each of the Directors (including committee memberships) are clearly defined.	See the Board section in this report on pages 52 to 53 and pages 56 to 59, and the audit committee report on pages 61 to 64.
Building trust			
Principle 10: "Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders"	Fully compliant	Regular meetings with shareholders and other key stakeholder groups provide a specific opportunity for raising any concerns related to corporate governance, including any significant votes cast against or abstaining from shareholder resolutions.	Further narrative disclosure is provided in: this report on pages 56 to 59, and Strategic review on pages 38 to 39 and the Remuneration Committee report on pages 65 to 70.

The Board views maintaining high standards in its governance and management of the affairs of the Group as a fundamental part of discharging its stewardship responsibilities.

Accordingly, both the Board and the Audit Committee continue to keep under review the Group's whole system of internal control, which comprises not only financial controls but also operational controls, compliance and risk management.

This process was in place throughout the 2023 financial year and accords with the Revised Guidance for Directors on Risk Management, Internal Control and Related Financial & Business Reporting (formerly called the Turnbull Guidance).

The Board

The structure and composition of the Board has been undergoing a process of evolutionary change since Nigel's appointment as the first truly independent Non-executive director in 2019. Since that time, this process has continued with the addition of Pete Magowan as Senior Independent Director and Nigel's appointment as Chairman in November 2020.

Whilst Peter Haining does not strictly meet all the criteria of independence, as set out in the QCA guidelines, the QCA guidelines acknowledge for growing companies it may not be possible for Boards to meet the definition of "independence" for all Non-executive Directors and sets out the fact that if a Director has served for more than nine years it does not automatically affect independence.

In accordance with the QCA guidance the Board has reviewed and evaluated Mr P Haining's performance as a Non-executive Director and confirm that he remains independent in terms of both his character, his judgement and based on how he conducts himself as a Non-executive Director and chair of the Audit Committee.

The Board is mindful of the threats to perceived and actual threats to independence and will continue to actively manage this potential risk as part of its succession planning.

The terms and conditions of appointment of the Non-executive Directors are available for inspection upon request to the Company Secretary.

Rules concerning the appointment and replacement of Directors of the Group are contained in the Articles of Association ("Articles"). Amendments to the Articles must be approved by a special resolution of shareholders. Under the Articles, all Directors are subject to election by shareholders at the first Annual General Meeting following their appointment, and to re–election thereafter at intervals of no more than three years.

The Board has adopted best practice and all Directors will stand for re-election annually at the AGM. Biographies of the Directors (on pages 52 to 53) show the range of business and financial experience upon which the Board can call.

The Board's goal is to ensure that its membership should be balanced between Executives and Non-executive and have the appropriate skills and experience and knowledge of the business. Once the new additional independent Non-executive director is appointed the Board will have equal balance of Executives and Non-executive directors, with the Chairman exercising a casting vote in the unlikely event of deadlock. The Directors also ensured that candidates who could offer enhanced diversity, including gender or ethnic background, were actively encouraged in an open and transparent recruitment process.

The Board recognises the special position and role of the Chairman under the Code and has approved the formal division of responsibilities between the Chairman and Chief Executive Officer. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness, and the Chief Executive Officer manages the Group and has the prime role, with the assistance of the Board, of developing and implementing business strategy.

One of the Non-executive Directors roles under the Chairman's leadership is to undertake detailed examination and discussion of the strategies proposed by the Executive Directors, ensuring that decisions are in the best long-term interests of shareholders and take proper account of the interests of the Group's other stakeholders.

The Chairman ensures that meetings of Non-executive Directors without the Executive Directors are held.

How the Board operates

The Board meets regularly through the year and is provided with appropriate strategic, operational, and financial information prior to each meeting with monthly reports to enable it to monitor the performance of the Group.

Directors are required to devote such time and effort to their duties as is required to secure their proper discharge and, for Non-executive Directors, this typically entails one or two days of meetings per month as well as reading and preparation time.

At Board meetings the Chairman ensures that all Directors are able to make an effective contribution and every Director is encouraged to participate and provide their perspective and opinions. The Chairman always seeks to achieve unanimous decisions of the Board following due discussion of agenda items.

All Directors have direct access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and are allowed to take independent professional advice if necessary, at the Company's expense.

The Board has a formal schedule of matters referred to it for decision. This list includes appropriate strategic, financial, organisational and compliance issues, including the approval of high level announcements, circulars, the report and accounts and certain strategic and management issues.

Examples of such items include but are not limited to:

- the approval of interim and annual results;
- the approval of the annual budget;
- approval of acquisitions or disposals;
- approval of major items of capital expenditure;
- the approval of significant contracts;
- approval of changes to corporate or capital structure; and
- financial issues, including changes in accounting policy, the approval of dividends, bank facilities and guarantees.

Committees of the Board

Executive Committee

The Executive Committee consists of the Executive Directors under the chairmanship of Mr G S Marsh and is responsible for the development of strategy, annual budgets and operating plans linked to the management and control of the day-to-day operations of the Group.

The Executive Committee is also responsible for monitoring key commercial opportunities and relationships, day to day stakeholder engagement and for ensuring that the Board policies are carried out on a Group-wide basis.

Nominations Committee

The Nominations Committee is formed when required as a sub-committee of the Board. The Nominations committee has led the process of appointing an additional Non-executive director, identifying a shortlist of suitable candidates to bring to the Board for final interview and subsequent agreement on appointment. The members of the Committee are Mr N Rogers and Mr G Marsh. The Nominations committee will take responsibility for identifying the skills, experience, personal qualities and capabilities required for the next stage in the company's development, linked to the company's strategy.

Audit Committee

The Audit Committee consists of the Non-executive Directors; Mr P Haining, Mr P Magowan and Mr N Rogers. The Committee meets at least twice a year under the Chairmanship of Mr P Haining, who the Board has evaluated to have recent relevant financial experience. Further details on the independence and succession plans for the chairmanship of the audit committee will be announced in due course.

The Audit Committee has specific written terms of reference which deal with its authority and responsibilities and these are available on the Solid State PLC website. Its duties include monitoring internal controls throughout the Group, approving the Group's accounting policies, and reviewing the Group's interim results and full year financial statements before submission to the full Board.

The Audit Committee acts to ensure that the financial performance of the Group is properly recorded and monitored. The Audit Committee also reviews and approves the scope and content of the Group's annual risk assessment programme and the annual audit and monitors the independence of the external auditors. In fulfilling their role they meet with the auditors and review the reports from the auditors relating to accounts and internal control systems.

The Group does not have an independent Internal Audit function, as it is not considered appropriate given the scale of the Group's operations, however the Group operates internal peer reviews, with a scope of evaluating and testing the Group's financial control procedures, to standardise processes around best practice. Any significant issues are reported to the Chairman of the Audit Committee and shared with the external auditors as appropriate.

The Group CFO and the external auditors attend meetings of the Audit Committee by invitation. The Committee also holds separate meetings with the external auditors, as appropriate. Further details are provided in the Audit Committee report on pages 61 to 64.

Remuneration Committee

The Remuneration Committee consists of Mr P Magowan, Mr N Rogers and Mr P Haining. The Committee meets at least twice a year under the Chairmanship of Mr P Magowan.

The Chief Executive Officer and Group CFO have attended some of the meetings of the Committee by invitation to respond to questions raised by the Committee, but they are excluded from any matter concerning the details of their own remuneration.

The Remuneration Committee has specific terms of reference which deal with its authority and duties and these are available on the Solid State PLC website.

The purpose of the committee is to review the performance of the full time Executive Directors, to set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. In fulfilling this responsibility, the Committee is responsible for setting salaries, incentives and other benefit arrangements of Executive Directors and overseeing the Group's employee share schemes.

Members of the Remuneration Committee do not participate in decisions concerning their own remuneration. Further details are provided in the remuneration report on pages 65 to 70.

Board and Committee attendance at meetings

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of meetings in 2022/23	9	4	3	4
Attendance				
Executive				
Mr G Marsh	9	n/a	n/a	1*
Mr J Macmichael	9	n/a	n/a	n/a
Mr M Richards	9	n/a	n/a	n/a
Mr P James	9	n/a	3*	n/a
Non–executive				
Mr N Rogers	9	4	3	4
Mr P Haining	9	n/a	3	4
Mr P Magowan	9	n/a	3	4

*Attendance by invitation

CORPORATE GOVERNANCE REPORT
CONTINUED

Board performance evaluation

The Chief Executive reviews the performance of the Executive Directors on a periodic basis and reports to the Remuneration Committee. The performance of the Directors, the Chairman and of the Board are monitored on an ongoing basis. Annually the Remuneration Committee evaluates performance as part of the review of remuneration and discretionary bonus awards.

The Board completes an internal annual Board performance evaluation led by the Chairman. The appraisal covers: composition; processes; behaviours; and activities and aims to develop the Board and the individuals on the Board, promoting Board effectiveness and the implementation of Group strategy. The current year has seen very positive progress against its strategy, with the trading performance ahead of the Board's expectations.

Shareholder relations

The Board regards regular communications with shareholders as one of its key responsibilities. During 2022/23, the Chief Executive Officer and Group CFO met with institutional investors on a regular basis to discuss the Group's performance, the shareholder's views, and to ensure that the strategies and objectives of the Group are well understood. In addition, the Chairman engaged with the company's advisors and a select group of shareholders to discuss matters of Corporate Governance.

The Chief Executive Officer keeps the Board fully informed of any significant matters discussed with shareholders and of shareholders' views. In addition, the Board receives copies of the analysts' reports.

The Non-executive Directors, having considered the Code, are of the view that this approach to shareholder communication remains appropriate for the Group. However, should shareholders have concerns which they feel cannot be resolved through normal shareholder meetings, the Chairman, and the Senior Independent Directors may be contacted through the investor relations email: investor.information@solidstateplc.com.

Interim and full year–end shareholder roadshows are held by the Executive Directors together with on–line investor meetings on the "Investor Meet Company" platform (www.investormeetcompany.com). Typically the Company arranged investor site visits typically twice a year subject to sufficient demand. These events enable shareholders and potential shareholders to understand first–hand the business, visit the operations and meet the wider team. Furthermore, shareholders attending the AGM are invited to ask the Directors questions about the business. Other than the Group's routine engagement with investors on topics of strategy, governance and performance, the other specific matter discussed with key shareholders included changes to the Board and the Director remuneration policy.

The Company also maintains the Group's website, which provides details of the Group's business including its strategy, technologies, operations, and products. The Group website has a separate investor relations section which provides the Group's news flow, share price information, and financial reports including the annual and interim reports. Hard copies of these financial reports are also available by request. The website can be found at: www.solidstateplc.com.

In accordance with the recommendations of the Code, the Company will advise shareholders attending the AGM of the number of proxy votes lodged in respect of each resolution, analysed between 'For', 'Against', 'at the Chairman's discretion' and 'abstentions'. These are advised after the resolutions have been dealt with on a show of hands, providing that a poll has not been called for or required.

Significant Shareholders

Shareholders over 3%*	% holding
Charles Stanley & Co	10.97%
BGF Investment Management Limited	10.42%
Schroders	7.99%
Mr & Mrs Comben	7.98%
Canaccord Genuity Group Inc	7.12%
Adrdn PLC	6.17%
GPIM	5.21%
Mrs B Marsh	4.86%
Hargreaves Lansdown Asset Mgt	3.19%

*Significant shareholders that the Board has been notified of as of 1 May 2023. The Solid State PLC website is kept updated for notified changes during the year.

Audit and Accountability

The Code requires that Directors review the effectiveness of the Group's system of internal controls on a continuing basis. The scope of the review covers all key controls including financial, operational and compliance controls as well as risk management.

The Board has put in place a framework of internal controls to manage the risks faced by the Group. The Audit Committee has responsibility to review, monitor and make policy recommendations to the Board.

The Directors acknowledge their responsibility for the Group's system of internal control. The Board, through the Audit Committee, keeps this system under continuous review and formally considers its content and its effectiveness bi-annually.

In reviewing the effectiveness of the Group's system of internal controls the Audit Committee has considered material developments up to the date of the signing of the financial statements. In addition, the external audit findings, help to inform the Committee's views of areas of increased risk.

The system of internal control comprises those controls established to provide assurance that the assets of the Group are safeguarded against unauthorised use or disposal and to ensure the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

Any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss, as it is designed to manage rather than to eliminate the risk of failing to achieve the business objectives of the Group.

The Directors acknowledge their responsibility for preparing the Annual Report and Accounts. The Audit Committee reviews the Group's reporting processes with the aim of ensuring that the financial reporting, when taken as a whole, is fair, balanced, and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Risk Management

The Board reviews and approves an Annual Budget and Business Plan prior to the start of each financial year. This includes reviewing the key strategic, operational, and financial objectives for the year, together with a detailed financial budget.

The Executive Committee is accountable to the Board for delivery of the Annual Business Plan. Providing a framework for the delivery of the Group's strategy and plans. The Executive Committee has developed an organisational structure with clear roles and responsibilities and reporting lines. Performance against the plan is reported monthly, which includes detailed analysis of budgetary variances and updated financial projections.

Each Executive Director is responsible for identifying and managing the risks relating to their respective areas of responsibility, including the risks relating to strategy, the Annual Business Plan and day-to-day business. In addition to day-to-day risk management the Executive Directors formally assess the major business risks and evaluate their potential impact on the Group. These risks and the reporting of the risk assessment is included in the strategic report on pages 46 to 48.

Internal Control

The Directors are continually reviewing the effectiveness of the systems of internal controls. The key elements of which, having regard to the size of the Group, are that the Board meets regularly and takes the decisions on all material matters. The organisational structure ensures that responsibilities are defined, authority only delegated where appropriate and that the regular management accounts are presented to the Board wherein the financial performance of the Group is analysed. Further details over the internal controls are set out in the Audit Committee report on pages 61 to 64.

The Directors acknowledge that they are responsible for the system of internal control, which is established in order to safeguard the assets, maintain proper accounting records and ensure that financial information used within the business or published is reliable. Any such system of control can, however, only provide reasonable, not absolute assurance against material misstatement or loss.

Going Concern

In assessing the going concern position of the Group for the Consolidated Financial Statements for the year ended 31 March 2023, the Directors have considered the Group's cash flows, liquidity and business activities. At 31 March 2023, the Group had cash balances of £12.2m, drawn term loans and revolving credit facilities ("RCF") totalling £14.7m and £5.1m of undrawn RCF.

The bank facilities are subject to financial covenants requiring the business to be EBITDA positive therefore this facility is available to fund investment in working capital, capital investment or acquisition activities. Should the business face such a significant downturn that it was loss making the facility would not be available to be drawn to fund additional losses without a covenant waiver of amendment. As a result, in evaluating a stressed model the Board have only included the RCF in the headroom to the extent it would be available within the covenants.

Based on the Group's forecasts, the Directors have adopted the going concern basis in preparing the Financial Statements. The Directors have made this assessment after consideration of the Group's cash flows and related assumptions and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014, the April 2016 guidance on Going concern basis of accounting and reporting on solvency and liquidity risks and the various guidance issued in 2020 all published by the UK Financial Reporting Council to provide support to Directors and Board in making the assessment of going concern.

Additional disclosures in respect of the Directors' assessment and modelling to support the conclusions below are set out on pages 87 and 88 of the basis of preparation.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months, therefore it is appropriate to adopt a going concern basis for the preparation of the Financial Statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and Company were unable to continue as a going concern.

Long-term viability statement

The Directors have assessed the viability of the Group whilst considering the Group's current position and the potential impact of the principal and emerging risks documented above that would threaten its business model, future performance, solvency, or liquidity. As set out in the Going Concern assessment above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the next 12 months and that the Company will be able to continue in operation and meet its liabilities as they fall due.

The Directors have determined that a two year period to 31 March 2025 is an appropriate period over which to assess its viability statement. This is based on the significant amount of change that can arise over two years in the electronic and optoelectronics market; the Group's business; and, in the macro–economic environment. This has been validated by the impact that electronic component shortages have had on the Group's business, the electronics industry across the World.

The Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its growth drivers, future performance, solvency, or liquidity.

As noted above the Board has also performed specific stress testing on the impact of the component shortages might have on future performance. The impact of component shortages is affecting many of the principal risks detailed above and as such is the most significant factor impacting near and mid-term future financial performance. Although the Company's response to the component shortages continues to be management's key focus at this time, the Directors consider the mid and longer-term opportunity in the UK Systems and Components businesses will remain very strong.

The outputs from these reviews were then used to perform liquidity analysis on the strategic plan, the downside sensitivity reviews that were based on principal risks, which concluded the business is viable even under down side stress testing.

The expectation over the strength of the market is supported by the significant structural technological drivers including: Connectivity, 5G, Sensing AI , Big data, and Green tech supporting net zero targets, where the electronic and opto-electronic component & manufactured solutions the Group provides are expected to be critical elements of these enhancements. This alignment with the Group's strategy and core capabilities means that the Board consider that the Group will be very well placed to take advantage of these macro opportunities once the adverse impact of the component shortages is overcome.

G.S. Marsh

Gary Marsh
Chief Executive Officer

4 July 2023

AUDIT COMMITTEE REPORT

The Audit Committee is chaired by Mr P Haining FCA, a Chartered Accountant. He is considered by the Board and Audit Committee to have the necessary current relevant financial knowledge, qualifications, and experience for this role.

As set out on page 58 of the corporate governance report Mr Haining does not meet the strict definition of independence and best practice is to have the audit committee chaired by an independent Non-executive. However, given the knowledge, experience and skills of Mr P Haining the Board consider that he remains the most appropriate member of the Board to Chair the Audit Committee at the current time. The Board will keep this under review as part of their succession planning and a further announcement will be made in due course.

Primary responsibilities of the audit committee:

- Reviewing the effectiveness of the Group's procedures for the identification, assessment and reporting of risk, financial reporting processes and internal control policies.
- Managing the relationship with the auditors to ensure that the external audit is effective, objective, independent and of a high quality. Furthermore, the Audit Committee ensures that the scope of the audit, the auditors' terms of engagement, and fees are reasonable and appropriate.
- Considering whether there is a need for an internal audit function and make a recommendation to the Board as to what is appropriate for the Board to gain assurance over the financial processes, procedures, controls and reporting of the Group.
- Reviewing significant financial reporting issues, accounting policies, and judgements and estimates adopted by management and monitoring the integrity of the Group's financial statements independently of the Executive Directors and external auditors.
- 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 Group and Company's performance, business model and strategy.

Activities during the year:

The Audit Committee met three times during the year. The meetings were also attended by the Group CFO, Group FC, and representatives of the Group's external auditors by invitation.

At meetings attended by the external auditors, time is allowed for the Audit Committee to discuss issues with the external auditors without the Group CFO or Group FC being present.

As part of the Audit Committee's review process, the Audit Committee Chairman and the Group CFO visit each of the Group's major business units across the year to review and challenge the local management on their draft financial results. This year this has been conducted through a combination of face-to-face meetings and remotely.

The Chairman reports his observations from these reviews to the Audit Committee and the Board as part of the process for approving of the Annual Report and Accounts.

The Committee operates under formal terms of reference, and these are reviewed annually. An annual rolling agenda is used to ensure that all matters within the Audit Committee's terms of reference during the year are appropriately covered. The Committee considers that it has discharged its responsibilities as set out in its terms of reference to the extent appropriate during the year.

Financial reporting

The Audit Committee reviewed the appropriateness of the Group's interim and full year financial statements, including evaluating the significant financial reporting judgements made by management to ensure that they were appropriate, considering the reports from management and ensuring that the external auditors concurred with management and the committee's conclusions.

The main areas of focus considered by the Committee during 2022/23 were as follows:

The presentation of the financial statements, including the presentation of adjusted performance measures.

Following review of reports from management the Committee concurred that the presentation of the adjusted performance measures is appropriate, balanced and enables the users of the accounts to understand the underlying and on-going performance of the business.

Review of Acquisition accounting.

Following review of reports from management and discussion with the CFO, which set out the key judgements which were in respect of:

- the assessment of the fair value of the consideration and in particular the deferred contingent consideration;
- the fair value of the property plant and equipment;
- the modelling performed by independent valuations experts supporting the fair value of the IFRS3 intangible assets in respect of the Orderbook, Customer Relationships and the Brand; and
- the associated deferred tax assets and liabilities.

Furthermore, the audit committee reviewed the disclosures associated with the acquisition of Custom Power.

This is an area where there was extensive discussion, challenge and review between the auditors, management, and the audit committee. The Committee concluded that the judgements within the acquisition accounting, and that the treatment and disclosure were in accordance with IFRS3.

Review of revenue recognition and deferred income

Following review of reports from management and discussion with the CFO, which sets out the updated assessments for the contracts which have material revenue recognition judgements in accordance with IRFS15.

AUDIT COMMITTEE REPORT
CONTINUED

The key judgements related to the evaluation of whether the contracts required revenue to be recognised over time or whether they were based on completion of the performance obligations at a point in time.

As part of the review the audit committee reviewed the post balance sheet events position to ensure that these judgements remained appropriate. The Committee concurred with the revenue recognition judgements and that the treatment was in accordance with IFRS15. In finalising the accounts, the committee noted that the external auditors accepted management and the committee's conclusions.

Going concern
The Committee assessed the appropriateness of the going concern assumption. In doing this the committee reviewed the resources available to the Group, taking account of the Group's trading and cash flow forecast together with available funding headroom in these very uncertain trading times because of the impact of component shortages, cost inflation and increased interest rates. Based on this information as disclosed on pages 59, 60, 87 and 88 in the basis of preparation the committee concluded that the Going Concern principle was appropriate. In finalising the accounts, the committee noted that the external auditors accepted management and the committee's conclusions.

Review of judgemental areas, and specifically the level of accounting provisions.
Following review of reports from management two areas of more significant estimation are provisions for credit defaults based on the expected loss rate in accordance with IFRS9, and provisions for obsolete inventories. This is an area where there was extensive discussion, challenge and review between the auditors, management, and the audit committee.

The committee recognised that in the past there have been events which have required one off significant write offs against debtors and or inventory. In the year under review it has been necessary to make a specific provision of £0.6m in respect of bespoke inventory held by the company where the customer has cancelled the order. The Committee concurred that the provisioning policy had been applied consistently that the level of provisions remains appropriate.

Review for the potential impairment of goodwill and other intangible assets.
The Committee reviewed and challenged the key assumptions, judgements, and sensitivities in the report from management. The Committee concurred that the expected future cash flows of the Group support the carrying value of goodwill and other intangible assets, and that there were no triggering events which suggested any potential impairment of goodwill and other intangible assets.

The committee also reviewed mangement's judgement relating to the useful economic lives of acquisition intangible assets.

Accounting for R&D tax credits.
Following review of reports from management and correspondence with the companies' R&D tax advisers, setting out the level of the R&D claim, the level of the R&D tax credit which is deferred and amortised to match to capitalised development programmes.

The committee reviewed the assessment that this year the majority of the Group's R&D activities will be under the large company scheme rather than the more generous SME scheme as a result of the increased size of the Group and concluded that this was appropriate and that the accounting was appropriate.

The committee also reviewed the judgements relating to the capitalisation of development expenditure and considered them appropriate.

Annual report
At the request of the Board the Committee considered whether the 2022/23 annual report was fair, balanced, and understandable and whether it provided the relevant information for stakeholders to assess the Group's performance, business model and strategy.

Having taken account of the other information provided to the Board throughout the year, the Committee was satisfied that, taken as a whole, the annual report was fair, balanced, and understandable.

The Committee was satisfied that based on its review, challenge and debate of the draft financial statements and the key accounting items, that the assumptions made, the judgements applied, and the accounting and disclosures were appropriate.

The Committee reviewed and recommended the approval of the narrative reporting statements on corporate governance, internal control and risk management in the annual report and the half year and trading statements.

External auditors

The Audit Committee has developed a formal Auditor Independence Policy. In accordance with this policy, the Committee oversees the relationship with the external auditors and monitors all services provided by them and all fees payable to them. This is to ensure that potential conflicts of interest are considered, and that an independent, objective and professional relationship is maintained.

Following the completion of last year's audit by RSM UK Audit LLP ("RSM") a comprehensive debrief was completed to ensure that the value from the audit was maximised for all stakeholders. The output of the debrief formed part of the audit planning and scoping process to ensure continuous improvement.

The Audit Committee also monitors the effectiveness of the annual audit. In advance of the financial year end, the Committee receives a detailed audit plan from the auditors which identifies the auditors' assessment of the key risks and their intended areas of focus. This is agreed with the Committee to ensure that the scope and coverage of audit work is appropriate.

This is the fifth year that RSM have acted as auditors for the Group.

Based on the scope of work the committee ensures that the proposed fees are fair and reasonable and represent value for the services provided.

As in prior years the provision of external audit and tax compliance are separated where practical. As such tax advice is provided by Crowe LLP, Bevan Buckland LLP and The Kings Mill Practice.

In addition, Solid State PLC's management also provides the Committee with feedback on their view of the quality and effectiveness of the audit. This feedback is considered in conjunction with the Committee's own review of the auditor's performance in delivering an effective, objective, independent and a high-quality audit.

Based on the prior year audit and the review completed of this year's services delivered in respect of the 2022/23 audit of Solid State PLC, both management and the audit committee were satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and they assessed the quality of the audit process as good.

Non–audit services

The Committee also regularly reviews the nature, extent, objectivity, and cost of non-audit services provided by the external auditors.

Under this policy, the award to the Group's auditors of audit related services, tax consulting services or other non–audit related services in excess of £10,000 must first be approved by the Audit Committee. The policy also sets out guidelines for the recruitment of employees or former employees of the external auditor.

In addition, the Group's auditors are required to make a formal report to the Audit Committee annually on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity.

The nature of the services provided by the auditors and the amounts paid to them are as detailed below:

	31 March 23 £'000	31 March 22 £'000
RSM UK audit LLP (Group auditors)		
Fees payable to company's auditors for the audit of the parent company accounts and consolidated financial statements	**245**	120
Fees payable to company's auditor and its associates for other services:		
• Other assurance services	**–**	–
• Taxation services *	**–**	6
• Services relating to corporate finance transactions	**–**	–
• Other non-audit services	**–**	–
Total fees payable to the Group auditors	**245**	**126**

* Legacy service for acquired entity and RSM LLP (USA) resigned as tax advisers in 2022.

The audit scope for the year ended 31 March 2023 relates to the audit of the Consolidated Group Accounts and that of the parent company. In addition to the Dormant non trading companies several of the UK trading subsidiaries have adopted the exemption from the requirements to file audited financial statements by virtue of section 479A of the Companies Act 2006. In adopting the exemption Solid State PLC has provided a statutory guarantee to these subsidiaries in accordance with section 479C of the Companies Act 2006 (see Note 14).

AUDIT COMMITTEE REPORT
CONTINUED

Internal Audit

The Board asks the Audit Committee to review annually the requirement for an internal audit function, having regard to the size of the Group, the costs of such a function versus the likely benefit and the sufficiency of the assurance to validate the functioning of the system of internal control, given the operational and financial circumstances facing the Group.

Based on the review of the management reporting and external audit assurances over controls and financial reporting, the Audit committee considers there was no requirement for an internal audit function at this time.

As part of the Group Chief Financial Officer's review processes the divisional Managing Directors and the site Financial Controllers are obliged to confirm that the agreed procedures are in place and are being adhered to, with specific reference to key controls such as bank and control account reconciliations.

The position has been reviewed by the Committee and they remain satisfied with the arrangements. No significant failings or weaknesses were identified by the internal management review and sign off process, but several minor improvements were identified and implemented. The capacity within financial resources was reviewed post the acquisition of Custom Power last year and it was concluded that it was appropriate but would be kept under review.

The Committee also considers the discharge of the Board's responsibilities in the areas of corporate governance, financial reporting, and internal control, including the internal management of risk, as identified in the FRC's revised guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Risk management activities are dealt with in more detail in the Strategic Report on pages 46 to 48.

Internal control

The Audit Committee reviews the effectiveness of the Group's system of internal controls and risk management activities as part of the half year end and full year public reporting.

The key procedures that the Directors have established with a view to providing effective internal control include the following:

- a clearly defined organisational structure and delegated limits of authority;
- Group policies and procedures in respect of financial reporting and control, contract approval, project appraisal, human resources, quality control, health and safety, information security and corporate governance and compliance;
- the preparation of annual budgets and regular forecasts which are approved by the Board;
- the monitoring of performance against budget and forecasts and the reporting of any variances in a timely manner to the Board;
- regular review and self-assessment of the risks to which the Group is exposed, taking steps to monitor and mitigate these wherever possible;
- where appropriate, taking out insurance cover; and
- approval by the Audit Committee of audit plans and, on behalf of the Board, receipt of reports on the Group's accounting and financial reporting practices and its internal controls together with reports from the external auditors as part of their normal audit work.

Pete Haining

Peter Haining FCA
Audit Committee Chairman

4 July 2023

REMUNERATION COMMITTEE REPORT

The members of the Committee are: Mr P Magowan (Chairman); Mr N Rogers and, Mr P Haining. The Rem Co met four times during the year ended 31 March 2023.

I am pleased to present our Directors' remuneration report (the "Report") for the year ended 31 March 2023. Being listed on the AIM market we are required to comply with AIM Rule 19 in respect of remuneration disclosures. However, the Committee has chosen to provide additional disclosures in line with AIM best practice to enable shareholders to better understand and consider our remuneration arrangements.

This report is divided into three sections:

- **My Annual Report**, which summarises the Committee and its work, remuneration outcomes in respect of the year just ended and how the remuneration policy will be operated for the forthcoming year
- **The Remuneration policy report**, which summarises the Group's remuneration policy
- **The Annual report on remuneration**, which discloses how our policy was implemented in the year ended 31 March 2023 in detail

Annual Report

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

During the year the remuneration committee engaged KPMG to perform a remuneration review and benchmarking exercise of the remuneration packages of the Executive Directors. The results of this identified a general alignment in total remuneration however some elements of the packages were not in-line with current market rates. As a result, of the review the Remuneration Committee made a mid-year adjustment to the base salary elements of the CEO and CFO.

In determining the remuneration packages for the Executive Directors for the forthcoming financial year, the Committee took into account the following factors:

The Group's overall performance and strategy in particular, the Committee noted the strong organic growth in profitability, value enhancing acquisitions, and record trading of Solid State PLC for the year ended 31 March 2023;

- Current and emerging market practice;
- Best practice expectations of institutional investors; and
- The competitiveness of the Company's remuneration – the Committee looked both at other companies in the AIM and Small Cap index as well as a set of comparator companies that have similar complexities to Solid State PLC and drew on specific expertise from the external KPMG benchmarking exercise

All decisions made by the Committee have been made under the Group Remuneration Policy.

Performance Outcomes

Solid State PLC has continued to deliver strong results for Shareholders. Trading for the year ended 31 March 2023 was strong across both divisions with record levels of order intake, revenue and EBITDA despite continued market headwinds. Revenue increased by 49% to £126.5m and operating profit grew by 152% to £9.4m.

Additionally the Group has made progress against certain of its strategic objectives including expanding its presence in the custom battery market with the acquisition of Custom Power, forming a joint venture development centre, eTech Developments Ltd, and commencing the roll-out of a key customer programme.

Considering this performance against the targets established at the start of the year the Committee awarded an annual bonus pool for the Executive Directors which in total was equivalent to 95% of the Executive Group's total basic salary. This reflects the view of the Committee that the current year performance has been exceptionally strong in challenging times.

Further details of bonus and LTIP awards can be found on in the Annual report on remuneration in the following pages.

Having completed the acquisition of Custom Power we are in the process of agreeing a LTIP award for the key US management which is expected to vest in FY27 or FY28 to incentivise the US team with the mid-term objectives, ambitions and stretch growth target. This US targeted scheme will operate in a manner consistent with the framework and rules of the existing "LTIP" scheme during the coming year.

Other key activities in the year ending 31 March 2023

During the year under review, the Committee held four formal meetings. As well as the implementation of the remuneration policy, the Committee also carried out the following activities:

- Commissioned an independent remuneration benchmarking of executive remuneration using external advisers;
- Reviewed and approved the Executive Directors' performance against financial and non-financial objectives for the year ended 31 March 2023 and determined the bonuses payable;
- Reviewed the Remuneration policy and updated with Executive Director shareholding targets of 150% of salary;
- Reviewed and approved the annual bonus structure for Executive Directors for the year ending 31 March 2024;
- Awarded a grant of 48,825 shares under the HMRC approved CSOP plan to senior staff;
- Awarded a grant of 56,400 shares under the LTIP plan to the executives;
- In response to the inflationary pressures on the wider workforce the executive implemented a mid–cycle additional company-wide salary increase for our workforce, and for our UK employees made a one off heating allowance payment to mitigate rising UK heating costs;
- Agreed financial targets for the US Senior Management team and engaged with advisers on scheme creation;
- Determined salary increases for Executive Directors for the year ending 31 March 2024; and
- Approved the LTIP Awards to be made in the year ending 31 March 2024 and their performance conditions.

REMUNERATION COMMITTEE REPORT

CONTINUED

During 2023/24, the Committee will continue to review the reward arrangements appropriate to Executive Directors.

The Annual Report on Remuneration explains how our policy has been implemented during the year and, along with this letter, will be subject to an advisory vote at our AGM (resolution 2).

The Committee continues to welcome feedback from shareholders and will seek engagement with key shareholders on any major changes to remuneration related policy.

Remuneration policy report

Element and Purpose	Operation	Opportunity	Performance metrics
Base Salary To attract and retain quality executives which provides a competitive total package.	Base salaries are normally reviewed on an annual basis with any changes effective from 1 April.	Any percentage increases will ordinarily be in line with those across the wider workforce. However, salary increases may be higher in exceptional circumstances, such as the need to retain a critical executive, or an increase in the scope of the executive's role.	Base salary levels and corresponding increases are based on individual experience, skills and business performance along with competitiveness against similar companies.
Benefits To help retain employees and remain competitive in the marketplace.	Directors receive an electric or hybrid company car or car allowance, life assurance, and medical insurance.	Insurance cover based on market rates.	Not performance related.
Pension To facilitate long-term savings provisions.	Contributions to a Director's pension as appropriate. This may include contribution to the Company's defined contribution scheme or payment of a cash allowance as appropriate.	Aligned to the pension available to the Group's UK workforce.	Not performance related.
Annual performance related bonus Rewards the achievement of annual financial and strategic business targets.	Targets (financial and non-financial) are set and reviewed by the Committee annually. Actual bonus payable is determined by the Committee after the financial year-end, based on performance against these targets.	Up to 100% of salary payable for significant over-achievement of financial and non-financial bonus objectives. The bonus will pay 0% at minimum threshold, and 60% at excepted maximum. In exceptional circumstances, the Committee has discretion to declare additional bonus up to a maximum cap of 100%.	Performance is assessed annually against financial and personal/strategic objectives set at the start of each year.
Long-Term Incentive Plan ("LTIP") To motivate Executive Directors to deliver shareholder value over the longer term.	Awards of conditional shares through nil-cost options with vesting dependent on the achievement of performance conditions over the following three years. Vested awards are subject to a two-year holding period, in aggregate a five-year period from award to exercise. Dividend equivalents will be paid on vested awards. Malus and clawback provisions.	Up to 125% of salary.	Performance conditions are based on Group financial performance, which may include (but not be limited to) Group earnings or returns over the performance period.
Company Share Option Plan ("CSOP") HMRC Approved scheme to motivate our senior leaders to deliver shareholder value over the longer term.	Awards of conditional shares through market price options with vesting dependent on the achievement of performance conditions over the following three years. Similar provisions to LTIP.	Awards of up to approved HMRC approved limits. Funded through shares purchased in the market and newly issued shares as appropriate.	Performance conditions are based on Group financial performance, which may include (but not be limited to) Group earnings or returns over the performance period.
Shareholding guidelines To align Executive Directors with shareholder interests.	Shareholding guidelines require a minimum shareholding (normally within five years).	150% of salary.	Not performance related.

Policy on fees paid to the Non–Executive Directors:

Remuneration element and link to strategy	Operation	Opportunity	Performance metrics
Fixed fees to attract and retain Non-executive Directors of the highest calibre with broad experience relevant to the Company.	Paid monthly in arrears and reviewed each year. Any reasonable business related expenses can be reimbursed.	The Chairman's and Non-executive Directors' fees are determined by relevant benchmark data.	Annual review by the Board.

Notes to the remuneration policy and performance conditions and target setting

Each year, the Committee will determine the weightings, performance metrics and targets as well as timing of grants and payments for the annual bonus, CSOP and LTIP plans within the approved remuneration policy and relevant plan rules.

The Committee evaluates a number of factors which assist in reaching their conclusions and view. These include, but are not limited to, the strategic priorities for the Company over the mid/long term, Shareholder feedback, the risk profile of the business and the macroeconomic climate.

Target Setting

The Annual Bonus Scheme is measured against a balance of profitability, and the delivery of key strategic areas of importance for the business. The profitability metrics used include adjusted profit before tax and/or adjusted fully diluted EPS and awards only become eligible when current year performance exceed market expectations at the time of setting. Malus, clawback and leaver provisions apply.

The CSOP and LTIP are assessed against a performance measure identified as the most relevant to driving sustainable bottom line business performance, as well as providing value for Shareholders. This measure is currently considered to be real growth in adjusted fully diluted EPS. The Company is committed to remaining within the Investment Association's 10% dilution limit.

Targets are set against the annual and long-term plans, taking into account analysts' forecasts, the Company's strategic plans, prior year performance, estimated vesting levels and the affordability of pay arrangements. Targets are set to provide an appropriate balance of risk and reward to ensure that, while being motivational for participants, maximum payments are only made for exceptional performance.

In exceptional circumstances, the Committee has the discretion to adjust and/or set different targets and performance conditions for annual bonus and long-term incentive plans, provided the new conditions are no tougher or easier than the original conditions. This includes events where conditions are unable to fulfil their original intended purpose. Awards may also be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).

Any discretion exercised by the Committee in the adjustment of performance conditions will be fully explained to Shareholders in the relevant report. If the discretion is material and upwards, the Committee will consult with major Shareholders in advance. No such discretion was exercised during FY22/23.

The Committee can also grant additional LTIP awards to participants in return for their bearing the Company's liability to employer's National Insurance arising on the exercise of such grants made to them above. The additional award ensures that the participants are in a neutral position on an after tax basis, assuming no change in tax rates.

All historical awards that have been granted before the date this policy came into effect and remain outstanding (including those detailed on page 58 of this report) remain eligible to vest based on their original award terms.

Recruitment Policy

Upon recruitment of an Executive Director, the remuneration package will be in line with the remuneration policy, subject to the Committee having discretion that buy-out awards (or any other means in order to facilitate recruitment) are reasonably necessary.

Adoption of the refined policy for 2023/24

In addition to reviewing and refining the policy to incorporate best practice, the committee has reviewed the Remuneration policy for the coming year and introduced a new shareholding guideline for Executive Directors of 150% of salary to be met by April 2026.

Annual Report on remuneration

This section sets out how the remuneration policy was applied for the year ended 31 March 2023 (and the prior year).

Single figure table for Executive Directors

	Gary Marsh		Peter James		John Macmichael		Matthew Richards	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Base Salary	**218***	200	**183***	165	**175**	165	**175**	165
Benefits	**8**	6	**24**	23	**18**	25	**5**	4
Pension	**4**	4	**7**	7	**–**	1	**7**	7
Annual Bonus***	**175**	105	**175**	105	**175**	105	**175**	105
LTIP**	**106**	–	**106**	–	**106**	–	**–**	–
Total	**511**	315	**495**	300	**474**	296	**362**	281
Of which:								
Fixed remuneration	**230**	210	**214**	195	**193**	191	**187**	176
Variable remuneration	**281**	105	**281**	105	**281**	105	**175**	105

*following the results of the independent salary benchmarking exercise conducted during 2022/23 the salary for Gary Marsh was increased from £215,000 to £225,000 and Peter James from £175,000 to £200,000.

** There were no LTIP or EMI shares granted which were due to vest in the period. However, three directors exercised 8,000 vested options each on the 24th February 2023.

*** All Bonuses including the Director bonuses have been accrued, however payment was deferred until the end of Q1 when the results had been finalised though not yet formally signed off. Matthew Richards and Peter James have an requirement to use a specified proportion of the annual bonus to exercise options or purchase shares within an agreed time period.

The principal benefits in kind relate to the provision of company cars, fuel, and private healthcare.

Of the current year share-based payments charge £308k (2022: £144k) relates to the Directors.

FY2024 Director Salaries

	From 1 April 2023	1 April 2022 to 31 March 2023
G S Marsh	**240**	225*
P O James	**210**	200*
M T Richards	**190**	175
J L Macmichael	**190**	175

*following the results of the independent salary benchmarking exercise conducted during 2022/23 the salary for Gary Marsh was increased from 215,000 to £225,000 and Peter James from £175,000 to £200,000.

Single figure table for Non-executive Directors

	Nigel Rogers			Peter Haining			Pete Magowan		
	From 1 Apr 2023	2023	2022	From 1 Apr 2023	2023	2022	From 1 Apr 2023	2023	2022
Fees	**70**	66	62	**26**	26	25	**40**	32	30

In the event that an non executive director provides additional services there may be an appropriate incremental fee agreed.

During the period, additional fees totalling £53k (2022: £31k) in respect of accountancy services and out of pocket expenses provided by The Kings Mill Practice, a firm of which Mr P Haining is the proprietor, were paid. A balance of £5k (2022: £9k) was due to The Kings Mill Practice at 31 March 2023.

Directors' interests in shares

The Directors' interest in the issued ordinary share capital of the Company at today's date, at 31 March 2023 and 31 March 2022 or date of appointment if later, were as follows:

	04 July 23			31 March 23			31 March 22		
	Shareholding	Vested but unexercised options	Total Interest in shares of the Company	Shareholding	Vested but unexercised options	Total Interest in shares of the Company	Shareholding	Vested but unexercised options	Total Interest in shares of the Company
G S Marsh	**288,676**	**8,000**	**298,676**	288,674	8,000	296,674	280,892	16,000	296,892
M T Richards	**12,329**	**32,000**	**44,329**	12,329	32,000	44,329	10,376	32,000	42,376
P O James	**12,445**	**24,000**	**36,445**	12,446	24,000	36,446	3,205	32,000	35,205
J L Macmichael	**131,247**	**8,000**	**139,247**	131,247	8,000	139,247	122,491	16,000	138,491
N Rogers	**6,351**	**–**	**6,351**	6,351	–	6,351	4,400	–	4,400
P Haining	**56,583**	**–**	**56,583**	56,583	–	56,583	54,627	–	54,627
P J Magowan	**6,927**	**–**	**6,927**	6,927	–	6,927	4,000	–	4,000

REMUNERATION COMMITTEE REPORT
CONTINUED

Shareholding Guidelines

	Total Interest in Ordinary shares	Shareholding guidelines	Shareholding guidelines met
G S Marsh	296,674	150%	Yes
P O James	36,446	150%	Yes
M T Richards	139,247	150%	Yes
J L Macmichael	44,329	150%	Yes

Directors' interest in long-term incentive awards

	Gary Marsh	Peter James	John Macmichael	Matthew Richards
Options held at 31.03.21	26,700	42,700	42,700	26,700
Granted*	10,700	10,700	10,700	10,700
Exercised	–	–	–	–
Lapsed	–	–	–	–
Options held at 31.03.22	37,400	53,400	53,400	37,400
Granted**	14,100	14,100	14,100	14,100
Exercised***	(8,000)	(8,000)	–	(8,000)
Lapsed	–	–	–	–
Options held at 31.03.23	43,500	59,500	67,500	43,500

*During the year to 31 March 2022, the Board Granted an award of 10,700 shares on the 29 October 2021 to each of the Executive Directors which, subject to the performance criteria, will be eligible to vest in 2024. The exercise price of these options was 5p.

**During the year to 31 March 2023, the Board Granted an award of 14,100 shares on the 4 October 2022 to each of the Executive Directors which, subject to the performance criteria, will be eligible to vest in 2025. The exercise price of these options was 5p.

***Three directors exercised 8,000 options on the 24 February 2023 with an exercise price of 0.01p and where the mid market price was 13.20 each of the directors sold 1,200 shares at £13.10 resulting in net proceeds and a gain of £15,640 to cover the associated tax.

The range of exercise prices for the options held are 0.1p to 5p with an exercise period of April 2018 to April 2032. The market price of the shares on 31 March 2023 was £10.80 (2022: £11.75), with a quoted range during the year of £9.86 to £14.35 (2022: of £8.30 to £14.05).

Service contracts and letters of appointment

The Executive Directors have rolling service contracts that are subject to twelve months' notice.

The Chairman and Non-executive Directors have entered into letters of appointment with six months' notice. In accordance with the company's policy on re-election they are re-elected annually by the shareholders at the AGM.

External appointments

During the year ended 31 March 2023, the Executive Directors did not hold any Non–Executive Directorships with other companies other than Mr P O James who on a voluntary basis is a Non-executive Director for the British Waterski Federation Limited and is a Director of Bradley Drive Management Company Ltd.

Advisers

KPMG LLP provided independent compensation benchmarking advice to the Committee and DAC Beachcroft LLP provided US share scheme advice during the Period.

Loss of office

There were no loss of office payments made during the Period.

Pete Magowan
Remuneration Committee Chairman

4 July 2023

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Group in respect of the year ended 31 March 2023.

Principal Activities, Review of the Business and Future Developments

The principal activities of the Group during the year continued to be those of the manufacturing of electronic equipment and the value added supplier of electronic components and materials.

The key performance indicators recognised by management are set out in the KPI section of the strategic report (page 36 & 37).

An overall review of the Group's trading performance and future developments is given in the Chairman's Statement and Strategic Report. Other than as reported in the corporate and social responsibility section of this report (pages 42 to 43) the Group does not comment on environmental matters.

Directors

The Directors of the Company during the year were:

N F Rogers

G S Marsh

P O James, BSc FCA

J L Macmichael

M T Richards

P Haining, FCA

P Magowan

Details of the interests of Directors in the shares of the Company and Directors' service contracts are stated in the Remuneration Committee Report on pages 68 to 70.

Corporate Governance

The Board confirms that the Group has had regard, throughout the accounting period, with the provisions set out in the Quoted Companies Alliance ("QCA") Code and the UK Corporate Governance Code which was issued by the Financial Reporting Council in April 2016.

Details of how the Group has adopted the QCA Code and corporate governance principles are set out in the corporate governance report on pages 54 to 55.

Internal Control

Details of how the Board has implemented its internal control framework and processes are set out in the corporate governance report on pages 66 to 70.

Board of Directors

The structure and operation of the Board of Directors is set out in the corporate governance report on pages 52 to 53. Details of Directors' interests are set out in the remuneration report on pages 68 to 69.

Principal risks and uncertainties

Details of the principal risks and uncertainties of the Group are set out in the strategic report on pages 46 to 48.

Financial Instruments

Details of the use of financial instruments by the Group are contained in Note 21 of the financial statements.

Purchase of Own Shares

At the year end the Company had in place authority to purchase up to 15% of the issued ordinary shares under authority given by a resolution at the Annual General Meeting on 7 September 2022. This authority expires on 7 March 2024. During the year the company repurchased 15,000 shares at £13.55 with a nominal value of £750 at market value of £203k into treasury shares which get used for the all-employee share scheme.

Dividends

Details of the dividends are disclosed in Note 9 and in the Chairman's Statement on page 13.

Post balance sheet events

Details of post balance sheet events are included in Note 34.

Research and Development

During the year the Group has continued to invest in research and development in partnership with some of its customers to develop technical electronic solutions to address the demand of our customers in their core markets of electronic communications, mobile battery power and rugged and industrial computing. During the year we invested in excess of £2.2m (2022: £2.0m) in research and development. The Company continues to claim R&D tax credits where eligible.

Share options award

On 4 October 2022 and 12 January 2023, the company granted options to the Senior Leadership team and the Executive Directors under the Company's LTIP and CSOP, further details are provided in the remuneration report on pages 65 to 70 and Note 28.

Employee engagement and Consultation

The Group places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees and on the various factors impacting the performance of the Group.

Further details are set out in the compliance with section 172 statement (pages 38 to 45) and within the corporate governance report on pages 54 to 60.

Disabled persons

The Group gives fair consideration to applications for employment made by disabled persons, bearing in mind the particular aptitudes and abilities of the applicant concerned. In the event of employees becoming disabled, every effort will be made to ensure that their employment with the Group continues and that appropriate training and/or reasonable adjustments are arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should provide consistent opportunities to that of other employees.

Further details are set out in the corporate governance report on pages 54 to 60.

Insurance

The Group has in place appropriate Directors' and Officers' indemnity insurance for all Group companies.

Business relationships

We agree payment terms with suppliers in advance and pay in accordance with agreed terms unless the goods or services provided are under dispute. Further details are set out in the corporate governance report on pages 54 to 60.

Going Concern

Further details are set out in the corporate governance report on pages 59 to 60.

DIRECTORS' REPORT
CONTINUED

Renewal of authority to purchase the Company's shares

Last year, a resolution was passed at the Annual General Meeting to give the Company the authority to purchase its own Ordinary shares on the Stock Exchange. This authority would expire after a period of eighteen months from the passing of the resolution. In order to avoid this authority expiring during the next year and the need to call an extraordinary general meeting to renew the authority, a resolution to renew the authority is set out in the notice of the Annual General Meeting at the end of this document.

Under the terms of the resolution to be proposed at the Annual General Meeting, the maximum number of shares which may be purchased is 15% of the issued Ordinary share capital of the Company. The minimum price payable by the Company for its Ordinary shares will be 5p and the maximum price will be determined by reference to current market prices. The authority will automatically expire after a period of eighteen months from the passing of the resolution unless renewed.

It is not the Directors' current intention to exercise the power to purchase the Company's Ordinary shares, but they believe that under certain circumstances it would be in the Company's best interests to do so.

Your Directors consider that the resolutions to be proposed at the meeting are in the best interests of the Company and its shareholders. They unanimously recommend that all Ordinary shareholders vote in favour of the resolution at the Annual General Meeting as they intend to do in respect of their beneficial holdings.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and parent company financial statements for each financial year. The Directors have elected under company law and are required by the AIM Rules of the London Stock Exchange to prepare the Group financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and have elected under company law to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The group financial statements are required by law and UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006 to present fairly the financial position and performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company to enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. In addition, the Directors are responsible the maintenance and integrity of the corporate and financial information included in the Solid State PLC website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the parent company's auditors are unaware, and
- that Director has taken all steps that ought to have been taken as a Director in order to be aware of any information needed by the auditors in connection with preparing their report and to establish that the parent company's auditors are aware of that information.

A resolution to reappoint RSM UK Audit LLP as auditors will be proposed at the next annual general meeting.

By order of the Board

P Haining FCA

Secretary

4 July 2023

Registered Office: 2 Ravensbank Business Park, Hedera Road, Redditch, B98 9EY

OUR FINANCIALS

In this section

"Our trading performance reflects the hard work of the team across the Group, proactively managing the supply chain challenges in delivering for our customers. The Group's Balance Sheet reflects the equity fund raise and the new debt facilities which funded the acquisition of Custom Power, completed during August 2022. This new financing maintains our strong financial position which underpins our commercial ambitions."

Peter James
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Solid State PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2023 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Company Statement of Financial Position, Company Statement of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	**Group** • Revenue recognition • Inventory provisioning • Acquisition accounting for Custom Power LLC **Parent Company** • No key audit matters
Materiality	**Group** • Overall materiality: £500,000 (2022: £450,000) • Performance materiality: £375,000 (2022: £337,000) **Parent Company** • Overall materiality: £450,000 (2022: £331,000) • Performance materiality: £337,500 (2022: £248,000)
Scope	Our audit procedures covered 87% of revenue, 87% of total assets and 86% of profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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 were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

Revenue recognition

Key audit matter description	Refer to accounting policies in Note 1 to the group financial statements and Note 3. The group's revenue comprises sales of electronic equipment to its customers after deductions for discounts and anticipated returns. There are also certain contracts where retentions have been received or where obligations are satisfied in stages. Revenue underpins the key performance measures of the group. There is a risk that revenue may be misstated around the year end through: • Inappropriate application of the group's revenue recognition policies; • Recognition of revenue in the wrong period; or • Inaccurate estimates for returns.
How the matter was addressed in the audit	We assessed whether revenue was recognised in line with the group's revenue recognition policies and IFRS 15. We selected a sample of items to check that revenue was recognised in accordance with contractual terms and that the cut-off of these transactions around the year end was appropriate. We critically assessed the revenue recognition for specific contracts where revenue is recognised over the course of the agreement and resulted in deferred income, including agreement of specific contractual terms. We also evaluated the provision for returns by assessment of the level and nature of post year end credit notes.
Key observations	Our audit work in reviewing revenue recognised around the year end, including the review of key judgements, did not identify any material misstatement. The disclosures management have made are appropriate.

Inventory provisioning

Key audit matter description	Refer to accounting policies and critical accounting judgements in Notes 1, 2 and 15. The group holds a combination of finished goods and goods for re-sale, together with work in progress. Finished goods and goods for re-sale comprise a range of bought-in and manufactured specialist electronic equipment. Work in progress is substantially the material cost of assemblies and manufactured products at varying stages of completion at the year end. Certain inventory lines are bespoke to customers and may not be useable if orders are cancelled. As inventory levels have increased, there is an increased risk that the full value of certain products is not recoverable. The valuation of inventory, which by its nature is specialist, involves judgement relating to the potential obsolescence of inventory including net realisable value ("NRV"). The group has in place an established process for addressing this risk and recognising provisions accordingly. The effect of these matters is that, as part of our risk assessment, we determined that the inventory provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than materiality for the financial statements as a whole, and, as a result, was determined to be a key audit matter.
How the matter was addressed in the audit	We reviewed and understood the group's accounting policy and how this satisfied the requirements of IAS2 'Inventories'. We assessed and challenged the basis, methods and model on which provisions for obsolete and slow-moving inventory have been established. This was undertaken at a component level and took account of the nature of each business and its products. We challenged the year-end inventory provisions recognised and the key assumptions, including the specific areas where a provision was considered necessary. We reviewed inventory increases and by reference to historic trends, the risk that more current items may become aged and therefore at risk of a diminution in value. We performed testing to ensure that the valuation of inventory was stated at the lower of cost or NRV by comparing the sales value of the products to their actual cost.
Key observations	Our audit work on the inventory provision, including the review of key estimates, did not identify any material misstatement in the valuation of the inventory provision. The disclosures management have made are appropriate.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

Acquisition accounting for Custom Power LLC	
Key audit matter description	Refer to accounting policies and critical accounting judgements in Notes 1, 2, 12 and 32. During the year the group acquired Custom Power LLC. The acquisition arrangement included contingent consideration which is payable if a specified revenue hurdle is met. The hurdle is an 'all or nothing' target. Separately identifiable intangible assets were recognised upon acquisition, including in relation to the acquired customer relationships and brand. Relatively small changes in the forecasts and key assumptions would have a significant impact on the carrying values of these assets. The effect of these matters is that, as part of our risk assessment, we determined that the acquisition accounting has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than materiality for the financial statements as a whole, and, as a result, was determined to be a key audit matter.
How the matter was addressed in the audit	We reviewed and verified that the acquisition accounting entries and fair value adjustments were in accordance with IFRS 3 'Business Combinations'. We reviewed management's forecasts to challenge whether the specified revenue hurdle for the contingent consideration would be met, including comparisons to past trading performance and assessing expectations regarding forecasted financial performance. We performed our own sensitivity analysis to assess the required changes in forecasted financial performance such that the revenue hurdle would be met. We critically challenged management's judgements and estimates in relation to the recognition of separately identifiable intangible assets, including forecasted sales growth and the discount rates adopted within the model. We reviewed the mathematical accuracy of the acquisition accounting model. We reviewed the related disclosures to assess whether these sufficiently explained the level of estimation uncertainty present.
Key observations	Our audit work in respect of the acquisition accounting for Custom Power LLC concluded that the acquired assets and liabilities were not materially misstated, albeit subject to a high degree of estimation uncertainty as regards to the fair value of the contingent consideration recognised. The disclosures management have made are appropriate.

Our application of materiality

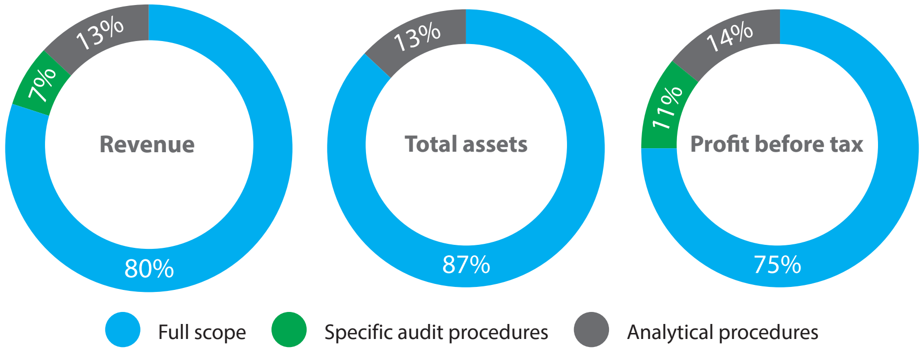
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£500,000 (2022: £450,000)	£450,000 (2022: £331,000)
Basis for determining overall materiality	Equates to 4.6% of adjusted profit before tax	5% of net assets, capped at 90% of group overall materiality
Rationale for benchmark applied	Adjusted profit before tax is deemed to be the primary performance measure for the users of the financial statements to review the financial performance of the Group	Net assets is considered to be the most appropriate benchmark for the holding company
Performance materiality	£375,000 (2022: £337,000)	£337,500 (2022: £248,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £25,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £22,500 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of 12 components, located in the United Kingdom, USA and Ireland.

The coverage achieved by our audit procedures was:



Full scope audits were performed for 4 components, specific audit procedures for 2 components and analytical procedures at group level for the remaining 6 components.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and reviewing the cash flow forecasts prepared by management.
- Reviewing the mathematical accuracy of the cash flow forecasts.
- Reviewing the cash flow forecasts in light of our understanding of the business and current wider economic conditions and challenging the key assumptions within the forecasts.
- Reviewing agreements and correspondence relating to the availability of financing arrangements.
- Considering management's sensitivities and stressed forecasts, including the mitigating actions which could be taken.

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors
As explained more fully in the directors' responsibilities statement set out on page 72 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operates in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
IFRS/UK-adopted IAS, FRS102 and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	Inspection of advice received from external tax advisors.
Export Control and International Traffic in Arms (ITAR)	ISAs limit the required audit procedures to identify non-compliance with these laws and regulations to inquiry of management and where appropriate, those charged with governance and inspection of legal and regulatory correspondence, if any.
Health and safety legislation	ISAs limit the required audit procedures to identify non-compliance with these laws and regulations to inquiry of management and where appropriate, those charged with governance and inspection of legal and regulatory correspondence, if any.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition	See key audit matters above.
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Wall (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP,
Statutory Chartered Accountants
103 Colmore Row
Birmingham
B3 3AG

4 July 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £'000	2022 £'000
Revenue	3, 31	**126,503**	84,997
Cost of sales		**(86,829)**	(57,470)
Gross profit		**39,674**	27,527
Sales, general and administration expenses		**(30,266)**	(23,801)
Operating profit	4	**9,408**	3,726
Finance costs	6	**(972)**	(226)
Profit before taxation		**8,436**	3,500
Tax expense	7	**(1,746)**	(977)
Adjusted profit after taxation		**8,553**	6,158
Adjustments to profit	30	**(1,863)**	(3,635)
Profit after taxation		**6,690**	2,523
Profit attributable to equity holders of the parent		**6,693**	2,523
(Loss)/profit attributable to non-controlling interests		**(3)**	–
Other comprehensive (loss)/income – FX on overseas operations		**(869)**	261
Other comprehensive (loss)/income – taxation	7	**(94)**	261
Adjusted total comprehensive income		**7,684**	6,158
Adjustments to total comprehensive income	30	**(1,957)**	(3,374)
Total comprehensive income for the year		**5,727**	2,784
Comprehensive income attributable to equity holders of the parent		**5,730**	2,784
Comprehensive loss attributable to non-controlling interests		**(3)**	–

Earnings per share		2023	2022
Basic EPS from profit for the year	8	**64.5p**	29.5p
Diluted EPS from profit for the year	8	**63.1p**	28.9p

Adjusted EPS measures are reported in Note 8 to the accounts.

All results presented for the current and comparative period are generated from continuing operations.

The notes on pages 87 to 123 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Share Capital £'000	Share Premium Reserve £'000	Foreign Exchange Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total £'000	Non-controlling interests £'000	Total Equity £'000
Balance at 31 March 2022	428	3,625	33	5	23,042	(57)	**27,076**	–	**27,076**
Issue of new shares	139	26,849	–	–	–	–	**26,988**	–	**26,988**
Share-based payment credit	–	–	–	–	551	–	**551**	–	**551**
Transfer of treasury shares to AESP	–	–	–	–	(152)	152	**–**	–	**–**
Dividends	–	–	–	–	(2,235)	–	**(2,235)**	–	**(2,235)**
Transactions with non-controlling interests	–	–	–	–	–	–	**–**	50	**50**
Transactions with owners in their capacity as owners	139	26,849	-	–	(1,836)	152	**25,304**	50	**25,354**
Result for the year ended 31 March 2023	–	–	–	–	6,693	–	**6,693**	(3)	**6,690**
Other comprehensive income	–	–	(869)	–	(94)	–	**(963)**	–	**(963)**
Total comprehensive income	–	–	(869)	–	6,599	–	**5,730**	(3)	**5,727**
Purchase of treasury shares	–	–	–	–	–	(203)	**(203)**	–	**(203)**
Balance at 31 March 2023	**567**	**30,474**	**(836)**	**5**	**27,805**	**(108)**	**57,907**	**47**	**57,954**

FOR THE YEAR ENDED 31 MARCH 2022

	Share Capital £'000	Share Premium Reserve £'000	Foreign Exchange Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total £'000	Non-controlling interests £'000	Total Equity £'000
Balance at 31 March 2021	428	3,625	6	5	21,508	(70)	**25,502**	–	**25,502**
Share-based payment credit	–	–	–	–	295	–	**295**	–	**295**
Transfer of treasury shares to AESP	–	–	–	–	(93)	93	**–**	–	**–**
Dividends	–	–	–	–	(1,453)	–	**(1,453)**	–	**(1,453)**
Transactions with owners in their capacity as owners	–	–	–	–	(1,251)	93	**(1,158)**	–	**(1,158)**
Result for the year ended 31 March 2022	–	–	–	–	2,523	–	**2,523**	–	**2,523**
Other comprehensive income	–	–	–	–	261	–	**261**	–	**261**
Foreign exchange	–	–	27	–	–	–	**27**	–	**27**
Total comprehensive income	–	–	27	–	2,784	–	**2,811**	–	**2,811**
Purchase of treasury shares	–	–	–	–	–	(80)	**(80)**	–	**(80)**
Rounding	–	–	–	–	1	–	**1**	–	**1**
Balance at 31 March 2022	428	3,625	33	5	23,042	(57)	**27,076**	–	**27,076**

The notes on pages 87 to 123 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets			
Intangible assets	12	**41,563**	15,831
Property, plant and equipment	10	**4,718**	3,414
Right-of-use lease assets	11	**1,981**	1,983
Deferred tax asset	23	**375**	539
Total non-current assets		**48,637**	21,767
Current assets			
Inventories	15	**33,228**	17,598
Trade and other receivables	16	**19,699**	17,978
Cash and cash equivalents – on deposit	22	**4,032**	–
Cash and cash equivalents – available on demand	22	**8,192**	4,983
Total current assets		**65,151**	40,559
TOTAL ASSETS		**113,788**	62,326
Liabilities		**£'000**	£'000
Current liabilities			
Trade and other payables	17	**(23,735)**	(16,488)
Deferred and contingent consideration on acquisitions – current	17, 21, 22	**(5,679)**	(4,625)
Current borrowings	19, 21, 22	**(1,279)**	(2,059)
Contract liabilities	18	**(5,380)**	(3,461)
Corporation tax liabilities		**(1,110)**	(531)
Right-of-use lease liabilities	20	**(1,057)**	(758)
Provisions	24	**(323)**	–
Total current liabilities		**(38,563)**	(27,922)
Non-current liabilities			
Non-current borrowings	19, 21, 22	**(13,383)**	(1,500)
Provisions	24	**(715)**	(694)
Deferred tax liability	23	**(2,187)**	(1,832)
Right-of-use lease liabilities	20	**(986)**	(1,326)
Deferred and contingent consideration on acquisitions	21,22	**–**	(1,976)
Total non-current liabilities		**(17,271)**	(7,328)
Total liabilities		**(55,834)**	(35,250)
Total net assets		**57,954**	27,076
Share capital	25	**567**	428
Share premium reserve	26	**30,474**	3,625
Capital redemption reserve	26	**5**	5
Foreign exchange reserve	26	**(836)**	33
Retained earnings	26	**27,805**	23,042
Shares held in treasury	26, 27	**(108)**	(57)
Capital and reserves attributable to equity holders of the parent		**57,907**	27,076
Non-controlling interests	26	**47**	–
TOTAL EQUITY		**57,954**	27,076

The financial statements were approved by the Board of Directors and authorised for issue on 4 July 2023 and were signed on its behalf by:

G S Marsh
Director

P O James
Director

The notes on pages 87 to 123 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £'000	2023 £'000	2022 £'000	2022 £'000
OPERATING ACTIVITIES					
Profit before taxation			**8,436**		3,500
Adjustments for:					
Property plant and equipment depreciation			**1,159**		729
Right-of-use asset depreciation			**965**		763
Amortisation			**2,035**		1,327
(Profit)/loss on disposal of property, plant and equipment			**(45)**		3
Share-based payment expense			**551**		295
Finance costs			**972**		226
(Decrease)/increase in deferred contingent consideration			**(326)**		1,651
Profit from operations before changes in working capital and provisions			**13,747**		8,494
Increase in inventories		**(12,457)**		(6,922)	
Decrease/(increase) in trade and other receivables		**1,767**		(3,679)	
Increase in trade and other payables		**6,380**		8,140	
Decrease in provisions		**–**		(47)	
			(4,310)		(2,508)
Cash generated from operations			**9,437**		5,986
Income taxes paid		**(573)**		(941)	
Income taxes recovered		**184**		–	
Cash acquired			**(389)**		(941)
Net cash inflow from operating activities			**9,048**		5,045
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		**(1,145)**		(1,178)	
Capitalised own costs and purchase of intangible assets		**(1,197)**		(601)	
Proceeds of sales from property, plant and equipment		**153**		81	
Settlement of deferred consideration in respect of prior year acquisitions		**(4,625)**		(2,572)	
Payments for acquisition of subsidiaries net of cash acquired	32	**(28,662)**		–	
Net cash outflow from investing activities			**(35,476)**		(4,270)
FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		**26,988**		–	
Repurchase of ordinary shares into treasury		**(203)**		(80)	
Borrowings drawn	19	**15,872**		–	
Borrowings repaid	19	**(2,772)**		(2,250)	
Principal payment obligations for right of use assets		**(1,093)**		(871)	
Interest paid	6	**(865)**		(127)	
Transactions with non-controlling interests		**50**		–	
Dividend paid to equity shareholders	9	**(2,235)**		(1,453)	
Net cash inflow/(outflow) from financing activities			**35,742**		(4,781)
Increase/(decrease) in cash and cash equivalents	22		**9,314**		(4,006)

The notes on pages 87 to 123 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
CONTINUED

	2023 £'000	2022 £'000
Translational foreign exchange on opening cash	**(14)**	16
Net increase/(decrease) in cash and cash equivalents	**9,314**	(4,006)
Cash available on demand at beginning of year	**2,924**	6,914
Cash and cash equivalents at end of year	**12,224**	2,924

There were no significant non-cash transactions. Cash and cash equivalents comprise:

	2023 £'000	2022 £'000
Cash available on demand	**8,192**	4,983
Overdraft facility	**–**	(2,059)
Cash on deposit	**4,032**	–
Net cash and cash equivalents	**12,224**	2,924

The notes on pages 87 to 123 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

1. Accounting policies

Solid State PLC ("the Company") is a public Company incorporated, domiciled and registered in England and Wales in the United Kingdom. The registered number is 00771335 and the registered address is: 2 Ravensbank Business Park, Hedera Road, Redditch B98 9EY.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented.

These financial statements have been prepared in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The Group financial statements are presented in pounds sterling, which is the functional and presentational currency of the Group, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

In assessing the going concern position of the Group for the Consolidated Financial Statements for the year ended 31 March 2023, the Directors have considered the Group's cash flows, liquidity and business activities.

At 31 March 2023, the Group had net debt with banks of £2.4m and deferred consideration liabilities of £5.7m, giving reported net debt (excluding IFRS16) of £8.1m. Furthermore, the Group has a £7.5m revolving credit facility, of which £5.1m was not drawn at the year end.

Based on the Group's forecasts, the Directors have adopted the going concern basis in preparing the Financial Statements. The Directors have made this assessment after consideration of the Group's cash flows and related assumptions and in accordance with the Guidance published by the UK Financial Reporting Council (Risk Management, Internal Control and Related Financial and Business Reporting 2014, the April 2016 guidance on going concern basis of accounting and reporting on solvency and liquidity risks, and the various guidance issued in 2020). This guidance provides support to Directors and the Board in making the assessment of going concern.

In preparing the going concern assessment, the Directors considered the principal risks and uncertainties that the business faced, which have been disclosed on pages 46 to 48. The Board concluded that the three areas of risk that remained the most uncertain were the direct and indirect supply chain disruption risks in addition to inflation. The Directors have given careful consideration to the potential impact of ongoing global electronic component shortages and rising inflation on the cash flows and liquidity of the Group over the next 12-month period.

Customer demand has remained solid and, in the last financial year, we have seen customers maintaining strong order cover to help to manage global electronics supply chain issues. The most significant impact on the Group's future performance is the potential for an unwinding of customer stock holdings as the uncertainty arising from the extended electronic component lead times improves and there is a need to manage working capital and cash more tightly.

Management has taken all possible actions to minimise and mitigate the potential impact of this unwind; however, there is potential for some rescheduling of demand/de-stocking in the second half of 2023/24 and, potentially, into 2024/25. While the actions do not mitigate the risk fully, it still positions the Group to manage the impact as effectively as possible (as demonstrated historically over the last two trading years).

The Directors have prepared revised "stressed" forecasts, taking account of the results to date, current expected demand, and mitigating actions that could be taken, together with an assessment of the liquidity headroom against the cash and bank facilities. The bank facilities are subject to financial covenants; therefore, in evaluating a stressed forecast, the Board only included the RCF in the headroom to the extent it is available within the covenants.

This financial modelling is based on applying various sensitivity scenarios to a base case to 30 September 2023, which has been prepared based on an extension of the budget for FY23/24.

In preparing a severe downside scenario, it assumes a shortfall in Group revenue of ~20% over a 12-month period and a 3% margin erosion with limited cost mitigation, resulting in EBITDA reducing by ~69% compared to the Board's base case expectations. Even with this level of reduction to Group EBITDA, when combined with the mitigating actions that are within the Group's control, the Directors currently believe the Group would fully comply with covenants and, thus, maintain sufficient liquidity to meet its liabilities as they fall due.

In considering the assessment of the Group's going concern position, the Directors have also identified that the Group could look to both the Group's bankers or the equity markets if additional liquidity were required. Albeit, none of the sensitivities indicate that the Group would require additional sources of liquidity.

1. Accounting policies continued

Going concern (continued)

In the post balance sheet period, the rolling 12-month order intake remains strong, maintaining a book-to-bill ratio of 1.09, and reflects strong order cover. Furthermore, the Group has put in place a $10m approved short-term working capital overdraft facility until the end of September to ensure that there is funding, should it be needed, to manage any short-term spikes in working capital as a result of the delivery of the significant NATO contracts announced in the prior year. In addition, £1.6m of the short-term deferred consideration on acquisitions was settled in Q1 and the remainder will be settled in early August using the cash set aside on deposit for this purpose.

The Directors have concluded that the potential impact of the electronic component shortages and higher inflation, as described above, does not represent a material uncertainty over the Group and Company's ability to continue as a going concern. Nevertheless, it is acknowledged that there are, potentially, material variations in the forecast level of future financial performance.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months; therefore, it is appropriate to adopt a going concern basis for the preparation of the financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and Company were unable to continue as a going concern.

Changes in accounting policy and disclosures

New standards, amendments and interpretations adopted in the year.

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 April 2022:

- Amendments to IAS 16 regarding deductions from the cost of property, plant and equipment amounts received from selling items produced while the Company is preparing the asset for its intended use, effective for annual reporting periods beginning on or after 1 January 2022
- Amendments to IAS 37 regarding the costs to include when assessing whether a contract is onerous, effective for annual reporting periods beginning on or after 1 January 2022

The adoption of these standards and amendments has not had a material impact on the financial statements.

New standards, amendments and interpretations to published standards issued, but not yet effective and not early adopted

A number of new standards, amendments and interpretations to existing standards have been published that will be mandatory for the Group's accounting periods beginning on, or after, 1 April 2022 or later periods, and which the Group has decided not to adopt early, are listed below. The Group intends to adopt these standards considered relevant to the Group when they become effective.

- Amendments to IAS 1 and IFRS Practice Statement 2, regarding the classification of liabilities and disclosure of accounting policies, effective for annual reporting periods beginning on, or after, 1 January 2024
- Amendments to IAS 8 regarding the definition of accounting estimates, effective for annual reporting periods beginning on, or after, 1 January 2023
- Amendments to IAS 12 regarding deferred tax on leases and decommissioning obligations, effective for annual reporting periods beginning on, or after, 1 January 2023
- Amendments to references to the Conceptual framework in IFRS Standards

The Directors anticipate that none of the new standards, amendments to standards or interpretations will have a significant effect on the financial statements of the Group.

Principle of consolidation

The consolidated financial statements incorporate the financial results and position of the Parent and its subsidiaries.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

1. Accounting policies continued

Business combinations

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Financial Position, respectively.

The purchase method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Acquisition-related costs are expensed as incurred.

The consideration transferred for the acquisition of a subsidiary comprises the: fair values of the assets transferred; liabilities incurred to the former owners of the acquired business; equity interests issued by the Group; fair value of any asset or liability resulting from a contingent consideration arrangement; and fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured, initially, at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired, is recorded as goodwill.

If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Impairment of non-financial assets

Non-financial assets that have an indefinite useful life (e.g. goodwill) or other intangible assets that are not ready to use and, therefore, not subject to amortisation (e.g. ongoing incomplete R&D programmes) are reviewed at least annually for impairment.

Impairment tests on goodwill are undertaken annually on 31 March, and on other non-financial assets whenever events or changes in circumstances indicate that their carrying value may not be reasonable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Impairment charges are included in sales, general and administration expenses in the consolidated statement of comprehensive income, except to the extent that they reverse gains previously recognised in the consolidated statement of recognised income and expense. An impairment loss recognised for goodwill is not reversed.

Intangible assets

a) Goodwill

Goodwill arising on an acquisition is recognised as an asset and is, initially, measured at cost, being the excess of the fair value of the consideration over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised. However, it is reviewed for potential impairment at least annually or more frequently if events or circumstances indicate a potential impairment. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units to which it relates. Any impairment identified is charged directly to the Consolidated Statement of Comprehensive Income.Subsequent reversals of impairment losses for goodwill are not recognised.

b) Development costs

Expenditure incurred that is directly attributable to the development of new, or substantially improved, products or processes is recognised as an intangible asset when the following criteria are met:

- the product or process is intended for use or sale;
- the development is technically feasible to complete;
- there is an ability to use or sell the product or process;

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

CONTINUED

1. Accounting policies continued

Intangible assets (continued)

- it can be demonstrated how the product or process will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development; and
- the development expenditure can be reliably measured.

Directly attributable costs refers to the materials consumed; the directly attributable labour; and the incremental overheads incurred in the development activity. General operating costs, administration costs and selling costs do not form part of directly attributable costs.

All research and other development costs are expensed as incurred.

Capitalised development costs are amortised on a straight-line basis over the period, during which the economic benefits are expected to be received, typically ranging between one and five years. Amortisation expense is included within sales, general and administration expenses in the statement of comprehensive income.

The estimated remaining useful lives of development costs are reviewed at least on an annual basis. Amortisation commences once the project is completed and revenues are being generated.

The carrying value of capitalised development costs is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the consolidated statement of comprehensive income.

c) Software

Externally acquired software assets are, initially, recognised at cost and, subsequently, amortised on a straight-line basis over their useful economic lives. Cost includes all directly attributable costs of acquisition. In addition, directly attributable costs incurred in the development of bespoke software for the Group's own use are capitalised.

The useful economic life over which the software is being amortised has been assessed to be three to five years.

The carrying value of capitalised software costs is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the consolidated statement of comprehensive income.

The costs of maintaining internally developed software, and annual licence fees to utilise third-party software, are expensed as incurred.

d) Other intangibles

Other intangible assets are those which arise on business combinations in accordance with IFRS3 revised. These intangible assets form part of the identifiable net assets of an acquired business and are recognised at their fair value and amortised on a systematic basis over their useful economic life which is, typically, five to ten years. This includes the open orderbook, brand and customer relationships, the fair value of which are evaluated using the multi-period excess earnings method ("MEEM").

Capitalised acquisition intangibles are amortised on a straight-line basis over the period, during which the economic benefits are expected to be received, which, typically, range between five and ten years. Amortisation expense is included within sales, general and administration expenses in the statement of comprehensive income.

The carrying value of other intangible assets is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the consolidated statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment is stated at historical cost or deemed cost where IFRS1 exemptions have been applied, less accumulated depreciation and any recognised impairment losses.

Costs include the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use including any qualifying finance expenses.

Depreciation is provided on all items of property, plant and equipment to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

- Short leasehold property improvements – straight-line over minimum life of lease;

1. Accounting policies continued

Property, plant and equipment (continued)

- Fittings and equipment – 25% per annum on a reducing balance basis or a straight-line basis over three-to-five years with an appropriate residual value as considered most appropriate;
- Computers – between 20% and 33.3% per annum on a straight-line basis; and
- Motor vehicles – 25% per annum on a reducing balance basis.

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated net realisable value. Gains and losses on disposal are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of comprehensive income.

Leases

IFRS16 "Leases" addresses the definition of a lease, the recognition and measurement of leases and establishes the principles for the reporting useful information to users of the financial statements about the leasing activities of both lessees and lessors.

The Group has applied judgement to determine the lease term for some lease contracts, in which, as lessee, there includes a renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the amount of lease liabilities and right-of-use assets recognised.

The lease liability reflects the present value of the future rental payments and interest, discounted using either the effective interest rate or the incremental borrowing rate of the entity.

Payments associated with short-term leases and leases of low value assets are recognised on a straight-line basis over the lease term as an expense within the income statement.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at, or before, the commencement date less any lease incentives received. Right-of-use assets are related to the property leases, plant and machinery and motor vehicles, and are depreciated on a straight-line basis over the lease term.

Right-of-use lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include lease payments less any lease incentives receivable. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on either average purchase cost or the cost of purchase on a first in, first out basis, which is the most appropriate for the category of inventory. Work in progress and finished goods include labour and attributable overheads. Net realisable value is based on estimated selling price less any additional costs to completion and disposal.

Financial instruments

Classification and measurement of financial instruments under IFRS9 classifies financial assets as either held at amortised cost, fair value through other comprehensive income("FVOCI") or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial instrument.

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

CONTINUED

1. Accounting policies continued

Trade and other receivables

Trade receivables are initially measured at their transaction price. Other receivables are initially recognised at fair value plus transaction costs.

Receivables are held to collect the contractual cash flows, which are solely payments of principal and interest. Therefore, these receivables are, subsequently, measured at amortised cost using the effective interest rate method.

The effect of discounting on these financial instruments is not considered to be material.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Impairment of financial assets

IFRS9 requires an expected credit loss ("ECL") model, which broadens the information that an entity is required to consider when determining its expectations of impairment. Under this new model, expectations of future events must be taken into account and this will result in the earlier recognition of potential impairments.

An impairment loss is recognised for the expected credit losses on-financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both.

The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability weighted amount determined from a range of outcomes and takes into account the time value of money.

Impairment of trade receivables

For trade receivables, expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the ageing of the receivable.

The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ("the lifetime expected credit losses"). Different provision rates and periods are used based on groupings of historic credit loss experience by product type, customer type and location.

Impairment of other receivables

The measurement of impairment losses depends on whether the financial asset is "performing", "underperforming" or "non-performing" based on the Company's assessment of increases in the credit risk of the financial asset since its initial recognition and any events that have occurred before the year end, which have a detrimental impact on cash flows.

The financial asset moves from "performing" to "underperforming" when the increase in credit risk since initial recognition becomes significant.

In assessing whether credit risk has increased significantly, the Company compares the risk of default at the year end with the risk of a default when the investment was, originally, recognised using reasonable and supportable past and forward-looking information that is available without undue cost.

The risk of a default occurring takes into consideration default events that are possible within 12 months of the year end ("the 12-month expected credit losses") for "performing" financial assets, and all possible default events over the expected life of those receivables ("the lifetime expected credit losses") for "underperforming" financial assets.

Impairment losses and any, subsequent, reversals of impairment losses are adjusted against the carrying amount of the receivable and are recognised in profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial liabilities are classified as either:

- Financial liabilities at amortised cost; or
- Financial liabilities as at fair value through profit or loss ("FVTPL")

1. Accounting policies continued

Financial Liabilities and equity (continued)

Any contingent consideration due in relation to acquisitions is measured at FVTPL with all other financial liabilities measured at amortised cost and include:

- Trade and other payables;
- Contract liabilities;
- Borrowings;
- Lease liabilities; and
- Deferred consideration for acquisitions.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

They are, initially, recognised at fair value net of direct transaction costs and, subsequently, held at amortised cost.

Contract liabilities

Contract liabilities comprise payments in advance of revenue recognition and revenue deferred due to contract performance obligation not being completed.

They are classified as current liabilities if the contract performance obligations payment are due to be completed within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Contract liabilities are recognised, initially, at fair value, and, subsequently, stated at amortised cost.

Borrowings

Borrowings are recognised, initially, at fair value, net of transaction costs incurred and, subsequently, stated at amortised cost. Borrowing costs are expensed using the effective interest method.

Equity instruments and share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares

Where any Group Company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

These shares are held in a separate negative reserve in the capital section of the consolidated statement of financial position. Any dividends payable in relation to these shares are cancelled.

Where such shares are, subsequently, sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends

Equity dividends are recognised when they become legally payable. Interim dividends are recognised when paid. Final dividends are recognised when approved by the shareholders at an annual general meeting.

Adjusted performance metrics and non-recurring charges/credits

Non-recurring charges/credits are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. Transactions are classified as non-recurring where they relate to an event that falls outside of the ordinary activities of the business and where individually or in aggregate, they have a material impact on the financial statements.

In presenting our adjusted performance metrics we also exclude the non-cash charges/credits that relates to acquisition accounting and share-based payments and the associated tax effect of these items.

1. Accounting policies continued

Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are retranslated at the rates ruling at the balance sheet date. Exchange differences arising are recognised in the statement of comprehensive income.

Revenue

The Group manufactures and distributes a range of electronic equipment. Revenue comprises sales to external customers after discounts, excluding value-added taxes.

The Group's performance obligations with respect to physical goods is to deliver a finished product to a customer.

Revenue is recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full control over the products supplied, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Where performance obligations have not be satisfied at the reporting date any advanced payments are recognised as contract liabilities.

For goods that are subject to bill and hold arrangements this means:

- the goods are complete and ready for collection;
- the goods are separately identified from the Group's other stock and are not used to fulfil any other orders; and
- the customer has specifically requested that the goods be held pending collection.

Normal payment terms apply to the bill and hold arrangements.

Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

No element of financing is deemed present as the sales are made with a credit term of 30 to 90 days, which is consistent with market practice. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a returns provision. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Directors, who are responsible for allocating resources and assessing performance of the operating segments.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Executive Directors assess the performance of the operating segments based on the measures of revenue, Profit Before Taxation ("PBT")and Profit After Taxation ("PAT"). Central overheads are not allocated to the business segments.

Government grants

Income received from government grants is recognised as "Other Income" within operating profit in the Statement of Comprehensive Income in the same period as the staff costs to which the income relates. Government grant income is only recognised once there is reasonable assurance both that the Group will comply with any conditions and that the grant will be received.

Pensions

The pension schemes operated by the Group are defined contribution schemes. The pension cost charge represents the contributions payable by the Group.

1. Accounting policies continued

Current and deferred taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Taxable profit differs from accounting profit because it excludes certain items of income and expense that are recognised in the financial statements but are treated differently for tax purposes. Current tax is the amount of tax expected to be payable or receivable on the taxable profit or loss for the current period. This amount is then amended for any adjustments in respect of prior periods.

Current tax is calculated using tax rates that have been written into law ("enacted") or irrevocably announced/committed by the respective Government ("substantively enacted") at the period end date. Current tax receivable (assets) and payable (liabilities) are offset only when there is a legal right to settle them net and the entity intends to do so. This is, generally, true when the taxes are levied by the same tax authority.

Because of the differences between accounting and taxable profits and losses reported in each period, temporary differences arise on the amount certain assets and liabilities are carried at for accounting purposes and their respective tax values. Deferred tax is the amount of tax payable or recoverable on these temporary differences.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the differences can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted, or substantively, enacted by the statement of financial position date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities, and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Share-based payment

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

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2. Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies and relevant legislation. This Note provides an overview of the areas that involved a higher degree of judgement or estimation complexity as noted, and of items that are more likely to be materially adjusted due to assumptions driving the estimates or judgements turning out to be wrong.

Acquisition accounting (estimation)

In accounting for the Custom Power acquisition (see Note 32) in accordance with IFRS 3, there were several key areas identified where the estimation of the value could have changed if key assumptions were varied. This primarily relates to the fair value of tangible assets, the fair value of brand and customer relationship intangible assets, and the recognition of the $5m of contingent consideration (and the impact to the resultant goodwill carrying value).

A £0.9m uplift to the carrying value of tangible assets was booked as a fair value adjustment, primarily reflecting the substantial replacement cost value for testing equipment. The estimation range on these assets was calculated as between £Nil (book value) and £1.7m (estimated replacement cost). The fair value adopted was based on the best estimate of depreciated replacement cost for items that are not available for sale on the open market, due to creation via internally generated expertise, and the expected useful economic life ("UEL") for those assets. If the estimated full replacement cost had been used, the uplift value recognised could have increased by £0.8m.

A third-party expert completed an independent valuation of IFRS 3, intangible assets recognised on acquisition, with two material assets identified, being Customer Relationships and Brand. These assets will be depreciated between three and ten years based on the value of incremental earnings in the model. Estimates required included customer attrition, future profitability, and appropriate discount rates.

The $5m contingent consideration liability has not been recognised in the acquisition accounting consideration as the stretch threshold set for revenue is not expected to be achieved. The fair value of this element of the consideration is estimated to be Nil as the hurdle is an "all or nothing" target and will not be achieved based on the agreed budget target and the current open orderbook. This is still considered an estimate as there is an outside possibility that Custom Power may receive a transformational order, where all components are easily available to fulfil by the deadline. However, in the opinion of the Directors, this is considered highly unlikely.

The above estimations of the quantum of the fair value of intangibles and tangible assets and the consideration would impact the recognised goodwill value.

Expected credit losses (estimation)

In accordance with IFRS 9, the Group is required to assess the expected credit loss occurring over the life of its trade receivables. As a result of the continued component shortages and rising inflation across the globe, the Directors expect that the risk of credit default continues to be higher than historical norms, however, the Group has experienced no material credit losses in the reported period after careful credit management. As a result, the Directors have made a judgemental assessment of the potential credit losses in the current business environment. This includes the forward assessment of ongoing component shortages, where customers could invest in most of the goods required to complete their product and suffer adverse cash flow due to any missing components and the impact of rising inflation. In these financial statements the Directors have provided full disclosures of the provisions for credit default in Note 21.

Custom Power also has a historically high collection rate and trades with large, reputable customers so is judged to have decreased the overall credit risk of the Group. The calculation of the provision based on the Directors' judgemental assessment of expected credit loss reflects the impact of the acquisition of Custom Power with a small increase to the overall figure from 2022 of £39k.

If the Group were to provide for all debt that is overdue according to agreed credit terms, the recognised provision would increase by £2m to £2.7m.

Provisions for slow moving or obsolete inventories (estimation)

Inventories are carried at the lower of cost and net realisable value ("NRV"). NRV is reviewed in detail on an ongoing basis and provision for obsolete inventory is made based on several factors including age of inventories, the risk of technical obsolescence, the risk that customers default on customised product and the expected future usage.

This estimate is considered highly judgemental given the deliberate investment in inventory during the financial year to mitigate the challenge presented by market component shortages. An element of working capital risk can be mitigated with receiving advance customer deposits, however, there remains a risk of default and order cancellation.

2. Critical accounting estimates and judgements continued

Differences between such estimates and actual market conditions may have a material impact on the amount of the carrying value of inventories and may result in adjustments to cost of sales. If an additional 10% of the year-on-year increase in underlying inventory values were to be provided, the provision increase would be £1.2m. See Note 15 for details of the inventory provisions and the amounts written off to the consolidated statement of comprehensive income in the year.

Estimated useful life of intangible assets arising on acquisitions (estimation)

The periods of amortisation adopted to write down intangible assets arising on acquisitions (Note 12) requires estimates to be made in respect of the useful economic lives of the intangible assets to determine an appropriate amortisation rate.

Intangible assets arising on acquisitions are amortised on a straight-line basis over the period during which economic benefits are expected to be received, which is typically five to ten years.

The amortisation charge for intangible assets arising on the Custom Power acquisition in August is £575k; if the lives of all the acquired assets were reduced to five years, the impact would be to increase the charge by £554k.

Level of R&D expenditure that is eligible for R&D tax credits (judgement)

Uncertainties exist in relation to the interpretation of complex tax legislation, changes in tax laws and the amount and timing of future taxable income. This could necessitate future adjustments to taxable income and expense already recorded (Note 7).

At the year-end date, tax liabilities and assets reflect management's judgements in respect of the application of the tax regulations, in particular the R&D tax. In assessing our year-end corporation tax liability, we have made a provisional assessment as to the likely amount of development expenditure that will be eligible under each of the HMRCs large company and SME R&D tax credit schemes as the detailed tax computations have not been completed. The assumption is that the statutory Group entities previously eligible for the SME R&D tax scheme will move into the large company scheme for the 2023 tax year, so a £285k RDEC credit has been recognised in Other Income.

Our estimated taxation exposure at year-end assumed that the level of eligible R&D spend was comparable with prior years. At 31 March 2023, there are net current and deferred tax provisions totalling approximately £2.9m (2022: £1.8m).

Due to the uncertainties noted above, it is possible that the Group's initial R&D position is different to the final position adopted when the tax computation is finalised, resulting in a different tax payable or recoverable from the amounts provided.

Recognition criteria for capitalisation of development expenditure (judgement)

The Group capitalises R&D in accordance with IAS 38 (Note 12). There is judgement in respect of when (or if) R&D projects meet the requirement for capitalisation, which internal costs are directly attributable and, therefore, appropriate to capitalise and when the development programme is complete, and capitalisation should cease.

Amounts capitalised include the total cost of any external products or services and labour costs directly attributable to the development programme. Management judgement is involved in determining the appropriate internal costs to capitalise that are directly attributable to the development programme.

If there is any uncertainty in terms of the technical feasibility, ability to sell the product or any other risk that means the programme does not meet the requirements of the standard the R&D costs are expensed within the consolidated statement of comprehensive income.

Revenue recognition on customer contracts spanning financial periods (judgement)

The Group is now entering into a higher volume of contracts with customers that require judgement on appropriate milestones to recognise the related revenue. This has partially driven the £1.9m increase in contract liabilities (Note 18) in the financial year.

Key judgements can include the timing of transfer of ownership of inventory to the customer under bill-and-hold arragements as well as the determination of the appropriate contractual milestones and whether the criteria have been met to recognise revenue.

For material contracts that involve a significant level of judgement, management from various business areas will document and communicate the key judgement areas regarding ownership obligations, contractual commitments, and any other relevant inputs to result in the recognition of revenue to the Audit Committee.

3. Revenue

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions:

	2023 £'000	2022 £'000
Geography		
United Kingdom	**71,649**	53,030
Rest of Europe	**18,202**	15,726
Asia	**8,811**	6,542
North America	**27,205**	9,175
Rest of World	**636**	524
Total revenue	**126,503**	84,997

	2023 £'000	2022 £'000
Product		
Computing products	**21,718**	16,103
Communications products	**11,005**	7,745
Power products	**24,789**	8,681
Opto electronic and electronic components and modules	**68,991**	52,468
	126,503	84,997

See further segmental disclosures in Note 31.

4. Profit from operations

This has been arrived at after charging/(crediting):

	2023 £'000	2022 £'000
Staff costs excluding share-based payments (see Note 5)	**23,646**	16,562
Share-based payment expenses	**551**	295
Depreciation of property, plant and equipment	**1,159**	729
Depreciation of right-of-use asset	**965**	763
Amortisation of intangible assets	**2,035**	1,327
(Profit)/loss on disposal of property, plant and equipment	**(45)**	3
Auditors' remuneration:		
Audit fees	**245**	120
Other assurance fees	**–**	–
Non audit fees		
Other advisory services	**–**	6
Research and development costs (includes relevant staff costs)	**2,190**	2,044
RDEC Credit	**(285)**	(10)
Foreign exchange expense/(credit)	**269**	(33)
Stock write downs	**777**	59
Acquisition of subsidiaries legal and due diligence	**234**	533
Other income from government grants	**(14)**	(2)

The foreign exchange differences have been treated as an adjustment to cost of sales rather than as an overhead as they arise from sales income and cost-of-sales expenditures.

Details of transactions with businesses associated with the Directors are included within the Remuneration Committee report on pages 65 to 70.

5. Staff costs

Staff costs for all employees during the year, including the Executive Directors, were as follows:

	2023 £'000	2022 £'000
Wages and salaries	**20,173**	13,985
Social security costs	**2,147**	1,377
Pension costs	**1,361**	1,200
Share-based payment charges	**551**	295
Total staff costs	**24,232**	16,857

Wages and salaries include termination costs of £45k (2022: £56k).

The average monthly number of employees during the year, including the Executive Directors, was as follows:

	2023 Number	2022 Number
Selling and distribution	**136**	134
Manufacturing and assembly	**167**	110
Management and administration	**101**	59
	404	303

As the Group continues to grow, we continue to invest in and develop the senior leadership team, which are considered to be key management. Detailed disclosures in relation to Non-executive and executive remuneration can be found in the Remuneration Report on pages 65 to 70.

This senior management team includes Executive Directors. The key management team and their total compensation, including employers NI, totals £4,075k (2022: £3,857k). The amount charged in respect of share-based payments for key management personnel is £382k (2022: £202k). The amount charged in respect of defined contribution pension payments for key management personnel is £143k (2022: £198k).

6. Finance costs

	2023 £'000	2022 £'000
Bank borrowings	**790**	127
Interest on lease liabilities	**46**	99
Imputed Interest on deferred consideration	**136**	–
Total finance costs	**972**	226

7. Tax expense

	2023 £'000	2022 £'000
Analysis of total tax expense		
Total tax charge	**1,840**	716
	1,840	716
Current tax expense		
Group corporation tax on profits for the year	**1,537**	735
Adjustment in respect of prior periods	**(283)**	(8)
	1,254	727
Deferred tax expense		
Deferred tax expense charged to income statement	**398**	250
Adjustment in respect of prior periods	**94**	–
Total tax charge to income statement	**1,746**	977
Deferred tax expense/(credit) charged to other comprehensive income	**94**	(261)
Total tax charge to comprehensive income	**1,840**	716

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FOR THE YEAR ENDED 31 MARCH 2023

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7. Tax expense continued

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	2023 £'000	2022 £'000
Profit before tax	**8,436**	3,500
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2022: 19%)	**1,603**	665
Effect of:		
Expenses not deductible for tax purposes	**101**	443
Non-taxable credit	**(62)**	–
Difference between depreciation/amortisation for the year and capital allowances	**115**	(60)
Tax relief on exercise of share options exercised	**(60)**	–
Deferred tax asset released/(recognised) on share option expense	**75**	(226)
Movement in relief on research and development expenditure	**143**	(483)
Change in rate in respect of deferred tax recognition	**–**	343
Taxation difference in respect of Intangibles on acquisition	**(14)**	–
Tax losses recognised/(utilised)	**78**	–
Adjustments in respect of prior years	**(189)**	(9)
Overseas tax rate differences	**56**	8
Foreign exchange	**(6)**	35
Total tax charge	**1,840**	716

The UK corporation tax rate is 19% (effective from 1 April 2017). Amendments were, substantively, enacted on 24 May 2021, so the rate of UK corporation tax will rise to 25% from 1 April 2023. The deferred tax liabilities and assets on 31 March 2023 and comparative figures from March 2022 have been calculated based on this revised 25% rate.

R&D tax credits

The Group recognised a credit of £285k (2022: £10k) within other income in relation to claims made under the Research and Development expenditure credit scheme ("RDEC"). The UK entities in the Group are no longer considered eligible for the SME scheme estimated based on tax calculations. Claims were made under the SME scheme and recognised within the tax expense for the March 2022 comparative period.

8. Earnings per share

The earnings per share is based on the following:

	2023 £'000	2022 £'000
Reported earnings post tax	**6,693**	2,523
Adjusted earnings post tax	**8,553**	6,158
Weighted average number of shares	**10,374,314**	8,551,455
Diluted number of shares	**10,604,768**	8,728,268
Reported EPS		
Basic EPS from profit for the year	**64.5p**	29.5p
Diluted EPS from profit for the year	**63.1p**	28.9p
Adjusted EPS		
Adjusted Basic EPS from profit for the year	**82.5p**	72.0p
Adjusted Diluted EPS from profit for the year	**80.7p**	70.6p

Earnings per ordinary share has been calculated using the weighted average number of shares in issue during the year. The weighted average number of equity shares in issue was 10,374,314 (2022: 8,551,455) net of the treasury shares disclosed in Note 27.

8. Earnings per share continued

The diluted earnings per share is based on 10,604,768 (2022: 8,728,268) ordinary shares, which allow for the exercise of all dilutive potential ordinary shares.

The adjustments to profit made in calculating the adjusted earnings are set out in Note 30.

9. Dividends

	2023 £'000	2022 £'000
Prior year final dividend paid of 13.25p per share (2022: 10.75p)	**1,500**	920
Current year interim dividend paid of 6.5p per share (2022: 6.25p)	**736**	535
Cancelled dividends on shares held in treasury	**(1)**	(2)
	2,235	1,453
Final dividend proposed for the year at 13.5p per share (2022: 13.25p)	**1,528**	1,134

The proposed final dividend has not been accrued for as the dividend will be approved by the shareholders at the Annual General Meeting.

10. Property, plant and equipment

Year ended 31 March 2023	Land and buildings £'000	Short leasehold property improvements £'000	Motor vehicles £'000	Fittings, equipment and computers £'000	Total £'000
Cost					
1 April 2022	466	1,976	773	4,169	7,384
Foreign exchange	30	1	–	(33)	(2)
Additions	–	94	308	1,113	1,515
Acquisitions	–	–	–	991	991
Disposals	–	–	(84)	(61)	(145)
31 March 2023	**496**	**2,071**	**997**	**6,179**	**9,743**
Depreciation and impairment					
1 April 2022	–	987	308	2,675	3,970
Foreign exchange	–	–	–	(11)	(11)
Charge	–	164	151	844	1,159
Impairment	–	–	–	–	–
Disposals	–	21	(74)	(40)	(93)
31 March 2023	**–**	**1,172**	**385**	**3,468**	**5,025**
Net book value					
31 March 2023	**496**	**899**	**612**	**2,711**	**4,718**

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10. Property, plant and equipment continued

Year ended 31 March 2022	Land and buildings £'000	Short leasehold property improvements £'000	Motor vehicles £'000	Fittings, equipment and computers £'000	Total £'000
Cost					
1 April 2021	446	1,951	678	3,570	6,645
Additions	–	121	302	755	1,178
Disposals	–	(98)	(207)	(158)	(463)
Foreign exchange	20	2	–	2	24
31 March 2022	466	1,976	773	4,169	7,384
Depreciation and impairment					
1 April 2021	–	896	371	2,397	3,664
Charge for the year	–	189	103	437	729
On disposals	–	(98)	(166)	(160)	(424)
Foreign exchange	–	–	–	1	1
31 March 2022	–	987	308	2,675	3,970
Net book value					
31 March 2022	466	989	465	1,494	3,414

11. Right-of-use assets

Year ended 31 March 2023	Land and buildings £'000	Motor vehicles/ other £'000	Total £'000
Cost			
1 April 2022	3,820	213	4,033
Additions	115	7	122
Acquisition additions	883	–	883
Disposals	(63)	–	(63)
Foreign exchange	20	–	20
31 March 2023	**4,775**	**220**	**4,995**
Amortisation			
1 April 2022	1,937	113	2,050
Charge for the year	915	50	965
Disposals	(33)	–	(33)
Foreign exchange	32	–	32
31 March 2023	**2,851**	**163**	**3,014**
Net book value			
31 March 2023	**1,924**	**57**	**1,981**

11. Right-of-use assets continued

Year ended 31 March 2022	Land and buildings £'000	Motor vehicles/ other £'000	Total £'000
Cost			
1 April 2021	3,604	188	3,792
Additions	285	28	313
Disposals	(69)	(3)	(72)
31 March 2022	3,820	213	4,033
Depreciation			
1 April 2021	1,263	53	1,316
Charge for the year	701	62	763
Disposals	(27)	(2)	(29)
31 March 2022	1,937	113	2,050
Net book value			
31 March 2022	1,883	100	1,983

12. Intangible assets

Year ended 31 March 2023	Development costs £'000	Computer software £'000	Goodwill on consolidation £'000	Acquisition intangible assets £'000	Total £'000
Cost					
1 April 2022	1,783	724	9,898	8,781	21,186
Foreign Exchange	–	(2)	(492)	(164)	(658)
Additions	810	387	–	–	1,197
Acquisitions (Note 32)	–	52	20,320	6,858	27,230
Disposals	–	(74)	–	–	(74)
31 March 2023	**2,593**	**1,087**	**29,726**	**15,475**	**48,881**
Amortisation					
1 April 2022	1,583	399	–	3,373	5,355
Foreign Exchange	–	(1)	–	(23)	(24)
Charge for the year	328	105	–	1,602	2,035
Disposals	–	(48)	–	–	(48)
31 March 2023	**1,911**	**455**	**–**	**4,952**	**7,318**
Net book value					
31 March 2023	**682**	**632**	**29,726**	**10,523**	**41,563**

The cost of acquisition intangible assets includes the estimated net present value identified on acquisition of:

- customer relationships with a net book value of £8,594k and a remaining useful economic life between one and ten years.
- brand with a net book value of £2,777k and a remaining useful economic life of approx. six years.

The development costs relate to the cost of developing new products and technology to enable the Company to extend its operations into new growth areas. Any assets developed that are no longer deemed to meet the recognition criteria of development costs have been written down.

12. Intangible assets continued

Year ended 31 March 2022	Development costs £'000	Computer software £'000	Goodwill on consolidation £'000	Acquisition intangible assets £'000	Total £'000
Cost					
1 April 2021	1,433	473	9,898	8,781	20,585
Additions	350	251	–	–	601
Acquisitions	–	–	–	–	–
31 March 2022	1,783	724	9,898	8,781	21,186
Amortisation					
1 April 2021	1,333	350	–	2,345	4,028
Charge for the year	250	49	–	1,028	1,327
31 March 2022	1,583	399	–	3,373	5,355
Net book value					
31 March 2022	200	325	9,898	5,408	15,831

	Cost £'000	NBV £'000
Systems Division commercial relationships	8,769	7,126
Components Division commercial relationships	6,706	3,397
31 March 2023	**15,475**	**10,523**

13. Goodwill and impairment

Details of the carrying amount of goodwill allocated to cash-generating units (CGUs) are as follows:

	2023 £'000	2022 £'000
Systems Division – UK	**3,946**	3,946
Systems Division – Custom Power	**19,828**	–
Components division	**5,952**	5,952
Total	**29,726**	9,898

The recoverable amounts of all the above CGUs have been determined from a review of the current and anticipated performance of these units using a value in use calculation over a period of 5 years then a terminal value. In preparing the base case projection, a pre-tax discount rate of between 10% and 12% (2022: 10%) was used based on the Group's estimated weighted average cost of capital.

Future growth rates of between 5% and 7.5% and terminal growth rate of 2.5% (2022: 2.5%) has been assumed beyond the first year, for which the projection is based on the budget approved by the Board of Directors. It has been assumed that investment in capital equipment will equate to depreciation over this period. The key assumptions are the growth rates and discount rates.

The recoverable amount exceeds the carrying amount for the Group by £141.9m (2022: £95.0m) in the base case.

The headroom within the UK Systems Division is significant at £59.9m (2022: £53.8m), and the Custom Power CGU £14.5m with the Components division having headroom of £75.7m (2022: £47.3m). The following changes can be made to the above key assumptions in respect of each division and the carrying amount would still exceed, or equal, the recoverable amount for each CGU. It is not considered reasonably possible that changes to the assumptions would trigger an impairment.

Discount rate: Increase the rate of each CGU by 2%
Growth rate: Reduce the annual growth to Nil and retain a 2.5% terminal growth rate

The Custom Power goodwill carrying value is $24,588k and the value in GBP is recalculated at the closing reporting date exchange rate with an FX loss of £492k from the acquisition date.

14. Subsidiaries

The subsidiaries of Solid State PLC included in these consolidated financial statements are as follows:

Subsidiary undertakings		Proportion of voting rights and Ordinary share capital held	Nature of business
Solid State Supplies Limited	UK	100%	Supply of electronic components
Steatite Limited	UK	100%	Supply of electronic components and manufacture of electronic equipment
Custom Power Holdings Inc	USA	100%	Holding Company
Custom Power LLC*	USA	100%	Battery systems and energy solutions supplier
Pacer Technologies Limited	UK	100%	Non trading entity
Pacer Components Limited*	UK	100%	Supply of opto-electronic components
Pacer LLC*	USA	100%	Supply of opto-electronic components
Willow Technologies Limited	UK	100%	Supply of opto-electronic components
American Electronic Components, Inc.*	USA	100%	Supply of opto-electronic components
Active Silicon Limited	UK	100%	Digital image design and manufacturing
Active Silicon, Inc.*	USA	100%	Manufacturing sales facility
Solid State Supplies Electronics Limited	Ireland	100%	Sales office
eTech Developments Limited	UK	75%	Engineering consultation
Custom Power Limited	UK	100%	Non-trading entity
Creasefield Limited	UK	100%	Non-trading entity
Q-Par Angus Limited	UK	100%	Non-trading entity
Ginsbury Electronics Limited	UK	100%	Non-trading entity
Wordsworth Technology Kent Limited	UK	100%	Non-trading entity
Solsta Limited	UK	100%	Non-trading entity
Durakool® Limited	UK	100%	Non-trading entity

* Indirect holdings. All other holdings are direct.

The non trading entities are exempt from filing audited accounts with the registrar under Section 479a of the Companies Act 2006.

Subsequent to the year end, a new USA holding company, Solsta Holding Inc. was incorporated.

Aside from the operations in the USA and Ireland identified above, the countries of operation and of incorporation are England and Wales, with the same registered office as Solid State PLC. The registered offices for operations in the US and Ireland are listed below.

Subsidiary undertaking	Registered office
Pacer USA LLC	661 Maplewood Drive, Suite 10, Jupiter, FL 33458, USA
American Electronic Components, Inc.	1101 Lafayette Street, Elkhart, Indiana, 46516, USA
Active Silicon, Inc.	479 Jumpers Hole Road, Suite 301, Severna Park, MD 21146, USA
Solid State Supplies Electronics Limited	3rd Floor Ulysses House, 23/24 Foley Street, Dublin 1, Dublin D01 W2T2, Ireland
Custom Power Holdings Inc	10910 Talbert Ave, Fountain Valley, CA 92708, USA
Custom Power LLC	10910 Talbert Ave, Fountain Valley, CA 92708, USA

As set out in the audit committee report, the 100%-owned UK trading subsidiaries are exempt from the requirements to have an audit and file audited financial statements by virtue of Section 479A of the Companies Act 2006. In adopting the exemption, Solid State PLC has provided a statutory guarantee to these subsidiaries in accordance with Section 479C of the Companies Act 2006.

15. Inventories

	2023 £'000	2022 £'000
Finished goods and goods for resale	**30,195**	15,333
Work in progress	**3,033**	2,265
Total inventories	**33,228**	17,598

The Directors are of the opinion that the replacement value of inventories is not materially different to the carrying value stated above. These carrying values are stated net of provisions of £5,053k (2022: £3,694k).

An impairment loss of £1,012k (2022: £610k loss) was recognised in the cost of sales during the year against inventory due to slow-moving and obsolete items.

Inventory recognised in cost of sales during the year, as an expense, was £83,958k (2022: £57,812k).

16. Trade and other receivables

	2023 £'000	2022 £'000
Trade receivables	**16,379**	14,948
Other receivables	**163**	126
Prepayments	**3,157**	2,904
	19,699	17,978

An impairment credit against trade receivables of £77k (2022: Credit of £13k) was recognised within operating costs during the year.

17. Trade and other payables (current)

	Note	2023 £'000	2022 £'000
Trade payables		**12,919**	8,083
Other taxes and social security taxes		**2,952**	2,607
Other payables		**376**	89
Accruals		**7,488**	5,709
Deferred consideration on acquisitions	21, 32	**4,029**	–
Contingent consideration on acquisitions	21	**1,650**	4,625
		29,414	21,113

18. Contract liabilities

	2023 £'000	2022 £'000
Contract liabilities	**5,380**	3,461

The contract liabilities identified above relate to unsatisfied performance obligations resulting from proforma and advanced customer payments, where we have not recognised the revenue and provisions for product returned for rework. All these contract liabilities are expected to be recognised in the, subsequent, financial year.

Revenue recognised within the year includes £2,910k (2022: £1,980k), which was included within contract liabilities in the prior year.

19. Bank borrowings and facilities

	2023 £'000	2022 £'000
Current borrowings		
Bank borrowings – overdraft facility	–	2,059
Bank borrowings – term loans	**1,279**	–
Non-current borrowings		
Bank borrowings	**13,383**	1,500
Total borrowings	**14,662**	3,559

	2023 £'000	2022 £'000
Within one year	**1,279**	2,059
Between one and two years	**4,958**	1,500
Between two and five years	**8,425**	–
Total borrowings	**14,662**	3,559

The bank facilities are secured by a fixed and floating charge over the assets of the Company and the Group. At the balance sheet date, the Group had the following facilities:

- The Group has a term loan of £6.5m entered into in August 2022, as part of the Custom Power acquisition financing, which is repayable in full in August 2025. The full principal balance was utilised at the year end.
- The Group also entered into a term loan of £6.5m in August 2022 as part of the Custom Power acquisition financing that is repayable in quarterly tranches over a five-year period. A principal balance of £5.85m was outstanding at the year end.
- A revolving credit facility of £7.5m (2022: £7.5m) of which £2.4m (2022: £1.5m) was drawn at the balance sheet date. This facility was committed until November 2023 and then renewed in March 2023 to a November 2024 commitment date.
- In addition, the Group has a multi-currency overdraft facility of £3.0m (2022: £3.0m), which was not utilised at the year end (2022: £2.1m for USD). Subsequent to the year end, the Group agreed a facility extension on the USD overdraft facility of up to $10m to the end of September 2023 in order to cover the maximum potential impact of the NATO project's timing differences to cash flow.

The multi-currency overdraft facility is in place to provide flexibility in financing short-term, multi-currency working capital requirements. This facility is available to utilise as long as the overall balance netted across all accounts in the bank nets to an overall position of £Nil or higher.

The Group's banking facilities are subject to three financial covenants: leverage, debt service and a tangible net worth covenant. These covenants were met at all measurement points throughout the period.

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20. Right-of-use lease liabilities

	2023 £'000	2022 £'000
Current right-of-use lease liabilities	**1,057**	758
Non-current right-of-use lease liabilities	**986**	1,326
Total right-of-use lease liabilities	**2,043**	2,084

	2023 £'000	2022 £'000
Within one year	**1,057**	758
Between one and two years	**942**	650
Between two and five years	**44**	676
Total right-of-use lease liabilities	**2,043**	2,084

Lease liabilities relate to leased properties and vehicles and an analysis of the undiscounted maturity analysis of the remaining lease payments is presented in Note 21.

The following is a reconciliation of the Group's lease liabilities:

	2023 £'000	2022 £'000
Right-of-use lease liabilities at 1 April	**2,084**	2,543
Additions	**123**	313
Acquisitions	**883**	–
Payments made	**(1,026)**	(795)
Discounting charge	**46**	99
Disposals	**(56)**	(76)
FX	**(11)**	–
Right-of-use lease liabilities at 31 March	**2,043**	2,084

21. Financial instruments

The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

The Group's financial instruments comprise cash and cash equivalents and various items such as trade payables and receivables that arise directly from its operations. The Group is exposed through its operations to the following risks:

- Credit risk
- Foreign currency risk
- Liquidity risk
- Cash flow interest rate risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks. Further quantitative information in respect of these risks is presented throughout these financial statements.

The acquisition of Custom Power and the related draw-down of additional long-term fixed borrowings is a substantive change in the Group's exposure to financial instrument risks. Consequently, the objectives, policies and processes have been reassessed to determine the updated risk profile (where relevant).

The Board has overall responsibility for the determination of the Group's risk management policies. The objective of the Board is to set policies that seek to reduce the risk as far as possible without unduly affecting the Group's competitiveness and effectiveness. Further details of these policies are set out below.

21. Financial instruments continued

Credit risk

The Group is exposed to credit risk, primarily, on its trade receivables, which are spread over a range of customers and countries, a factor that helps to dilute the concentration of the risk.

It is Group policy, implemented locally, to assess the credit risk of each new customer before entering binding contracts. Each customer account is then reviewed on an ongoing basis (at least once a year) based on available information and payment history.

The maximum exposure to credit risk is represented by the carrying value of receivables as shown in Note 16 and in the statement of financial position. The amount of the exposure shown in Note 16 is stated net of provisions for doubtful debts.

The credit risk on liquid funds is low as the funds are held at banks with a high credit rating assigned by international credit rating agencies.

Foreign currency risk

Foreign exchange transaction risk arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. The general policy for the Group is to sell to customers in the same currency that goods are purchased in, reducing the transactional risk. Where transactions are not matched, excess foreign currency amounts generated from trading are converted back to sterling and required foreign currency amounts are converted from sterling. Forward currency contracts are not used speculatively and are considered where the Group has a demand for foreign currency that it can reliably forecast. The Group overdraft facility is available on an individual currency basis as well as an overall basis.

Liquidity risk

The Group operates a Group overdraft facility common to all its trading companies (with the exception of the recent Willow, Active and Custom Power acquisitions). This facility has a right of offset, so individual accounts in an overdraft position can be netted from cash held in other accounts in the same bank to a maximum position of £Nil in total.

The Group has, approximately, a three month visibility in its trading and runs a rolling six-month cash flow forecast. If any part of the Group identifies a shortfall in its future cash position, the Group has sufficient facilities that it can direct funds to the location where they are required. If this situation is forecast to continue, remedial action is taken.

Cash flow interest rate risk

External Group borrowings are approved centrally. The Board accepts that this neither protects the Group entirely from the risk of paying rates in excess of current market rates nor fully eliminates the cash flow risk associated with interest payments. It considers, however, that by ensuring approval of borrowings is made by the Board, the risk of borrowing at excessive interest rates is reduced. The Board considers that the rates being paid are in line with the most competitive rates it is possible for the Group to achieve. The Group does not currently hedge interest rates on financing, but monitors the impact of rising interest rates and will put an instrument in place if considered an effective risk mitigation.

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The Group maintains its cash reserves at reputable banks. The maximum exposure to credit risk at the reporting date was:

Loans and receivables	2023 £'000	2022 £'000
Trade and other receivables	**16,542**	15,074
Cash and cash equivalents	**12,224**	2,924
	28,766	17,998

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Debt exposure	2023 £'000	2022 £'000
UK	**8,257**	8,471
Non-UK	**8,122**	6,477
	16,379	14,948

The Group policy is to make a provision against those debts that are overdue, unless there are grounds for believing that all, or some, of the debts will be collected. During the year, the value of provisions made in respect of bad and doubtful debts was a charge of £233k (2022: £193k), which represented 0.2% (2022: 0.1%) of revenue. This provision is included within the sales, general and administration expenses in the Consolidated Statement of Comprehensive Income. Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, insolvency or a lack of contact with the customer.

21. Financial instruments continued

Trade receivables ageing by geographical segment

Geographical area	Total £'000	Current £'000	30 days past due £'000	60 days past due £'000	90 days past due £'000
2023					
UK	8,576	7,969	394	81	132
Non-UK	8,492	6,711	725	971	85
Total	**17,068**	**14,680**	**1,119**	**1,052**	**217**
UK	(319)	(131)	(80)	(1)	(107)
Non-UK	(370)	(164)	(4)	(119)	(83)
Total provisions	(689)	(295)	(84)	(120)	(190)
Total	**16,379**	**14,385**	**1,035**	**932**	**27**
IFRS9					
UK expected loss rate	3.71%	1.65%	20.17%	1.00%	80.94%
Non-UK expected loss rate	4.35%	2.44%	0.59%	12.26%	97.38%

Geographical area	Total £'000	Current £'000	30 days past due £'000	60 days past due £'000	90 days past due £'000
2022					
UK	8,860	8,273	418	128	41
Non-UK	6,737	6,122	412	116	87
Total	15,597	14,395	830	244	128
UK	(389)	(322)	(21)	(11)	(35)
Non-UK	(260)	(136)	(24)	(23)	(77)
Total provisions	(649)	(458)	(45)	(34)	(112)
Total	14,948	13,937	785	210	16
IFRS9					
UK expected loss rate	4.4%	3.9%	5.0%	8.6%	85.4%
Non-UK expected loss rate	3.9%	2.2%	5.8%	19.8%	88.5%

The Group records provision for impairment losses on its trade receivables separately from gross receivables. The movements on this allowance account, during the year, are summarised below:

	2023 £'000	2022 £'000
Opening balance	**649**	658
Acquisition of subsidiaries	**124**	–
(Decrease)/increase in provisions	**(77)**	(14)
Written off against provisions	**(9)**	4
Foreign exchange	**2**	1
Closing balance	**689**	649

The main factor used in assessing the expected impairment losses of trade receivables is the age of the balances and the circumstances of the individual customer.

As shown in the earlier table, at 31 March 2023, trade receivables of £1,994k, which were past their due date, were not impaired (2022: £1,011k).

21. Financial instruments continued

Liquidity risk

	Carrying amount	Contractual cash flow	12 months or less	1–2 Years	2–5 Years	5+ Years
2023						
Trade and other payables	21,628	21,628	21,628	–	–	–
Borrowings	14,662	16,722	2,142	5,671	8,909	–
Right-of-use lease liabilities	2,043	2,138	1,088	792	258	–
Provisions	1,038	1,038	323	94	621	–
Deferred consideration on acquisition	5,679	5,679	5,679	–	–	–
	45,050	**47,205**	**30,860**	**6,557**	**9,788**	**–**
2022						
Trade and other payables	16,488	16,488	16,488	–	–	–
Borrowings	3,559	3,559	2,059	1,500	–	–
Right-of-use lease liabilities	2,084	2,215	781	690	744	–
Provisions	694	694	–	150	544	–
Deferred consideration on acquisition	6,601	6,601	4,625	1,976	–	–
	29,426	**29,557**	**23,953**	**4,316**	**1,288**	**–**

Movement in deferred consideration on acquisitions	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
	Willow		Active		Custom Power		Group	
1 April	**3,500**	5,089	**3,101**	2,433	**–**	–	**6,601**	7,522
Initial recognition	**–**	–	**–**	–	**8,264**	–	**8,264**	–
Increase/(decrease) in estimation	**–**	–	**(326)**	1,651	**–**	–	**(326)**	1,651
Settlement	**(3,500)**	(1,589)	**(1,125)**	(983)	**(4,065)**	–	**(8,690)**	(2,572)
FX movement	**–**	–	**–**	–	**(170)**	–	**(170)**	–
31 March	**–**	3,500*	**1,650***	3,101*	**4,029**	–	**5,679**	6,601

* level 3 contingent consideration values calculated based on forecast management data.

The fair value hierarchy of financial instrument is considered as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques that maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

All the Group's financial instruments as disclosed are considered to fall under Level 1, except for deferred contingent consideration due on acquisitions (Willow and Active table above) which are classified as Level 3 instruments.

The measurement of the contingent deferred consideration liability on Active Silicon is based on the performance of the business during the 25 month earn-out period up to the 31st March 2023. The basis of the calculation is a multiple of the post tax profit included within the consolidated Group financial statements and the only immaterial variable that is considered subject to change is the final taxation figure. The contingent consideration in relation to Custom Power has been recognised at £Nil value based on the discounted future forecasts prepared as described in Note 2.

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21. Financial instruments continued

Foreign currency risk

The Group's main foreign currency risk is the short-term risk associated with accounts receivable and payable denominated in currencies that are not the subsidiaries' functional currency. The risk arises on the difference in the exchange rate between the time invoices are raised/received and the time invoices are settled/paid. For sales denominated in foreign currencies the Group will try, as far as practical, to ensure that the purchases associated with the sale will be in the same currency.

All monetary assets and liabilities of the Group were denominated in sterling except for the following items, which are included in the financial statements at the sterling value based on the exchange rate ruling at the statement of financial position date.

The following tables show the Group net assets/(liabilities) exposed to US dollar and Euro exchange rate risk:

USD	2023 £'000	2022 £'000
Trade receivables	**8,870**	8,786
Cash and cash equivalents	**8,235**	(1,308)
Trade payables	**(8,149)**	(4,005)
	8,956	3,473

EUR	2023 £'000	2022 £'000
Trade receivables	**448**	287
Cash and cash equivalents	**444**	272
Trade payables	**(178)**	(175)
	714	384

The Group is exposed to currency risk because it undertakes trading transactions in US dollars and Euros (and immaterial transactions in other currencies). The Directors do not, generally, consider it necessary to enter into derivative financial instruments to manage the exchange risk arising from its operations, but, from time to time, when the Directors consider foreign currencies are weak and it is known that there will be a requirement to purchase those currencies, forward arrangements are entered into. There were no forward purchase agreements in place at 31 March 2023 (2022: £Nil) with £Nil net exposure (2022: £Nil).

The effect of a strengthening of 10% in the rate of exchange in the currencies against sterling at the statement of financial position date would have resulted in an estimated net increase in pre-tax profit for the year and an increase in net assets of, approximately, £1,074k (2022: £428k). In addition, the effect of a weakening of 10% in the rate of exchange in the currencies against sterling at the statement of financial position date would have resulted in an estimated net decrease in pre-tax profit for the year and a decrease in net assets of, approximately, £879k (2022: £351k).

Interest rate risk

The Group finances its ongoing business through a revolving credit facility. During the year, the Group utilised this facility at a floating rate of interest. The Group also, partially, financed the acquisition of Custom Power with two new term loans drawn down in August 2022, as described in Note 19.

The Group's banking facilities with Lloyds Bank PLC incur interest at the rate of 2.55% over LIBOR. The Group is affected by changes in the UK interest rate. As the loans are all based on variable interest rates, the fair value of the Group's borrowings is not materially different to the book value.

In terms of sensitivity, if the ruling base rate had been 1% higher throughout the year, the level of interest payable would have been £122k (2022: £82k) higher, and if 1% lower throughout the year, the level of interest payable would have been lower by the same amount.

21. Financial instruments continued

Capital risk management

The Group defines total capital as equity in the consolidated statement of financial position plus net debt or less net funds plus deferred consideration. Total capital at 31 March 2023 was £66,070k (2022: £32,251k).

The Group defines net (cash)/leverage as net (cash)/debt plus deferred consideration, which totals £8,117k (2022: £5,177k). In calculating net (cash)/debt, the Group has excluded the right-of-use lease liabilities of £2,042k (2022: £2,084k) from its definition and calculation.

When managing its capital, the Group's main objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital based on the gearing ratio. This ratio is calculated as leverage divided by total capital. At 31 March 2023, the gearing ratio was 12.3% (2022: 16.0%).

The Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and to maintain sufficient funding to enable the Group to meet its working capital and strategic investment needs in the light of changes in economic conditions and the characteristic of the underlying assets.

In making decisions to adjust its capital structure to achieve these aims, the Group considers not only its short-term position, but also its long-term operational and strategic objectives and sets the amount of capital in proportion to risk.

The Group's gearing ratio at 31 March 2023 is shown below:

	2023 £'000	2022 £'000
Cash and cash equivalents	**(12,224)**	(4,983)
Borrowings/bank overdrafts	**14,662**	3,559
Deferred consideration	**5,679**	6,601
Net leverage/(cash)	**8,117**	5,177
Share capital	**567**	428
Share premium account	**30,474**	3,625
Retained earnings	**27,805**	23,042
Capital redemption reserve	**5**	5
Foreign exchange reserve	**(836)**	33
Shares held in treasury	**(108)**	(57)
Equity	**57,907**	27,076
Gearing ratio (net leverage/(equity + net leverage)/cash))	**12.3%**	16.0%

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22. Net debt

Year ended 31 March 2023 (£'000)	At 1 April 2022	Cash flow	Other non-cash movement	At 31 March 2023
Bank borrowing due within one year	–	(1,279)	–	**(1,279)**
Bank borrowing due after one year	(1,500)	(11,822)	(61)	**(13,383)**
Total borrowings	(1,500)	(13,101)	(61)	**(14,662)**
Deferred consideration on acquisition of subsidiaries within one year	(4,625)	4,625	(5,679)	**(5,679)**
Deferred consideration on acquisition of subsidiaries after one year	(1,976)	–	1,976	**–**
Cash and cash equivalents	2,924	9,314	(14)	**12,224**
(Net debt)/net cash	(5,177)	838	(3,778)	**(8,117)**

	2023 £'000	2022 £'000
Increase/(decrease) in cash in the year	**9,314**	(4,006)
Increase in borrowings in the year	**(15,873)**	–
Repayment of borrowings in the year	**2,772**	2,250
Payment of deferred consideration on acquisitions	**4,625**	2,572
Net movement resulting from cash flows	**838**	816

	2023 £'000	2022 £'000
Net debt at 1 April	**(5,177)**	(4,358)
Net movement resulting from cash flows	**838**	816
Contingent consideration recognised in year – short term	**(3,704)**	–
Contingent consideration recognised in year – long-term	**–**	(1,651)
Other non-cash movements	**(74)**	16
Net debt at 31 March	**(8,117)**	(5,177)

Although the Group's banking facilities allow a right of offset between cash balances held at the bank with overdraft balances at the same bank, the overdraft balance at 31 March 2022 was presented as gross on the Statement of Financial Position rather than net in accordance with the Interpretations Committee March 2016 Agenda decision on IAS 32 interpretation of cash-pooling arrangements. No overdraft was utilised as at 31 March 2023.

Lease liabilities are excluded from the Group's definition of net debt and a separate roll-forward of lease liabilities is presented in Note 20.

23. Deferred tax

The Group's deferred tax positions arise primarily on share-based payments, accelerated capital allowances, capitalised development costs and intangible assets arising on acquisition of subsidiaries:

	2023 £'000	2022 £'000
At 1 April	**(1,293)**	(1,303)
Deferred tax arising on acquisition of subsidiaries	**67**	–
(Expense)/credit for the year	**(485)**	348
Effect of changes to foreign exchange rates	**(7)**	5
Deferred tax adjustment in respect of prior periods	**(94)**	–
Effect of tax rate change	**–**	(343)
Net deferred tax at 31 March	**(1,812)**	(1,293)
Deferred tax (liabilities)/assets in relation to:		
Accelerated capital allowances on property plant and equipment	**(747)**	(504)
Short-term timing differences on intangible assets	**(1,736)**	(1,437)
Share-based payments	**351**	415
Short-term timing differences	**114**	98
Losses carried forward	**206**	135
Net deferred tax at 31 March	**(1,812)**	(1,293)
Deferred tax assets	**375**	539
Deferred tax liabilities	**(2,187)**	(1,832)
Net deferred tax at 31 March	**(1,812)**	(1,293)

The movements in respect of deferred tax in the year were as follows:

	Accelerated capital allowances	Short-term timing differences on intangible assets	Share-based payments	Short-term timing differences	Losses carried forward	Total
At 1 April	(504)	(1,437)	415	98	135	(1,293)
Acquisition of subsidiaries	(31)	62	–	36	–	67
Recognised in statement of comprehensive income	(212)	(361)	30	(20)	71	(492)
Recognised in other comprehensive income	–	–	(94)	–	–	(94)
At 31 March	**(747)**	**(1,736)**	**351**	**114**	**206**	**(1,812)**

The UK corporation tax rate is 19% (effective from 1 April 2017), which was, substantively, enacted on 17 March 2020. As substantively enacted on 24 May 2021, the UK corporation tax rate will increase to 25% with effect from 1 April 2023. The impact of recalculating the deferred tax at the 25% rate was recognised in comprehensive income in the 2022 comparative period.

The amount of the net reversal of deferred tax expected to occur next year is, approximately, £447k (2022: £231k) relating to the timing differences identified above.

The deferred tax asset of £166k (2022: £261k), in respect of the future tax deduction that would be available based on the share price at the balance sheet date compared to the share price at the date of grant of the options and share bonus, which is used to calculate the share-based payments charge, was recalculated in the year after initial recognition in 2022. The movement in the deferred tax asset has been debited to other comprehensive income ("OCI") and treated as an adjustment to profit. The share price post year end, when the shares are exercised, may be higher/lower than at the balance sheet date; therefore, this deferred tax asset is considered judgemental as it may not be fully recoverable.

In addition, there is an unrecognised deferred tax asset in relation to capital losses carried forward. The capital losses carried forward are, approximately, £275k. The associated deferred tax asset of, approximately, £69k has not been recognised due to the uncertainty over the recoverability combined with the fact it is immaterial.

24. Provisions

	2023 £'000	2022 £'000
At 1 April	**694**	741
Dilapidations acquired on acquisitions at FV	**22**	–
Provisions utilised during the year	**–**	(18)
Recognition of decommissioning asset	**323**	–
(Released)/charged to statement of comprehensive income	**(1)**	(29)
Provisions at 31 March	**1,038**	694

The Group has provided for property related provisions, which, include obligations in respect of exited legacy premises and dilapidations provisions it expects to exit within the next five years. Based on using a discount rate of 6%, the Group has assessed the impact of discounting to be immaterial and has not, therefore, discounted the provisions. Provisions are split in current £323k (2022: Nil) and non-current £715k (2022: 694k).

25. Share capital

	2023 £'000	2022 £'000
Allotted issued and fully paid 11,346,394 (2022: 8,564,878) Ordinary shares of 5p	**567**	428

The Ordinary shares carry no right to fixed income, the holders are entitled to receive dividends as declared and are entitled to one vote per share at shareholder meetings.

	2023		2022	
	Shares No.	Value £'000	Shares No.	Value £'000
Share Capital at 1 April	**8,564,878**	**428**	8,564,878	428
Issue of new shares on equity raise	**2,757,516**	**138**	–	–
Share options exercised	**24,000**	**1**	–	–
Share Capital at 31 March	**11,346,394**	**567**	8,564,878	428

Details of options granted are set out in the Remuneration Committee Report on pages 65 to 70. At 31 March 2023, the number of shares covered by option agreements amounted to 352,925 (2022: 248,100). At the balance sheet date, there were 72,000 (2022: 96,000) share options which had vested and remained unexercised. 24,000 (2022: Nil) options were exercised in the current year.

26. Reserves

Full details of movements in reserves are set out in the consolidated statement of changes in equity on page 83. The total value of transaction costs incurred that have been offset against the share premium account movement in the year total £1,275k (2022: £Nil).

The following describes the nature and purpose of each reserve within owners' equity.

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value
Capital redemption	Amounts transferred from share capital on redemption of issued shares
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income
Shares held in treasury	Shares held by the Group for future staff share plan awards
Foreign exchange	Foreign exchange translation differences arising from the translation of the financial statements of foreign operations
Non-controlling interest	Equity attributable to non-controlling shareholders

27. Treasury shares

At 31 March 2023, the Group held 9,146 (2022: 6,946) shares in treasury with a cost of £108k (2022: £57k). No shares have been cancelled.

	2023 Shares	2022 Shares
At 1 April	**6,946**	11,374
Purchase of shares into treasury	**15,000**	7,000
Transfer of shares to the All Employee Share Plan (AESP)	**(12,800)**	(11,428)
At 31 March	**9,146**	6,946

28. Share-based payment

The total amount charged to the income statement in 2023 in respect of share-based payments was £551k (2022: £295k).

The Company operates two long-term share incentive schemes set out below:

Long-term incentive plan ("LTIP"):

Normal LTIP awards of up to 125% of salary may be made to Executive Directors and senior management, as outlined in the Policy Table of the Remuneration Report on page 66.

For all participants, awards will vest after three years in accordance with the performance conditions applicable to each grant. Options are granted with a contractual life of ten years and with a fixed exercise price of 5p equal to the par value of the shares or as otherwise disclosed in the Remuneration Report.

The performance conditions will be determined and set by the Remuneration Committee in accordance with the remuneration policy. No award will vest below Threshold performance, and vesting will increase on a straight-line basis between threshold, target and stretch.

On 4 October 2022, 56,000 (2022: 42,800) share options were granted to the Executive Directors under the LTIP.

Principal assumptions	2023	2022
Weighted average share price at grant date in pence	**986**	1,085
Weighted average exercise price in pence	**5**	5
Weighted average vesting period (years)	**3**	3
Option life (years)	**10**	10
Weighted average expected life (years)	**3**	3
Weighted average expected volatility factor	**49%**	47%
Weighted average risk-free rate	**2.28%**	1.50%
Dividend yield	**2.10%**	2.50%

The expected volatility factor is based on historical share price volatility over the three years immediately preceding the grant of the option. The expected life is the average expected period to exercise. The risk-free rate of return is the yield of zero-coupon UK government bonds of a term consistent with the assumed option life.

Non-market performance conditions are incorporated into the calculation of fair value by estimating the proportion of share options that will vest and be exercised based on a combination of historical trends and future expected trading performance. These are reassessed at the end of each period for each tranche of unvested options.

Company Share Option Plan ("CSOP"):

CSOP awards of up to the HMRC tax approved levels of £30,000 may be made to senior staff and Executive Directors, as outlined in the Policy Table of the Remuneration Report on page 66. For all participants, awards will vest after three years in accordance with the performance conditions applicable to each grant.

Options are granted with a contractual life of ten years and with a fixed exercise price equal to the market value of the shares under option at the date of grant or as otherwise disclosed in the Remuneration Report

The performance conditions will be determined and set by the Remuneration Committee in accordance with the remuneration policy. No award will vest below Threshold performance, and vesting will increase on a straight-line basis between threshold, target and stretch.

Between 4 October 2022 and 12 January 2023, 48,825 (2022: 36,750) share options were granted to senior management under CSOP.

Principal assumptions	2023	2022
Weighted average share price at grant date in pence	**1,006**	1,050
Weighted average exercise price in pence	**1,008**	1,050
Weighted average vesting period (years)	**3**	3
Option life (years)	**10**	10
Weighted average expected life (years)	**3**	3
Weighted average expected volatility factor	**49%**	46%
Weighted average risk-free rate	**2.28%**	1.50%
Dividend yield	**2.10%**	2.50%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

CONTINUED

28. Share-based payment continued

Movement in share options during the year

In addition to the current CSOP and LTIP there are bought forward executive EMI options which have vested. 24,000 were exercised in the year, leaving 72,000, which remain unexercised at the balance sheet date.

	2023 Number of options	2023 Average exercise price in pence	2022 Number of options	2022 Average exercise price in pence
At 1 April	**248,100**	**225**	175,550	125
Granted	**104,825**	**471**	79,550	488
Exercised	**(24,000)**	**0.1**	–	–
Cancelled/lapsed	**–**	**–**	(7,000)	(707)
At 31 March	**328,925**	**320**	248,100	225

24,000 options were exercised in the year (2022: Nil) and the weighted average share price at the date share options were exercised was 1,320p.

As at 31 March 2023, the total number of long-term incentive awards and share options held by employees was 328,925 (2022: 248,100) as follows:

Option price pence/share	Option period ending	2023 Number of options	2022 Number of options
0.1p	31 March 2027	**72,000**	96,000
5p – 592p	31 March 2030	**74,300**	74,300
5p – 1050p	31 March 2031	**77,800**	77,800
5p – 1254p	31 March 2032	**104,825**	–
At 31 March		**328,925**	248,100

No share options have vested in the period (2022: Nil).

All Employee Share plan (“AESP”):

AESP awards, of up to HMRC tax-approved levels, are given to all UK employees. These awards vest tax free from the AESP after at least three years, but not more than five years from the date of grant subject to continued employment.

On the 27 February 2023, 12,800 (2022: 12,250) share options were awarded to the employees under the AESP.

The share price at the date of award was 1,160p (2022: 960p). As the awards are, effectively, £nil cost awards, the fair value is determined to equal to the share price at the date of grant under the Black-Scholes model. This resulted in a share-based payments charge of £148k (2022: £118k) as part of the total share-based payments charge.

29. Capital commitments

At 31 March 2023, there were capital commitments of £172k (2022: £303k).

30. Adjustments to profit

The Group’s results are reported after several imputed non-cash charges and non-recurring items. We have provided additional adjusted performance metrics to aid understanding and provide clarity over the Group’s performance on an ongoing cash basis before imputed non-cash accounting charges. This is consistent with how analysts and investors tell us they review our business performance in presenting an adjusted profit metric adjusting for the following items:

- Non-cash charges arising from share-based payments and the amortisation of acquisition intangibles
- Non-recurring costs relating to acquisition costs (including fair value adjustments and earn-out estimation changes)
- Non-recurring tax credits arising, primarily, from prior year R&D claims and tax deductions on share options
- The movement via OCI of the deferred tax asset relating to the future tax deduction that would be available based on the share price at the balance sheet date compared to the share price at the date of grant of options and share bonus

30. Adjustments to profit continued

	2023 £'000	2022 £'000
Reported gross profit	**39,674**	27,527
Adjustments to gross profit	**88**	168
Adjusted gross profit	**39,762**	27,695
Reported operated profit	**9,408**	3,726
Adjustments to operating profit	**2,219**	3,674
Adjusted operating profit	**11,627**	7,400
Reported operating margin percentage	**7.4%**	4.4%
Operating margin percentage impact of adjustments	**1.8%**	4.3%
Adjusted operating margin percentage	**9.2%**	8.7%
Reported profit before tax	**8,436**	3,500
Adjustments to profit before tax	**2,355**	3,674
Adjusted profit before tax	**10,791**	7,174
Reported profit after tax	**6,690**	2,523
Adjustments to profit after tax	**1,863**	3,635
Adjusted profit after tax	**8,553**	6,158
Reported total other comprehensive income	**5,727**	2,784
Adjustments to total other comprehensive income	**1,957**	3,374
Adjusted total other comprehensive income	**7,684**	6,158

2023	Components £'000	Systems £'000	Head office £'000	Total £'000
Acquisition fair value adjustments within cost of sales	–	88	–	**88**
Acquisition fair value adjustments, reorganisation and deal costs	–	289	15	**304**
Decrease in deferred consideration on acquisition of Active Silicon	–	(326)	–	**(326)**
Amortisation of acquisition intangibles	–	–	1,602	**1,602**
Share-based payments	–	–	551	**551**
Imputed interest on deferred consideration unwind	–	136	–	**136**
Adjustment to profit before tax	–	**187**	**2,168**	**2,355**
Current and deferred taxation effect	–	(26)	(466)	**(492)**
Adjustments to profit after tax	–	**161**	**1,702**	**1,863**
Movement of deferred tax asset in OCI re. share price impact on options	–	–	94	**94**
Adjustments to total other comprehensive income	–	**161**	**1,796**	**1,957**

All amortisation charges relating to acquisition intangibles have been consistently classified into head office overheads for the current and comparative year to provide a consistent presentation and accurate representation of underlying divisional trading as presented to the Directors.

In evaluating our adjusted performance metric in respect of Earnings Per Share ("EPS") the Board consider "Adjusted Fully Diluted EPS" to be the most appropriate metric as our investors and the analysts who cover Solid State PLC use this metric to monitor performance. However, we also recognise the equal importance of the statutory metric of "Reported EPS" as the other relevant metric (which includes the IFRS2 charge for the value gained from employees but excludes the dilution so not to double count with the charge).

Whilst we disclose "Reported Fully Diluted EPS" and "Adjusted EPS" for completeness in Note 8 these are not considered to be as appropriate metrics by the Board as "Reported Fully Diluted EPS" reflects a double hit to the results of the IFRS2 charge and the dilution and "Adjusted EPS" does not reflect either the IFRS2 charge or the dilution which clearly makes these metric much less appropriate when assessing performance.

30. Adjustments to profit continued

2022	Components £'000	Systems £'000	Head office £'000	Total £'000
Acquisition fair value adjustments within cost of sales	168	–	–	168
Acquisition fair value adjustments, reorganisation and deal costs	–	533	–	533
Increase in deferred consideration on acquisition of Active Silicon	–	1,650		1,650
Amortisation of acquisition intangibles	–	–	1,028	1,028
Share-based payments	–	–	295	295
Adjustment to profit before tax	**168**	**2,183**	**1,323**	**3,674**
Current and deferred taxation effect	(31)	(75)	(221)	(327)
Deferred tax rate change impact on acquisition intangibles and share-based payments	–	–	288	288
Adjustments to profit after tax	**137**	**2,108**	**1,390**	**3,635**
Recognition of deferred tax asset in OCI re. share price impact on options	–	–	(261)	(261)
Adjustments to total other comprehensive income	**137**	**2,108**	**1,129**	**3,374**

Acquisition fair value adjustments within cost of sales relates to the unwind of the IFRS3 fair value uplift on stock to selling price less cost to sell in both periods.

Acquisition fair value adjustments, reorganisation and deal costs in the current year and comparative period relate to transaction costs for the acquisition of Custom Power.

31. Segment information

The Group's primary reporting format for segment information is business segments, which reflect the management reporting structure in the Group. The Components Division comprises Solid State Supplies Limited, Pacer LLC, Pacer Components Limited, Willow Technologies Limited and American Electronic Components, Inc. The Systems Division includes Steatite Limited, Custom Power LLC, Active Silicon Limited, Active Silicon Inc. and eTech Developments Limited.

Year ended 31 March 2023	Components division £'000	Systems division £'000	Head office £'000	Total Group £'000
External revenue	68,986	57,517	–	**126,503**
Operating profit	5,754	7,941	(4,287)	**9,408**
Adjusted operating profit	5,754	7,992	(2,119)	**11,627**
Profit before tax	5,723	7,718	(5,005)	**8,436**
Taxation	(1,041)	(1,488)	783	**(1,746)**
Profit after taxation	4,682	6,230	(4,222)	**6,690**
Consolidated statement of financial position				
Assets	30,435	38,408	44,945	**113,788**
Liabilities	(13,220)	(25,331)	(17,283)	**(55,834)**
Net assets	17,215	13,077	27,662	**57,954**
Other				
Capital expenditure:				
Intangible assets	339	858	–	**1,197**
Intangible assets – acquisitions	–	52	27,178	**27,230**
Tangible fixed assets	836	679	–	**1,515**
Tangible fixed assets – acquisitions	–	991	–	**991**
Right-of-use assets	115	7	–	**122**
Right-of-use assets – acquisitions	–	883	–	**883**
Depreciation – PPE	559	600	–	**1,159**
Depreciation – right-of-use assets	217	748	–	**965**
Amortisation	50	383	1,602	**2,035**
Share-based payments	–	–	551	**551**
Interest	30	222	720	**972**

31. Segment information continued

No individual customer contributed more than 10% of the Group's revenue in the financial year ended 31 March 2023 or the prior year.

Year ended 31 March 2022	Components division	Systems division	Head office	Total Group
External revenue	52,480	32,517	–	**84,997**
Profit before tax	4,433	2,492	(3,425)	**3,500**
Taxation	(903)	(297)	223	**(977)**
Profit after taxation	3,530	2,195	(3,202)	**2,523**
Consolidated statement of financial position				
Assets	24,616	21,665	16,045	**62,326**
Liabilities	(11,587)	(14,253)	(9,410)	**(35,250)**
Net assets	13,029	7,412	6,635	**27,076**
Other				
Capital expenditure:				
Tangible assets	524	654	–	**1,178**
Tangible assets – acquisitions	–	–	–	**–**
Intangible fixed assets	268	333		**601**
Intangible fixed assets – acquisitions	–	–	–	**–**
Right-of-use assets	216	97	–	**313**
Right-of-use assets – acquisitions	–	–	–	**–**
Depreciation – PPE	331	398	–	**729**
Depreciation – right-of-use assets	264	499	–	**763**
Amortisation	20	279	1,028	**1,327**
Share-based payments	–	–	295	**295**
Interest	48	61	117	**226**

	External revenue by location of customer		Total assets by location of assets		Net capital expenditure by location of assets	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
United Kingdom	**71,649**	53,030	**102,687**	59,023	**2,134**	1,723
Rest of Europe	**18,202**	15,726	**31**	1	**–**	–
Asia	**8,811**	6,542	**–**	–	**–**	–
North America	**27,205**	9,175	**11,070**	3,302	**578**	56
Other	**636**	524	**–**	–	**–**	–
	126,503	84,997	**113,788**	62,326	**2,712**	1,779

32. Acquisition accounting for Custom Power LLC

	Book value $'000	Fair value Adjustment $'000	Fair value to Group $'000	Fair value to Group* £'000
Intangible assets	–	8,298	8,298	6,858
Property, plant and equipment	362	895	1,257	1,039
Right-of-use assets**	–	1,069	1,069	883
Deferred tax asset	–	81	81	67
Inventory	4,105	(303)	3,802	3,142
Trade and other receivables	4,368	(250)	4,118	3,403
Trade and other payables	(2,305)	(337)	(2,642)	(2,183)
Right-of-use lease liabilities**	–	(1,069)	(1,069)	(883)
Provision for dilapidations	–	(25)	(25)	(21)
Cash and cash equivalents	319	–	319	264
Net assets on acquisition	**6,849**	**8,359**	**15,208**	**12,569**
Goodwill on acquisition	–	–	24,588	20,321
Discounted consideration			**39,796**	**32,890**
Discharged by:				
Cash paid on acquisition			30,001	24,795
Short-term deferred consideration			10,000	8,264
Gross consideration			**40,001**	**33,059**
Discounting			(205)	(169)
Discounted consideration			**39,796**	**32,890**

* Exchange rate at date of acquisition was 1.21.

** These adjustments are GAAP alignments rather than fair value adjustments.

Solid State PLC incorporated Custom Power Holdings Inc. as a new 100%-owned US subsidiary to subsequently acquire Custom Power, LLC on 5 August 2022. Custom Power LLC is a Company based in Orange County, California, which designs and manufactures custom battery pack solutions. The entire membership interest, and therefore control, of the LLC was purchased for a maximum consideration of $45m, including $10m of deferred consideration (payable in two equal tranches in February 2023 and August 2023) and a $5m contingent earn-out payable on achievement of a revenue performance target.

The fair value of intangible assets recognised is in relation to the brand "Custom Power", the open order book and the customer relationships. The goodwill recognised represents expected synergies from combining the operations of Custom Power LLC with those of the existing Systems Division, expected value from incremental sales arising across the combined operation that is not separately recognisable at the date of acquisition and the value of the work force not recognised as an intangible asset under IFRS3 revised.

The Group acquired the membership interests of Custom Power LLC, which is a disregarded entity for US tax, so we expect to benefit from a tax deduction in the US in relation to the goodwill arising. The goodwill carrying value on consolidation is not amortised, but is assessed for impairment at the end of each reporting period. If no impairment is recognised, the initial asset recognised for deferred taxation will unwind until it becomes a deferred tax liability when the local deduction is fully recognised.

The revenue and profit after tax for the post-acquisition period included in the Statement of Comprehensive Income arising from Custom Power's operations were $19.8m (£16.7m) and $1.7m (£1.4m), respectively. If Custom Power had been acquired on 1 April 22, the estimated values to include in the Group's Statement of Comprehensive Income would have been revenue of $29.4m (£24.5m) and profit after tax of $2.4m (£2.0m). The Group incurred acquisition related costs of £786k (of which £565k was expensed in prior periods and £221k expensed in the current period) on legal fees and due diligence costs, included in sales, general and administration expenses.

32. Acquisition accounting for Custom Power LLC continued

Lloyds Bank PLC provided a $10m standby letter of credit which was fully funded by the $10m cash on deposit. By setting aside $10m in a separate deposit account, to minimise charges, the Group fully funded the short-term deferred consideration. $5 million was settled in the year, leaving a balance of $5m disclosed as a separate element of cash and cash equivalents on the face of the consolidated statement of financial position.

The final $5m of deferred contingent consideration only becomes payable if Custom Power achieves a last 12-month revenue in excess of $37.5m within an 18-month period post acquisition. Based on the information available to management at the year end date, this stretch hurdle is, currently, not considered to be achievable, and the contingent consideration of $5m has been removed from the goodwill calculations. The deferred consideration amounts were discounted at an appropriate cost of debt and the impact was to reduce the fair value of the consideration by $205k. The discounting will be charged as a non-cash interest charge over the period of the deferment with £136k charged to date.

The total cash settled to date is the initial consideration of £24.8m plus the first $5m of deferred consideration at £4.1m.

33. Related parties

On the 8 June 2022, the Group formed a new entity, eTech Developments Limited, registered Co. number 14159260. eTech Developments Limited is 75% owned by Solid State PLC following an initial £150k investment. This is a new business, which provides engineering consultancy by employing an engineering team. The team provide power engineering services to the Group and external customers on an arm's length basis.

eTech made sales to the Group totalling £196k (2022: £Nil) and purchases from the Group totalling £49k (2022: £Nil). As at 31 March 2023, £60k is owed to the Group from eTech and £8k is owed from eTech to the Group.

Transactions with The Kings Mill Practice, a firm of which Mr P Haining is the proprietor, are disclosed in the Remuneration Report on page 69.

34. Post balance sheet events

Subsequent to the year end, the Group agreed a facility extension on the USD overdraft facility of up to $10m to the end September 2023 in order to cover the maximum potential impact of the NATO project's timing differences to cash flow.

A new USA holding company, Solsta Holding Inc., was incorporated with the intention to simplify the structure of the US Components Division legal entities. This entity is 100% owned by Solid State PLC.

COMPANY STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2023

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Fixed assets					
Investments	4	**68,630**		35,654	
Deferred tax asset		**351**		415	
			68,981		36,069
Current assets					
Trade and other receivables	5	**6,107**		1,725	
Cash and cash equivalents - available on demand		**148**		276	
Cash and cash equivalents - on deposit		**4,032**		–	
		10,287		2,001	
Creditors: Amounts falling due within one year	6	**(29,886)**		(28,255)	
Net current liabilities			**(19,599)**		(26,254)
Non-current liabilities					
Non-current borrowings	7	**(13,383)**		(1,500)	
Deferred consideration on acquisitions	7	**–**		(1,976)	
			(13,383)		(3,476)
Net assets			**35,999**		6,339
Capital and reserves					
Called up share capital	8		**567**		428
Share premium account	9		**30,474**		3,625
Capital redemption reserve	9		**5**		5
Retained earnings	9		**5,061**		2,338
Shares held in treasury	10		**(108)**		(57)
Shareholders' funds			**35,999**		6,339

The company made a profit after tax of £4,653k (2022: £1,189k), and an other comprehensive loss of £94k (2022: profit of £261k). Total comprehensive income for the period was £4,559k (2022: £1,450k).

The financial statements were approved by the Board of Directors and authorised for issue on 4 July 2023 and were signed on its behalf by:

G S Marsh
Director

P O James
Director

The notes on pages 126 to 129 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Share Capital £'000	Share Premium Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total Equity £'000
Balance at 31 March 2022	428	3,625	5	2,338	(57)	**6,339**
Shares issued	139	26,849	–	–	–	**26,988**
Dividends	–	–	–	(2,235)	–	**(2,235)**
Share-based payment credit	–	–	–	551	–	**551**
Transfer of treasury shares to AESP	–	–	–	(152)	152	**–**
Transactions with owners in their capacity as owners	139	26,849	–	(1,836)	152	**25,304**
Result for the year ended 31 March 2023	–	–	–	4,653	–	**4,653**
Other comprehensive income	–	–	–	(94)	–	**(94)**
Total comprehensive income for the year ended 31 March 2023	–	–	–	4,559	–	**4,559**
Purchase of treasury shares	–	–	–	–	(203)	**(203)**
Balance at 31 March 2023	**567**	**30,474**	**5**	**5,061**	**(108)**	**35,999**

	Share Capital £'000	Share Premium Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total Equity £'000
Balance at 31 March 2021	428	3,625	5	2,139	(70)	**6,127**
Shares issued	–	–	–	–	–	**–**
Transfer of treasury shares to AESP	–	–	–	(93)	93	**–**
Dividends	–	–	–	(1,453)	–	**(1,453)**
Share-based payment credit	–	–	–	295	–	**295**
Transactions with owners in their capacity as owners	–	–	–	(1,251)	93	**(1,158)**
Result for the year ended 31 March 2022	–	–	–	1,189	–	**1,189**
Other comprehensive income	–	–	–	261	–	**261**
Total comprehensive income for the year ended 31 March 2022	–	–	–	1,450	–	**1,450**
Purchase of treasury shares	–	–	–	–	(80)	**(80)**
Balance at 31 March 2022	428	3,625	5	2,338	(57)	**6,339**

The notes on pages 126 to 129 form part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

1. Accounting policies
The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company's financial statements.

Basis of preparation
These financial statements have been prepared in accordance with applicable United Kingdom Accounting standards, including Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and with the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

The financial statements are prepared in sterling rounded to the nearest thousand pounds (£'000).

The Company has taken advantage of the exemption from disclosing the following information in its Company-only accounts, as permitted by the reduced disclosure regime within FRS 102:

- Section 7 "Statement of Cash Flows" – Presentation of a Statement of Cash Flow and related notes and disclosures
- Paragraph 33.1A – Exemption from disclosing transactions between wholly owned entities
- Section 26 "Share-based payment" qualifying disclosure exemptions

Profit and loss account
Under Section 408(4) of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account. The profit for the year ended 31 March 2023 and the profit for the year ended 31 March 2022 are disclosed in the Statement of Changes in Equity.

Going concern
The going concern basis of accounting has been used in the preparation of these financial statements. The Solid State PLC entity statement of financial position reflects £19.6m net current liabilities (excluding group balances) due to the short-term £6.0m of deferred consideration, balances owed by Group entities and short-term bank borrowings. The deferred consideration can be settled through the Group's bank facilities and the $5m cash on deposit which are committed until November 2023 with £5.1m not drawn at the balance sheet date. Dividends totalling £7.5m were received from subsidiary companies in this financial year and subsidiary companies have the reserves available to pay dividends in the next financial year. The Directors have not identified any material uncertainties in this regard.

Foreign currencies
Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the statement of financial position date. Any differences are taken to the statement of comprehensive income.

Investments in subsidiaries
Investments in subsidiaries are stated at cost less amounts provided for impairment. When the trade and assets of a subsidiary are consolidated/reorganised the investment is reallocated based on the cost method where the commercial substance and economic reality is that the investment carrying value remains intact. The carrying value of the revised investments are evaluated for impairment in accordance with FRS102.

The carrying value of investments in subsidiaries is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the consolidated statement of comprehensive income.

Receivables
Receivables are measured at transaction price, less any impairment. The carrying value of receivables is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the consolidated statement of comprehensive income.

Other financial liabilities
Other financial liabilities are accounted for on the same basis as in the consolidated accounts. See the accounting policy on pages 92 to 93 as there is no material difference between FRS102 and IFRS.

Share-based payment
Share-based payments are accounted for on the same basis as in the consolidated accounts. See the accounting policy on page 95 as there is no material difference between FRS102 and IFRS.

Treasury shares
Treasury shares are accounted for on the same basis as in the consolidated accounts. See the accounting policy on page 93 as there is no material difference between FRS102 and IFRS.

1. Accounting policies continued

Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. This note provides an overview of the areas that involve a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong.

The material judgement/estimate impacting the entity accounts are the estimate of the deferred contingent consideration on the acquisition of Custom Power, which is set out in the Group disclosure in Note 2.

2. Staff costs

	2023 £'000	2022 £'000
Wages and salaries	**1,019**	985
Social security costs	**255**	130
Other pension costs	**62**	50
Share-based payment charges	**551**	295
Total staff costs	**1,887**	1,460

Staff costs amounted to £1,887k (2022: £1,460k) and comprised the share-based payment expense of £551k (2022: £295k) and provision for employer's national insurance on exercise of share options of £35k (2022: £45k).

Included within the Company Staff costs are the salary and related costs in respect of Mr G S Marsh, Mr P O James, Mr N F Rogers, Mr P Haining and Mr P Magowan. No other Director's remuneration was paid by the Company. Details of the Directors whose emoluments were paid by other Group companies are given in the Remuneration Committee Report on pages 65 to 70.

The average monthly number of employees during the year, including the Executive Directors, was as follows:

	2023 Number	2022 Number
Management and administration	**15**	15
	15	15

3. Share-based payments

See Group share-based payments disclosures in Note 28 to the Group accounts.

4. Investments

Subsidiary undertakings	2023 £'000	2022 £'000
Cost		
1 April	**35,654**	34,003
Additions	**33,302**	1,651
Disposals	**(326)**	–
31 March	**68,630**	35,654
Net book value		
31 March	**68,630**	35,654

The additions in the period relate to the acquisition of Custom Power as disclosed in Note 32 to the Group accounts and the incorporation of eTech Developments as disclosed in Note 33 to the Group accounts. The disposal in the period relates to the true-up of the deferred consideration acquisition cost of the Active Silicon Group.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

CONTINUED

4. Investments continued

Subsidiary undertakings	2023 £'000	2022 £'000
Net book value of investment in:		
Steatite limited	**5,307**	5,307
Solid State Supplies Limited	**4,201**	4,201
Pacer Technologies Limited	**3,747**	3,747
Willow Technologies Group	**13,144**	13,144
Active Silicon Group	**8,929**	9,255
Custom Power, LLC	**33,152**	–
eTech Developments	**150**	–
Total investments at 31 March	**68,630**	35,654

See Group subsidiary undertakings disclosures in Note 14 to the Group accounts.

5. Debtors

	2023 £'000	2022 £'000
Amounts owed by Group undertakings	**6,070**	1,710
Other debtors	**–**	1
Prepayments	**37**	14
	6,107	1,725

6. Creditors – Amounts falling due within one year

	2023 £'000	2022 £'000
Amounts owed to Group undertakings	**21,761**	22,357
Other taxes and social security costs	**289**	149
Trade and other creditors	**27**	28
Accruals	**850**	1,096
Short-term bank borrowings	**1,280**	–
Deferred consideration on acquisitions	**4,029**	–
Contingent consideration on acquisitions	**1,650**	4,625
	29,886	28,255

The Company has guaranteed bank borrowings of all its subsidiary undertakings, the main trading subsidiaries are Solid State Supplies Limited, Steatite Limited, Pacer Components Limited, Custom Power, LLC., Willow Technologies Limited and Active Silicon Limited. At the year end, the liabilities covered by those guarantees amounted to £Nil (2022: £Nil). The Company accounts for guarantees provided to Group companies as insurance contracts, recognising a liability only to the extent that it is probable the guarantees will be called upon. See Note 19 to the Group accounts for borrowings disclosures.

The short-term deferred consideration on acquisitions is £4.0m for Custom Power, LLC. and £1.6m for Active Silicon Group.

All amounts owed to/from Group undertakings are payable/repayable on demand and not interest bearing.

7. Creditors – Amounts falling due after more than one year

	2023 £'000	2022 £'000
Bank borrowings	**13,383**	1,500
Contingent consideration on acquisitions	**–**	1,976
	13,383	3,476

See Note 19 to the Group accounts for borrowings disclosures.

8. Share capital

See Group share capital disclosures in Note 25 to the Group accounts.

9. Reserves

See Group reserves disclosures in Note 26 to the Group accounts.

10. Own shares held in treasury

See Group treasury shares disclosures in Note 27 to the Group accounts.

11. Related parties

See Group-related party disclosures in Note 33 to the Group accounts. eTech Developments made no sales to the Company and purchases from the Company totalled £23k.

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