SOLID STATE PLC

3 July 2018

Solid State plc
(“Solid State”, the “Company” or the “Group”)
Final Results for the year ended 31 March 2018

Solid State plc (AIM: SOLI), the AIM listed manufacturer of computing, power and communications products, and value added distributor of electronic components, is pleased to announce its Final Results for the year ended 31 March 2018.

Highlights in the period include:

Financial:

	2018	**2017**	**Change**
Revenue	£46.3m	£40.0m	+16%
Adjusted profit before tax*	£3.00m	£3.13m	-4%
Adjusted diluted earnings per share (note 3)*	30.9p	31.4p	-2%
Profit attributable to equity shareholders	2.24m	1.85m	+21%
Diluted earnings per share from profit attributable to shareholders (note 3)	26.0p	21.6p	+20%
Adjusted gross profit margin*	27.5%	30.5%	-300bps
Adjusted operating margin*	6.56%	7.93%	-137bps
Dividend per share	12.0p	12.0p	-

* The adjusted performance metrics are adjusted for share-based payments charges, amortisation of acquisition intangibles and non-recurring cash costs relating to acquisitions and the re-organisation of the Manufacturing division. See note 7 for further details

All the financial metrics are from continuing operations

Operational:

- Delivered double digit organic sales growth in both divisions, with the Value Added Distribution division delivering close to 20% growth
- Completed the transfer of the battery production to Crewkerne - establishing a centre of excellence with the scale and expertise to take the Power business unit forward into new and complementary markets and opportunities
- Re-organisation of the Computing and Communications business unit management teams, to focus on higher “added value” business, with a view to improving margins and market share
- Sourcing and obsolescence team starting to deliver initial revenues expanding the value-added service offering which will support distribution margins going forward
- Continued investment in medium term research and development to deliver increased value-added manufacturing solutions including batteries for robotics and new TEMPEST accredited products
- Group open order book as at 31 May 2018 was £23.0m (31 May 2017: £20.7m) of which £19.0m is due for delivery between 1 June 2018 and 31 March 2019

Post year end:

- Award of £4.3m robotics power unit contracts from a major UK technology smart warehouse solutions provider and robotics manufacturer. Our novel battery “re blocking” design provides the potential for annuity revenues
- Major exclusive distribution agreement with VPT, a USA based manufacturer of high reliability power supplies for the military, aerospace and space industries

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

Commenting on the results and prospects, Tony Frere, Chairman of Solid State said:

"The financial year ended 31 March 2018 delivered a combination of strong organic revenue growth and strategic re-organisation. In particular our Value Added Distribution division contributed record revenues and profits, and our Manufacturing division was refocused into three key business units to align them with their markets and physical locations and to lay the foundations for the future growth of the Group.

"The Board is encouraged by new order intake during the first two months of our new financial year, giving confidence that the Group remains on track to deliver in-line with expectations. The Group open order book at 31 May 2018 was at a record £23.0m, up 11% on the prior year, with £19.0m of it being due for delivery between 1 June 2018 and 31 March 2019."

Investor Lunch

An investor lunch for Private Client Investment Managers and Private Investors will be held on Monday 9 July 2018 at St Pauls, London. Those wishing to attend should contact Tom Cooper on tom.cooper@walbrookpr.com or 0797 122 1972.

For further information please contact:

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Notes to Editors:

Solid State plc (SOLI) is a leading value added group of companies providing specialist design-in and manufacturing services to those acquiring computing, power and communications products and electronic component services for use in harsh environments.

Serving niche markets in oil & gas production, medical, construction, security, military and field maintenance, Solid State acts as both a component supplier to OEMs and bespoke manufacturer of specialist units to clients with complex requirements.

Headquartered in Redditch, Solid State employs over 200 staff across four locations. Solid State operates through two main divisions: Solid State Supplies and Steatite.

Solid State was established in 1971 and admitted to AIM in June 1996.

CHAIRMAN'S STATEMENT

Overview of the year:

The financial year ended 31 March 2018 delivered a combination of strong organic revenue growth and strategic re-organisation. In particular our Value Added Distribution division contributed record revenues and profits, and our Manufacturing division was refocused into three key business units to align them with their markets and physical locations and to lay the foundations for the future growth of the Group.

Structurally, we made significant progress, consolidating our Power business unit in Crewkerne, Somerset and completing the restructuring of the Communications business unit in Leominster, Herefordshire which has experienced a more difficult trading environment (particularly in the North American market place). Nevertheless, following a strong performance from our Power business unit, exports increased 31% on the prior year and now represent 22.2% of total Group sales (2017: 19.5%). In addition, our investment in the component sourcing and obsolescence team as part of our Value Added Distribution division is starting to gain commercial traction, which is providing additional value added services for our customers.

Financial overview

Group revenue from continuing operations of £46.3m was up 16% on the prior year (2017: £40.0m). Our Value Added Distribution division has gained market share, delivering close to 20% organic revenue growth over the prior year. Manufacturing has also seen strong revenue growth at 13%, albeit the mix of sales is not as margin rich as the Board anticipated. As we have previously reported, the Communications business unit has faced difficult trading conditions for its antenna products, although in revenue terms the shortfall in this business unit was more than offset by the additional revenue from the Power business unit.

The Group's gross margin of 27.5% has seen a reduction of 2.6% compared to the 2017 margin of 30.1%. This reduction reflects the impact of the changing mix of sales with the Value Added Distribution division representing a larger proportion of the overall margin. The Value Added Distribution division typically commands lower margins than the Manufacturing division. Additionally, within the Manufacturing division there have been fewer complex higher margin manufacturing projects than in prior years when we benefitted from programmes in our computing and communications divisions which have not recurred. During the year we have invested significantly in development activity within the Power business unit which has been rewarded by the recently announced contracts for autonomous robotics applications. We expect this will provide considerable commercial opportunities for this division at the end of financial year 2019 and beyond.

The reported and adjusted profit after tax from continuing operations are broadly consistent with the prior year at £2.2m (2017: £2.3m) and £2.7m (2017: £2.7m) respectively. This translates into fully diluted reported earnings per share from continuing operations and adjusted earnings per share from continuing operations of 26.0p (2017: 26.7p) and 30.9p (2017: 31.4p) respectively.

The Group balance sheet shows net assets of £18.0m (2017: £16.6m) with net cash of £0.6m (2017: £0.9m). As reported previously in the first half of the year we invested significantly in inventory (in particular in battery cells) to exploit commercial opportunities and mitigate the risk associated with extending lead times. The investment made during the first half enabled the Group to continue to ship products to customers despite lengthening lead times. This was critical to delivering the organic growth in the Power business unit and Value Added Distribution division. We closed the year with inventories at £6.8m having reduced during the second half of the year by £1.2m albeit not down to the levels reported in March 2017 (2017: £5.6m).

Solid State PLC has paid a dividend every year since it joined AIM in 1996, a record of which the Group is very proud. The Board is recommending a final dividend of 8p, which added to the interim dividend of 4p per share paid on 20 February 2018, gives a total dividend for the year of 12p per share (2017: 12p). The total dividend is 2.6 times covered in 2018, based on adjusted profit after tax from continuing operations (2017: 2.65 times). The final dividend will be paid on 20 September 2018 to shareholders on the register at the close of business on 31 August 2018. The shares will be marked ex-dividend on 30 August 2018.

As previously reported, following a review of our dividend policy and benchmarking against our peer group, the Board has agreed a policy whereby it will look to increase the dividend as growth in profitability is delivered whilst targeting a dividend cover in the region of 2.50 times adjusted earnings.

Senior management and corporate governance

As part of the review of board performance and succession planning, the Board has identified that it needs to appoint a replacement Non-Executive Director who is independent. The Board intends to commence a search process this year with a view to making an appointment before the 2019 AGM.

Our mission and strategy to deliver growth

Our mission is "*To remain at the forefront of electronics technology, delivering reliable, high quality products and services. Adding value at every opportunity, from enquiry to order fulfilment; consistently meeting customer and partner expectations.*"

Our strategy to deliver this has three key elements:

1) investment in our people, our technical knowledge and our capabilities, to ensure we remain at the forefront of electronics technology where we are the go to technical solutions provider of choice, enabling us to develop and maintain long term client relationships as a trusted adviser with the sector 'know how';
2) targeting strategic acquisitions which are aligned with our core capabilities which provide access to new markets or deepen our knowledge, ability and enhance the value we can add to our customers; and,
3) continue to develop our strategic partnerships with customers and suppliers within the electronics industry, building our portfolio of value added services.

Achievements in 2017/2018

Notable achievements in 2017/2018 to advance our strategy included:

- delivering double digit organic sales growth in both divisions, with the Value Added Distribution division delivering close to 20% growth;
- the sourcing and obsolescence team starting to deliver initial revenues and further progress of our value-added service offering and customer qualifications in this area which will support our distribution margins going forward;
- continued investment in medium term research and development to deliver increased value-added manufacturing solutions including batteries for robotics and new TEMPEST accredited products;
- completing the transfer of the battery production to Crewkerne and thereby establishing a centre of excellence with the scale and expertise to take our Power business unit forward in to new and complementary markets and opportunities; and,
- re-organising the Computing and Communications business unit management teams, to focus on higher "added value" business, with a view to improving margins and market share.

The Chief Executive's strategic report provides further details on these achievements and the progress we have made in executing our strategy.

Opportunities and prospects for 2018/2019

The Group is well positioned for growth in 2018/2019 across its business units with well diversified revenue streams.

Following the formation of the centre of excellence for batteries in Crewkerne, the Power business unit is well placed for the future particularly given the resurgence of the Oil & Gas (O&G) market after a period of contraction. In addition, our development activity has positioned the Power business unit well to penetrate new market opportunities in robotics and autonomy, which will diversify our customer base and range of sectors which currently include Medical, O&G, and Commercial Aviation.

In addition, the supply chain challenges we have seen with extending lead time and cell manufacturers limiting supply to approved pack manufacturers only present higher barriers to entry in this market. Our strong established relationship with the cell manufacturers positions our Power business unit well for future growth.

Post year-end we have taken a significant production order from a major UK smart warehouse technology solutions provider to supply them with battery packs to power autonomous robots operating in cold conditions. Production is expected to commence towards the end of the calendar year. This strengthens the order book increasing our confidence that we remain on track to meet expectations. The business intends to build on this success to expand the Group's capabilities in the provision of power solutions for select autonomous systems operating in harsh environments.

Post year-end the Group signed a major exclusive distribution agreement with VPT, a USA based manufacturer of high reliability power supplies for the military, aerospace and space industries. This highlights the progress that we have made in developing our Value-Added Distribution offering which has enabled us to win the franchise.

Our expansion of services in the Value Added Distribution division, and in particular the formation of our component sourcing and obsolescence team, is starting to deliver a brand-new source of recurring revenue to the Group, which whilst still small, is margin enhancing and has significant growth potential.

As indicated earlier the Communications business unit has faced several commercial challenges during the year. To address these, we have re-organised the team, and while we do not expect the recovery to deliver material improvement in performance in the coming financial year, we believe that our technical knowledge, manufacturing and testing capabilities position us well in targeting new opportunities. The Computing business unit has been refocussed to seek opportunities for increased value added content which offer better opportunity to increase margins.

Brexit negotiations present a level of risk and uncertainty to the business environment in which we operate. However, our breadth of technical knowledge, service levels from our specialist sales teams, scale of our operations, structure, strong balance sheet, governance and quality standards mean the Board believes the Group is well positioned to respond quickly to the challenges and opportunities that lie ahead as the UK negotiates its exit from the EU. In addition, the Board believes that the Group's diversified structure gives it resilience and places it in a far stronger position than our smaller unlisted competitors within our customers' supply chains.

We made our last acquisition in May 2016. Generally, our aim is to make one acquisition a year, however we will only make acquisitions where they are fully aligned with the Group's strategy. The focus when looking at acquisitions is to ensure they develop our product offering, broaden the market sectors we serve and underpin or enhance our gross profit margins.

The Board is encouraged by new order intake during the first two months of our new fiscal year, giving confidence that the Group remains on track to deliver in-line with our expectations. The Group open order book at 31 May 2018 was at a record £23.0m (31 May 2017: £20.7m) up 11% on the prior year, with £19.0m of it being due for delivery between 1 June 2018 and 31 March 2019.

Finally, on behalf of the Board, I would like to acknowledge the significant contribution of our staff to Solid State's continued progress and thank them accordingly. This is a people business which relies on the dedication of our colleagues across the Group; this is acknowledged and appreciated.

A B Frere
Chairman

CHIEF EXECUTIVE'S STRATEGIC REPORT

Introduction to Solid State PLC

The two divisions of the Solid State Group have distinct characteristics in their market places; however they have a common mission, a clear delivery strategy, and consistent business values. Across the Group our depth of understanding and a collaborative approach to client relationships have always promoted an integrated process of product design and supply often resulting in a trusted adviser relationship with our customers. This degree of co-operation and collaboration is valued and appreciated by our clients, we believe it is of significant commercial value both to us and our customers. The Group will continue to pursue this approach and extend it into new relationships where appropriate.

Our stated strategy is to supplement organic growth with selective acquisitions within the electronics industry which will complement our existing Group companies and over time enable us to achieve improved operating margins through the delivery of operational efficiencies, scale and distribution.

The Group is focused on the supply and support of specialist electronics equipment through its Value Added Distribution and Manufacturing divisions. The Value Added Distribution division is a market leader in delivering innovative, valuable, technical solutions for customers seeking specialist electronic components and displays.

The Manufacturing division is a market leader in the design, development and supply of high specification rugged computers, custom battery packs providing portable power and energy storage solutions and advanced communication systems, encompassing wideband antennas and high performance video transmission products.

The market for the Group's products and services is driven by the need for bespoke electronic solutions to address complex needs, typically in harsh environments where enhanced durability and resistance to extreme and volatile humidity, temperature, pressure and wind is vital. The drivers of value in our markets include safety, technical performance, efficiency improvements, cost savings, and environmental monitoring.

Value Added Distribution division

The Group's Value Added Distribution division is focused on serving the needs of the electronics original equipment manufacturing (OEM) and the contract electronics manufacturing (CEM) communities in the UK, principally from its base in Redditch.

The division represents a modest number of suppliers who manufacture semiconductors, related electronic components, modules and displays. The division has an in depth understanding of these products and as such is able to offer outstanding levels of commercial and technical support to its customers.

The products offered include those for the I.O.T (internet of things), embedded processing, control, wireless and wired communications, power management, and LED lighting from globally recognised manufacturers.

The division has expertise in high-reliability components for military and aerospace applications. The division's Quality Management System is accredited to the International Aerospace standard AS9120.

The Value Added Distribution division understands the need to provide the highest level of service to its customers and has a clear focus on supporting the electronic design community. Wherever possible the Value Added Distribution division offers services for customers who require their programmes pre-loaded onto hardware or their products prepared to go direct to the production line. All of these services are carried out in our bespoke electrostatic discharge (ESD) safe facility in line with our AS9100 certification. This is an offering many of our competitors are unable to provide.

Manufacturing division – including the Computing, Power and Communications business units

Our Manufacturing division operates across three sites; Redditch, Crewkerne and Leominster. It is a market leader in the design, development and supply of rugged and industrial computers, portable power and energy storage solutions, advanced communication systems, encompassing wideband antennas and high performance video transmission products.

The division has consolidated its battery production in Crewkerne, Somerset, with resulting efficiencies, allowing the Redditch, Worcestershire facility to focus primarily on the delivery of computing products. The Leominster facility, in Herefordshire, houses the Communications business unit, with our antenna design, production and test facilities. Our near-field antenna test chamber supports in-house development and is also made available to third parties looking to utilise the state of the art chamber on a chargeable basis. Our environmental chamber and vibration testing capabilities have been commissioned during the financial year providing enhanced in-house testing services which can be utilised across the Group.

All three facilities are cleared by the UK Government to allow secure work. Personnel hold individual security clearance as required.

Computing business unit

The Computing business unit designs, manufactures and tests rugged and industrial computing solutions, serving a wide range of markets including Industrial, Military, Transportation and Broadcasting. Success has been achieved through specialisation in industrial computer design and integration, custom chassis builds, production, test and certification and customisation of Windows Embedded I.O.T and related software products.

Our product offering includes computers and displays, time and positioning solutions, motherboards and modules and test and measurement solutions. Our capabilities extend from the provision of single board computer modules to turnkey integrated systems with significant value added content in the production, testing and commissioning stages at the Redditch facility.

The business unit has strong and long standing commercial relationships directly with key suppliers in Asia and the USA. Sustained digital marketing initiatives are leading to increased demand from diverse markets with emphasis on driving the level of value added content.

Power business unit

The Power business unit provides portable power and energy storage solutions. This includes battery pack assembly, control electronic design, and advanced battery testing. Working from initial design through qualification and United Nations (UN) certified testing, production, support and disposal at end of life, the business unit is well positioned to respond to an increasing demand for mobile and static power solutions where there is a specific requirement for high reliability, harsh environment and, above all else, safe systems.

The business unit has over 30 years' experience in the supply of batteries and mobile power solutions into some of the world's most demanding environments. Its battery packs are used in a range of sectors including: Oil and Gas, Military and Security, Aerospace, Environmental and Oceanographic, Medical and Industrial OEMs.

Communications business unit

This business unit provides custom solutions that include bespoke antenna design from the Leominster facility, advanced high bandwidth radios including related peripheral technology from the Redditch facility and domain knowledge from the in-house product support team with direct end user experience.

Within the Communications business unit the Group provides advanced ultra-wide band antenna systems addressing demand from a worldwide customer base. Our antennas are utilised in a range of applications including electronic warfare, meteorological sensors and test and measurement applications. With over 40 years of experience, the business unit is at the forefront of antenna design and manufacture.

Our purpose built 18,000 sq. ft facility in Leominster includes a world class near-field test chamber that sets the business apart from competitors and allows the business unit to remain as a pre-eminent provider of ultra-wideband/high power antenna solutions. Focus is now being given to opportunities for repeat business with higher volume sales of standard product to complement major system sales opportunities.

Divisional business review

Value Added Distribution division

Financial year 2017/18 saw sustained growth for the Value-Added Distribution division with revenue growth up nearly 20% over the prior year at £19.7m (2017: £16.5m). All KPIs were met or exceeded the targets for the year with On Time Delivery (OTD) consistently high and rising throughout the year to 98%. Order intake is at record levels with bookings of £23.9 million taken in the 2017/18 financial year giving a Book:Bill ratio of 1.21:1.00.

The open order book at the end of the year was at record levels at in excess of £10m with £7.5m deliverable in the financial year-ending 31 March 2019.

Overall stock levels increased during the financial year with the division entering into some partnership deals with suppliers to ensure continuity of supply to the mutual customer base and thus mitigating the extended lead times within the industry. Underlying stock turns nevertheless remained very healthy, in excess of five times a year and the obsolescence risk was mitigated on the special deals with 100% stock return rights.

Sales per head which is used as a metric for the human resource efficiency of the division remained healthy and stable suggesting that the division is managing to grow its business without disproportionately increasing its head count. The operational efficiency is critical to delivering enhanced margins.

New initiatives started in the 2016/17 year began to yield positive results in the year and are expected to contribute significantly in the 2018/19 financial year. Whilst gross margins remain under pressure the Group continued to invest in the development of a component sourcing and obsolescence team. The services this team offer combined with the long-term storage initiatives are expected to contribute well to the margin enhancement projects previously reported.

The division continues to invest heavily in its staff believing that a well-educated and well-trained workforce is the key to staying ahead of the competition. To this end the division continues to sponsor its staff to take industry recognised qualifications such as Chartered Institute of Procurement & Supply (CIPS) and encourages and indeed enrols senior staff members on continuing professional development (CPD) courses throughout the year, these include, the Institute of Leadership and Management (ILM) courses and where appropriate Institute of Directors (IoD) qualifications.

The senior management team of the Value Added Distribution division remain optimistic about the prospects for the 2018/19 financial year and expect it to be another record year.

Post year-end the division signed a major exclusive distribution agreement with VPT, a USA based manufacturer of high reliability power supplies for the military, aerospace and space business. VPT has been operating in the UK for approximately 12 years and brings with it a well-established customer base that will transition to the Value Added Distribution division throughout the year.

Manufacturing division – comprising Computing, Power and Communications business units

Manufacturing billings met the expectations for the year with growth of 13% over the prior year at £26.6m (2017: £23.5m). The year-on-year bookings showed growth of circa 3% which was below our expectations given the billings performance and resulted in a book to bill ratio for the year of 0.94:1.00. This is expected to result in a slower start to the financial year-ending 31 March 2019.

While the underlying core businesses of the division did see growth, and broadly maintained material margins, a reduction in the level of higher value add manufacturing business activity had a negative impact on the mix resulting in a reduction in overall gross margins. Further details of the financial performance of the division are set out in the financial review.

As a result of its market diversity the division has long term strength and resilience. In the year, 24% of revenue came from O&G, 25% from Defence, 29% from Industrial EOM's and the balance from a range of sectors including Aerospace, Retail and Transportation. Approximately 75% of our manufacturing business came from the domestic UK market, and 25% from export markets.

Post year-end the operation has been refocused to ensure the emphasis is on winning higher margin opportunities. The cost base has been reduced to reflect current market conditions but without compromising growth areas. Facilities have been consolidated from four to three sites with the closure of the Farnborough sales office, further reducing the fixed overheads.

Areas of continued focus for the coming year will include:

- an emphasis on securing new customers to reduce the reliance on the existing customer base to generate the majority of revenue. Specific attention is being paid to lead generation and qualification;
- seeking opportunities within the computing, power and communications sectors that require a greater level of value add activity and therefore support higher margins; and,
- managing the cost base will be carefully, concentrating on smarter procurement and supply chain management.

Computing business unit

The Computing business unit achieved stable performance. Our core Computing revenue (excluding the impact of the rail sector) saw revenue growth of approximately 3% over the prior year. However, the prior year benefitted from close to £3.5m from rail sector revenues.

While there was high value-add rail sector sales in the current year the revenue from this sector was significantly down on the prior year as an initial product roll out concluded. These revenues were only partially replaced with sales at a more normalised margin for computer sales resulting in an adverse impact on the performance of the business unit.

It is pleasing to report an initial contract has been secured from a new customer in the rail sector. The Computing business unit will supply this customer with a suite of computer and monitor equipment that will be integrated by the prime contractor into rail coaches to provide video security. Further bookings and revenues are projected for FY18/19 on this programme.

The Computing business unit has seen an increase in the demand for Artificial Intelligence (AI) solutions that are image/video centric. The business unit is particularly well positioned to address harsh environment applications in this domain with a range of fanless high powered, long life computing solutions.

The business commenced delivery of a complex computing solution for the UK Ministry of Defence via a major defence prime contractor. The solution includes “TEMPEST” specification products. TEMPEST is a National Security Agency specification and a NATO certification referring to a cyber security accreditation on information systems through preventing leaking emanations, including unintentional radio or electrical signals, sounds, and vibrations. Discussions have commenced with other Government departments which also have requirements to protect computer systems installed in facilities overseas. The Group holds the necessary security accreditations to undertake such work.

The business unit continues to look to develop an increased level of higher value business that will play to the divisions engineering and operational capabilities and utilise capacity. The business unit will introduce a new series of 19” Rack Mount servers in the first half of the financial year-ending 31 March 2019 to include Entry Level and High End chassis solutions with respective features and pricing competitively matched.

Power business unit

We have now completed the transfer of all battery production to the Crewkerne facility. Business performance continues to improve as we make operational efficiencies. This has been reflected in customer satisfaction responses and on time delivery results.

The operation has seen the successful integration of the latest ISO 9001-2015 standard that is complemented by the 18001 health and safety accreditation and approval to build equipment intended for use in potentially explosive atmospheres under the ATEX directive. These are all key considerations for our business to business customers operating in aerospace, safety and O&G markets.

We have continued to see margin pressure on lower value add battery solutions and the business is increasingly focussed on more complex integrated solutions where safety, and product quality are the major factors in the customer buying decision making process.

We have seen a demonstrable and sustained recovery in the O&G sector as customers progress through restocking phases to new longer-term programmes. New technologies including lithium solutions to service the O&G sector present an opportunity for further value added enhancements and the associated margin improvement. Product endurance and reliability are critical to our customers given the financial consequences of downhole failure.

The development of the battery solution for a major UK smart warehouse technology solutions provider has progressed well in the year; initial trials of the pack integrated to the customer’s robotic platform have been successful.

Positively, post year-end, we have taken significant production orders from the customer and their chosen robot manufacturer. The production is scheduled to commence towards the end of the year. A novel battery “re blocking” design provides the potential for annuity revenues for extended periods and delivering improved through life costs for the end customer.

Furthermore, the Business unit has secured a further 12 month production contract from an existing customer operating in the aerospace sector. Significantly the order reflects an improved commercial relationship as a valued supply partner to the customer.

Battery cell manufacturers are limiting the supply of product to approved third party pack providers and extending lead times across the industry in order that they can service the needs of the Electric Vehicle (EV) market. This means that our longstanding and trusted relationship with the leading cell manufacturers are even more important and this together with the barriers to entry that also exist, mean we are well positioned to leverage opportunities in this market place.

Focus for future growth remains on high reliability, harsh environment applications with an emphasis on added value solutions. New applications in robotics solutions are being targeted in varied market sectors including land based, sea and subsea. The business unit is taking care to select markets for portable power and energy storage solutions that have not been commoditised as a result of the EV demands for ever diminishing pricing on the cell chemistries. The business unit adds value by being an impartial subject matter expert to our customers looking to select the optimum cell chemistry and battery management solution and pack design, to deliver the operational requirements.

Communications business unit

The Communications business unit encompasses antenna products and advanced radio products and is split into the Antennas team and the Radio team. The business unit’s technology is world class with two thirds of sales from the Leominster facility being exported worldwide. The aspirations and plans to build and strengthen the order book for the antenna products is taking more time than the Board had expected, principally due to the inability to gain significant traction in the North American market where US domestic policy has seen the Group lose out to US competitors on larger US Government funded programmes.

Notwithstanding this, in absolute terms communications revenue was up on the prior year with strong radio sales and the successful delivery of a highly complex antenna programme to a major European defence prime contractor. The solution integrates advanced materials, cutting edge antenna design and complex software programming and will open doors to comparable future projects.

In the year, our customer, the Met Office, won a prestigious award from the Environment Agency, with our Antenna team being specifically identified as a key supplier of radar antenna technology and a major contributor to the success of the project. The project involved the refurbishment and upgrade of the 16 weather radar systems in the UK National Weather Radar Network.

The Radio team successfully delivered two important programmes to the UK Ministry of Defence permitting very high bandwidth real time video distribution in the harshest environments. The team provides multi input multi output data radios that have the ability to form self-healing mesh networks covering a wide geographic region on land, sea and air and crucially in urban environments. The Radio team is now seeing prospective requirements where the proprietary radio solution has been designed into the end user solution.

The Radio team has established new business relationships with complementary companies providing mission planning computers, digital mapping solutions and optical sensors positioning the business as a subsystem provider of both the data links and situational awareness product. This will allow this part of the Communications business unit to move up the value chain, generating larger contracts and improved overall margins.

Lessons have been learnt on larger new projects to ensure they have been “de-risked” with appropriate payment milestones against engineering deliverables. Going forward the Communications business unit will be cautious in predicting significant sales growth from the antenna products. That said, prospects remain good and the operations and reputation for delivery of world class antenna solutions will see the business continue to compete for high margin contracts.

The focus going forward is to secure a “base load” of run rate business that can be complemented by the larger programmes.

Financial Review

In order to provide a fuller understanding of the Group’s on going underlying performance, we have included a number of adjusted profit measures as supplementary information, on a consistent basis with that reported by the financial analysts that review our business. As detailed in note 7, the adjusted measures eliminate the impact of certain non-cash charges and non-recurring items.

Revenues

Group revenues from continuing operations of £46.3m were up 16% on the prior year (2017: £40.0m) from organic growth. The Value Added Distribution division represented 43% (2017: 41%) of Group revenue and it reported strong organic revenue growth of close to 20% resulting in revenue of £19.7m (2017: £16.5m). The Manufacturing division reported revenue of £26.6m (2017: £23.5m) representing growth of 13%.

The significant organic growth in revenues has been delivered from our Value Added Distribution division, the rugged radio solutions and traditional battery pack products. This change in the sales mix has meant the strong revenue growth has not translated in to the same level of growth in gross profit.

Gross profit

Gross profit for the year is up £0.7m to £12.7m (2017: £12.0m) reflecting the increased volume of business. While manufacturing gross margins at a product level were broadly maintained, the adverse impact on margin from the change in manufacturing sales mix in conjunction with the margin pressure in the Value Added Distribution division, resulted in a reduction of the overall Group margin percentage, with a reported gross margin percentage of 27.5% (2017: 30.1%) and adjusted gross margin percentage of 27.5% (2017: 30.5%).

Value Added Distribution contributed £4.6m (2017: £4.3m) of gross margins which was up £0.3m over the prior year. The increase reflects our success in growing revenue through winning larger volume contracts - albeit to deliver the successful top line growth we have had to offer some limited volume discounts. Furthermore, the mix of components sold and an adverse foreign exchange impact within the financial year has adversely impacted the margin percentage.

The investments we have made in developing our added value services, including obsolescence sourcing and long term storage offerings are starting to generate initial revenues although they are not yet sufficient to mitigate the margin pressure. Looking forward, the sourcing and obsolescence solutions are expected to increase the value we add and should enable the Value Added Distribution division to enhance its margins as these services develop.

The Manufacturing division contributed £8.1m (2017: £7.9m) of adjusted gross margin which is up £0.2m on the prior year. The gross margin percentage has fallen to 30.6% (2017: 33.5%) primarily as a result of a change in mix of sales with the higher sales of rugged radio solutions and traditional battery pack products not sufficient to offset the significant reduction in the computing business unit from a higher margin programme. Reported gross margins in the Manufacturing division were 30.6% (2017: 32.8%) giving gross margin of £8.1m (2017: £7.7m).

Sales and general administration expenses

Sales and general administration expenses from continuing operations of £10.2m increased by £0.9m from £9.3m in 2017. This increase primarily reflects cost inflation of approximately £0.25m, full year costs of facility and resource investments made in the prior year of approximately £0.5m and share base payment charges of £0.15m.

Adjusted sales and general administration expenses from continuing operations increased by £0.7m to £9.7m from £9.0m in 2017.

As reported last year, the Value Added Distribution division invested in additional sales resources in the fourth quarter of 2017 in order to deliver the targeted organic growth in 2017/18. This has resulted in the division's adjusted sales and general administration expenses increasing from £3.2m to £3.3m.

The Manufacturing division's adjusted sales and general administration expenses have increased to £5.6m from £5.0m. This reflects the full year impact of the Crewkerne and Leominster facility in conjunction with cost inflation.

Adjusted Head Office sales and general administration costs have remained stable at £0.8m (2017: £0.8m).

Within sales, general and administrative expenses the reported depreciation and amortisation from continuing operations in the year was £0.9m which is up £0.1m from £0.8m in 2017 primarily due to the depreciation of the capital investment in the new Leominster facility in the prior year. Adjusted depreciation and amortisation from continuing operations (excludes the amortisation of acquisition intangibles) has increased to £0.7m from £0.6m.

Operating profit

Reported operating profit from continuing operations is down £0.2m to £2.5m (2017: £2.7m). Adjusted operating profit is down £0.2m to £3.0m (2017: £3.2m). The adjustments to operating profit are set out in further detail in note 7.

However, this reduction in operating profit is partially mitigated at an EPS level by the R&D tax credits received for the R&D programmes we have invested in over the last two years. We have recognised £0.1m of Research and Development Expenditure Credit (RDEC) within operating profit and the remaining credits are recognised within the tax line, where we are eligible for the SME R&D tax scheme. These development programmes are a cornerstone of the Group's future high value add revenue streams.

EPS

Adjusted fully diluted earnings per share from continuing operations for the year ended 31 March 2018 are 30.9p (2017: 31.4p). Reported fully diluted earnings per share from continuing operations are 26.0p (2017: 26.7p).

Cash inflow from operations

Cash inflow from continuing operations for the year of £1.4m is down from £5.8m in 2017 primarily due to a cash outflow of circa £2.2m from working capital compared to an inflow of £2.4m in the prior year. Underlying cash profit from operations was stable at £3.5m (2017: £3.6m).

As reported at the half year, the working capital outflow in the year of £2.2m reflects a £1.4m investment in inventory due to increased lead times on cells and various electronic components and increased trade working capital resulting from increased turnover.

Cash flow from discontinued operations in the year was £nil (2017: inflow £3.3m).

Dividend

The Board is proposing to maintain the final dividend at 8.0p (2017: 8.0p),giving a full year dividend of 12p (2017: 12p). The dividend is 2.6x times covered based on the adjusted profit after tax.

Following approval of the final dividend by the shareholders at the AGM on 6 September 2018, the final dividend will be paid on 20 September 2018 to shareholders on the register at the close of business on the 31 August 2018. The shares will be marked ex-dividend on 31 August 2018.

Capital investment

During the year the Group invested £0.4m (2017: £1.5m) in property plant and equipment and £0.3m (2017: £0.4m) in software and research and development intangibles.

Capital investment in the year returned to the historical run rate level for capital expenditure. There were two significant one off investments in the prior year relating to the new facility in Leominster and the expansion of the office and meeting room space in our Redditch facility.

Investment in subsidiaries

There was no investment in subsidiaries in the current year. During 2016/17 the Group invested £1.9m, which included the final deferred consideration payment for Ginsbury Electronics Limited of £0.3m and £1.6m in acquiring Creasefield Limited.

KPIs

In addition to the information provided in the Chairman's Report and this Strategic Report, the Directors use a number of key performance indicators to manage the business, disclosed in the financial review. Non-financial KPIs are not disclosed.

KPI	2018	2017
Sales from continuing operations	£46.3m	£40.0m
Adjusted operating profit from continuing operations	£3.0m	£3.2m
Adjusted profit before taxation from continuing operations	£3.0m	£3.1m
Adjusted diluted EPS from continuing operations	30.9p	31.4p
Cash flow from continuing operating activities	£1.4m	£5.8m
Net cash	£0.6m	£0.9m
Open order book @ 31 May	£23.0m	£20.7m

Outlook

Solid State plc finished the year in a strategically stronger position, having focussed investment on the areas that will deliver the strategic goals of profitable organic and acquisitive growth building further on the resilient base of our well diversified Group.

The Group is focused on its core markets of "Value Added Distribution of electronic components and displays" and "Manufacturing of electronics technology" delivering rugged high quality products and services across our wide range of sectors. In these sectors, we are well placed to add value at every opportunity, from enquiry to order fulfilment; consistently meeting customer and partner expectations which is at the core of developing our business.

The management have refocussed the Manufacturing division, with an emphasis on new customer lead generation via marketing initiatives and concentration on developing opportunities for higher margin business. The antenna team in our Communications business unit is now seeing an improved level of enquiries. The continued investment in our Power business unit is positioning the business to deliver more complex, higher margin solutions. Likewise, the Computing team are targeting opportunities with increased levels of added value to leverage the engineering and production capability within the business. Overall, these initiatives give us confidence for the future prospects of the Manufacturing division.

The scale and reach of our growing Value Added Distribution division is attracting significant franchises such as VPT which we signed post year end. We continue to develop our value added services such as our sourcing and obsolescence offering, which all provide exciting opportunities for the Division.

Despite choosing not to proceed with several acquisition opportunities over the past year we have identified a number of further acquisition opportunities in Value Added Distribution, Power and Communications which we are actively pursuing.

Through delivering our strategy over the next four years of our five year plan, we are striving to double the size of the business through a combination of organic growth and strategic acquisitions.

Our record open order book, and first quarter order intake are leading edge indicators of future trading and give the Board confidence in the prospects for 2018/2019.

G S Marsh
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

Continuing Operations	**Notes**	**2018 £'000**	**2017 £'000**
Revenue		46,268	40,021
Cost of sales		(33,525)	(27,994)
		_______	_______
Gross profit		12,743	12,027
Sales, general and administration expenses		(10,229)	(9,291)
		_______	_______
Profit from operations		2,514	2,736
Finance expense		(33)	(42)
		_______	_______
Profit before taxation		2,481	2,694
Tax expense	6	(238)	(405)
		_______	_______
Adjusted profit after taxation		2,663	2,693
Adjustments to profit	7	(420)	(404)
Profit after taxation		2,243	2,289
Loss from discontinued operations		-	(438)
		_______	_______
Profit attributable to equity holders of the parent		2,243	1,851
		_______	_______
Other comprehensive income		-	-
		_______	_______
Total comprehensive income for the year		2,243	1,851
		_______	_______

Earnings per share		**2018**	**2017**
Basic EPS from continuing operations		26.5p	27.2p
Basic EPS from discontinued operations		-	(5.2p)
Basic EPS from profit for the year	3	26.5p	22.0p
Diluted EPS from continuing operations		26.0p	26.7p
Diluted EPS from discontinued operations		-	(5.1p)
Diluted EPS from profit for the year	3	26.0p	21.6p

Adjusted EPS measures are reported in note 3 to the accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2018

	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 2017	425	3,629	5	12,826	(243)	16,642
Total comprehensive income for the year ended 31 March 2018	-	-	-	2,243	-	2,243
Dividends	-	-	-	(1,015)	-	(1,015)
Share based payment credit	-	-	-	150	-	150
Balance at 31 March 2018	425	3,629	5	14,204	(243)	18,020

	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 2016	421	3,629	5	11,991	(281)	15,765
Total comprehensive income for the year ended 31 March 2017	-	-	-	1,851	-	1,851
Issue of new shares	4	-	-	-	-	4
Dividends	-	-	-	(1,016)	-	(1,016)
Transfer of shares to all employee share ownership plan	-	-	-	-	38	38
Balance at 31 March 2017	425	3,629	5	12,826	(243)	16,642

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 March 2018

		2018		**Re-presented 2017**	
	Notes	£'000	£'000	£'000	£'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment		2,253		2,406	
Intangible assets		6,167		6,224	
TOTAL NON-CURRENT ASSETS			8,420		8,630
CURRENT ASSETS					
Inventories		6,823		5,577	
Trade and other receivables		10,048		8,325	
Cash and cash equivalents		575		909	
TOTAL CURRENT ASSETS			17,446		14,811
TOTAL ASSETS			25,866		23,441
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables		5,718		5,338	
Contract liabilities		1,317		810	
Corporation tax liabilities		384		324	
TOTAL CURRENT LIABILITIES			7,419		6,472
NON CURRENT LIABILITIES					
Deferred tax liability		427		327	
TOTAL NON-CURRENT LIABILITIES			427		327
TOTAL LIABILITIES			7,846		6,799
TOTAL NET ASSETS			18,020		16,642
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
Share capital			425		425
Share premium reserve			3,629		3,629
Capital redemption reserve			5		5
Retained earnings			14,204		12,826
Shares held in treasury			(243)		(243)
TOTAL EQUITY			18,020		16,642

The financial statements were approved by the Board of Directors and authorised for issue on 3 July 2018 and were signed on its behalf by:

G S Marsh, *Director* **P O James,** *Director*

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

		2018		2017	
		£'000	£'000	£'000	£'000
OPERATING ACTIVITIES					
Profit before taxation including discontinued operations			2,481		2,155
Adjustments for:					
Depreciation			489		447
Amortisation			406		387
Profit on disposal of property, plant and equipment			(11)		(17)
Loss on disposal of intangible fixed assets			-		28
Share based payment expense			150		-
Finance costs			33		42
Other			-		38
Profit from operations before changes in working capital and provisions			3,548		3,080
(Increase)/decrease in inventories		(1,246)		626	
(Increase)/decrease in trade and other receivables		(1,723)		6,179	
Increase/(decrease) in trade and other payables		779		(548)	
			(2,190)		6,257
Cash generated from operations			1,358		9,337
Income taxes paid		(6)		(185)	
Income taxes recovered		39		-	
			33		(185)
Net cash flow from operating activities			1,391		9,152
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(402)		(1,477)	
Purchase of intangible assets		(349)		(426)	
Proceeds of sales from property, plant and equipment		77		183	
Consideration paid on acquisition of subsidiaries		-		(1,941)	
Overdraft with subsidiaries over which control has been obtained		-		(114)	
Net cash flow from investing activities			(674)		(3,775)
FINANCING ACTIVITIES					
Issue of ordinary shares		-		4	
Interest paid		(33)		(42)	
Dividend paid to equity shareholders		(1,018)		(1,026)	
Net cash flow from financing activities			(1,051)		(1,064)
(Decrease)/increase in cash and cash equivalents			(334)		4,313

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2018 (continued)

	2018 £'000	2017 £'000
Net (decrease)/increase in cash and cash equivalents	(334)	4,313
Cash and cash equivalents at beginning of year	909	(3,404)
	________	________
Cash and cash equivalents at end of year	575	909
	________	________

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

	2018 £'000	2017 £'000
Cash available on demand	575	909
	________	________

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. All figures are taken from the 2018 audited annual accounts which were approved by the directors on 3 July 2018, unless denoted as 'unaudited'. Comparative figures in the results for the year ended 31 March 2017 have been taken from the 2017 audited annual accounts.

This financial information is presented in pounds sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

The financial information for the year ended 31 March 2018 does not constitute statutory accounts as defined in section 435 (1) and (2) of the Companies Act 2006.

Whilst this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations adopted for use by the European Union, with those parts of the Companies Act 2006 applicable to companies reporting under these condensed financial statements do not contain sufficient information to comply with IFRS.

The auditors have reported on these accounts; their reports were unqualified, did not include a reference to any matter to which the auditors drew attention by way of emphasis of matter and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Statutory accounts for the year ended 31 March 2017 have been delivered to the Registrar of Companies and those for the year ended 31 March 2018 will be delivered to the Registrar of Companies shortly.

Certain statements in this announcement constitute forward-looking statements. Any statement in this announcement that is not a statement of historical fact including, without limitation, those regarding the Group's future expectations, operations, financial performance, financial condition and business is a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this announcement and the Group undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this announcement should be construed as a profit forecast.

2. ACCOUNTING POLICIES AND CRITICAL ACCOUNTING JUDGEMENTS

The financial information in this preliminary announcement has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs).

The application of these standards and interpretations necessitates the use of estimates and judgements. This financial information is also prepared on a going concern basis under the historical cost convention except where fair value measurement is required by IFRS.

The principal accounting policies used in preparing the preliminary announcement are those the Group will apply in its financial statement for the year ended 31 March 2018 and are unchanged from those disclosed in the Group's Report and Financial Statements for the year ended 31 March 2017 other than as set out below.

The following new standards, amendments and interpretations have been adopted by the group for the first time for the financial year beginning on the 1 April 2017:

- Amendment to IFRS 12 Disclosure of interests in other entities clarifying scope;
- Amendment to IAS 7 Statement of cashflows on disclosure initiative; and,
- Amendment to IAS 12 Income taxes on recognition of deferred tax assets for unrealised losses.

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

In addition, the Group has early adopted IFRS 15 as issued in May 2014; in accordance with the transition provisions in IFRS 15 the new rules have been adopted retrospectively and comparatives for the 2017 financial year have been restated if appropriate.

There was no impact on the revenue recognised in the current financial year or the comparative period as a result of the adoption of IFRS 15 therefore a restatement is not necessary. The reported net assets remain unchanged.

However, there are some presentational and disclosure changes which have been reflected in the report and accounts. The main change is explained below:

Solid State PLC has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15:

- Contract liabilities in relation to unfulfilled performance obligations where we have received proforma payments were previously included in deferred income (2017: £570k).
- Contract liabilities in relation to provisions for returns were previously netted off trade and other receivables. (2017: £240k).

These reclassifications have been reflected in the current year and comparative balance sheet. The revenue recognition accounting policy has been updated in accordance with IFRS 15

3. EARNINGS PER SHARE

The earnings per share is based on the following:

	2018 £'000	2017 £'000
Adjusted continuing earnings post tax	2,663	2,693
Reported continuing earnings post tax	2,243	2,289
Discontinued earnings post tax	-	(438)
Adjusted total Earnings post tax	2,663	2,255
Reported total Earnings post tax	2,243	1,851
Weighted average number of shares	8,459,118	8,426,418
Diluted number of shares	8,618,468	8,585,768
Reported EPS		
Basic EPS from continuing operations	26.5p	27.2p
Basic EPS from discontinued operations	-	(5.2p)
Basic EPS from profit for the year	26.5p	22.0p
Diluted EPS from continuing operations	**26.0p**	**26.7p**
Diluted EPS from discontinued operations	-	(5.1p)
Diluted EPS from profit for the year	26.0p	21.6p
Adjusted EPS		
Adjusted Basic EPS from continuing operations	31.5p	32.0p
Adjusted Basic EPS from discontinued operations	-	(5.2p)
Adjusted Basic EPS from profit for the year	31.5p	26.8p
Adjusted Diluted EPS from continuing operations	**30.9p**	**31.4p**
Adjusted Diluted EPS from discontinued operations	-	(5.1p)
Adjusted Diluted EPS from profit for the year	30.9p	26.3p

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 8,459,118 (2017: 8,426,418) net of the treasury shares held.

The diluted earnings per share is based on 8,618,468 (2017: 8,585,768) 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 7.

4. DIVIDENDS

	2018 £'000	2017 £'000
Final dividend paid for the prior year of 8p per share (2017: 8p)	680	680
Interim dividend paid of 4p per share (2017: 4p)	340	340
Cancelled dividends on shares held in treasury	(5)	(4)
	1,015	1,016
Final dividend proposed for the year 8p per share (2017: 8p)	683	677

The proposed final dividend has not been accrued for as the dividend will be approved by the shareholders at the annual general meeting.

5. SEGMENT INFORMATION

The Group's primary reporting format for segment information is business segments which reflect the management reporting structure in the Group. The Value Added Distribution division comprises Solid State Supplies Limited and the Manufacturing division includes Steatite Limited.

Year ended 31 March 2018

	Distribution division £'000	Manufacturing division £'000	Head office £'000	Continuing operations £'000
External revenue	19,685	26,583	-	46,268
Profit before tax	1,295	2,375	(1,189)	2,481
Taxation	(251)	(213)	226	(238)
Profit after taxation	1,044	2,162	(963)	2,243
Balance Sheet				
Assets	9,486	10,821	5,559	25,866
Liabilities	(3,052)	(4,273)	(521)	(7,846)
Net assets	6,434	6,548	5,038	18,020
Other				
Capital expenditure:				
Tangible fixed assets	190	212	-	402
Intangible assets	12	337	-	349
Depreciation	180	309	-	489
Amortisation	21	165	220	406
Share based payments	-	-	150	150
Interest	6	3	24	33

No individual customer contributed more than 10% of the Group's revenue in the financial year ended 31 March 2018 or the prior year.

Year ended 31 March 2017

	Value Added Distribution division £'000	Manufacturing division £'000	Head office £'000	Continuing operations £'000	Discontinued operations £'000	Re-presented Total £'000
External revenue	16,479	23,542	-	40,021	-	40,021
	______	______	______	______	______	______
Profit before tax	1,125	2,526	(957)	2,694	(539)	2,155
Taxation	(229)	(371)	195	(405)	101	(304)
	______	______	______	______	______	______
Profit after taxation	896	2,155	(762)	2,289	(438)	1,851
Balance Sheet						
Assets	7,090	10,464	5,887	23,441	-	23,441
Liabilities	(2,256)	(4,237)	(306)	(6,799)	-	(6,799)
	______	______	______	______	______	______
Net assets	4,834	6,227	5,581	16,642	-	16,642
Other						
Capital expenditure:						
Tangible fixed assets	348	1,129	-	1,477	-	1,477
Intangible assets	40	386	-	426	-	426
Depreciation	153	259	-	412	35	447
Amortisation	19	165	203	387	-	387
Interest	1	41	-	42	-	42
	______	______	______	______	______	______

	External revenue by location of customer		Total assets by location of assets		Net tangible capital expenditure by location of assets	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
United Kingdom	36,001	32,199	25,866	23,441	402	1,477
Rest of Europe	5,013	5,061	-	-	-	-
Asia	1,972	1,511	-	-	-	-
North America	2,991	900	-	-	-	-
Other	291	350	-	-	-	-
	________	________	________	________	________	________
	46,268	40,021	25,866	23,441	402	1,477
	________	________	________	________	________	________

All the above relate to continuing operations.

6. TAX EXPENSE

	2018 £'000	2017 £'000
Analysis of continuing and discontinuing total tax expense		
Total tax charge from continuing operations	238	405
Total tax credit from discontinuing operations	-	(101)
	________	________
	238	304
	______	________
Current tax expense		
UK corporation tax on profits or losses for the year	468	307
Adjustment in respect of prior periods	(330)	-
	________	________
	138	307
Deferred tax charge/(credit)	5	(3)
Deferred tax adjustment in respect of prior periods	95	-
	______	______
Total tax charge	238	304
	______	______

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:

	2018 £'000	2017 £'000
Profit before tax including discontinued operations	2,481	2,155
	________	________
Expected tax charge based on the standard rate of corporation tax in the UK of 19%(2017 20%)	471	431
Effect of:		
Expenses not deductible for tax purposes	6	24
Deductible expenses not charged in Group accounts	-	(47)
Difference between depreciation for the year and capital allowances	7	12
Tax relief on exercise of share options at less than market value	-	(15)
Enhanced relief on research and development expenditure	(4)	(94)
Deferred tax credit arising on change of tax rate	-	(15)
Amortisation of intangibles	(7)	8
Adjustments in respect of prior years	(235)	-
	________	________
Total tax charge	238	304
	________	________

The UK corporation tax rate of 19% (effective from 1 April 2017) is reducing to 18% (effective 1 April 2020) which was substantially enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax liabilities at 31 March 2018 have been calculated based on these rates.

R&D tax credits

The Group recognised a credit of £109k (2017: £nil) within operating profit in relation to claims made under the Research and Development expenditure credit scheme (RDEC). There were also claims made under the SME scheme which are recognised within the tax expense.

7. ADJUSTMENTS TO PROFIT

The Group's results are reported after a number of imputed non-cash charges and non-recurring items. Therefore, we have provided additional information to aid an understanding of the Group's performance and provide clarity over the Group's performance on an on-going cash basis before imputed non-cash accounting charges consistent with how analysts and investors tell us they review our business performance.

We have presented an adjusted profit metric adjusting for the following items:

- Non-cash accounting charges arising from share-based payments and the amortisation of acquisition intangibles.
- Non-recurring cash costs relating to the re-organisation of the Manufacturing division and acquisition costs.

	2018 £'000	2017 £'000
Acquisition & re-organisation costs in cost of sales	-	175
Acquisition & re-organisation costs in sales, general & administration expenses	150	61
Total acquisition and re-organisation costs	150	236
Amortisation of acquisition intangibles	219	203
Share based payments	150	-
Current and deferred taxation effect	(99)	(35)
	________	________
Total	420	404

	2018 £'000	2017 £'000
Reported gross profit from continuing operations	12,743	12,027
Adjustments to gross profit	-	175
	________	________
Adjusted gross profit from continuing operations	12,743	12,202
	________	________
Reported gross margin percentage from continuing operations	27.5%	30.1%
Gross margin percentage impact of adjustments	-	0.4%
	________	________
Adjusted gross margin percentage from continuing operations	27.5%	30.5%
	________	________
Reported operated profit from continuing operations	2,514	2,736
Adjustments to operating profit from continuing operations	519	439
	________	________
Adjusted operating profit from continuing operations	3,033	3,175
	________	________
Reported operating margin percentage from continuing operations	5.4%	6.8%
Operating margin percentage impact of adjustments	1.2%	1.1%
Adjusted operating margin percentage from continuing operations	6.6%	7.9%
	________	________
Reported profit before tax from continuing operations	2,481	2,694
Adjustments to profit before tax	519	439
	________	________
Adjusted profit before tax from continuing operations	3,000	3,133
	________	________
Reported profit after tax from continuing operations	2,243	2,289
Adjustments to profit after tax	420	404
	________	________
Adjusted profit after tax from continuing operations	2,663	2,693
	________	________

8. DISCONTINUED OPERATIONS

The table below reconciles the discontinued operations to the previously reported consolidated statement of comprehensive income.

	2018			2017		
	Continuing operations £'000	Discontinued operations £'000	Total £'000	Continuing operations £'000	Discontinued operations £'000	Total £'000
Revenue	46,268	-	46,268	40,021	-	40,021
Cost of sales	(33,525)	-	(33,525)	(27,994)	-	(27,994)
	_______	_______	_______	_______	_______	_______
Gross profit	12,743	-	12,743	12,027	-	12,027
Sales general & administration expenses	(10,229)	-	(10,229)	(9,291)	(539)	(9,830)
	_______	_______	_______	_______	_______	_______
Operating profit	2,514		2,514	2,736	(539)	2,197
Finance costs	(33)	-	(33)	(42)	-	(42)
	_______	_______	_______	_______	_______	_______
Profit before tax	2,481	-	2,481	2,694	(539)	2,155
Tax expense	(238)	-	(238)	(405)	101	(304)
	_______	_______	_______	_______	_______	_______
Profit after tax	2,243	-	2,243	2,289	(438)	1,851
Cash flows from discontinued operations are as follows:						
Operating cash flows	1,390	-	1,390	5,824	3,328	9,152
Investing cash flows	(673)	-	(673)	(3,775)	-	(3,775)
Financing cash flows	(1,051)	-	(1,051)	(1,064)	-	(1,064)
	_______	_______	_______	_______	_______	_______

9. The Annual Report will be sent to shareholders shortly and made available to the public at the registered office of the Company at 2 Ravensbank Business Park, Hedera Rd, Redditch, B98 9EY and will also be available to download on the Company's website www.solidstateplc.com.