

08 July 2024

Solid State plc
 (“Solid State”, the “Group” or the “Company”)
Final Results
Analyst Briefing & Investor Presentation

Solid State plc (AIM: SOLI), the specialist value added component supplier and design-in manufacturer of computing, power, and communications products, is pleased to announce its Final Results for the 12 months ended 31 March 2024.

Highlights in the period include:

| | 2024 | 2023 | Change |
|---|---------|---------|---------|
| Revenue | £163.3m | £126.5m | +29.0% |
| Reported operating profit margin | 8.4% | 7.4% | +13.5% |
| Adjusted operating profit margin* | 10.4% | 9.2% | 120 bps |
| Profit before tax | £12.2m | £8.4m | +45.2% |
| Adjusted profit before tax* | £15.6m | £10.8m | +44.4% |
| Diluted earnings per share | 76.0p | 63.1p | +20.4% |
| Adjusted diluted earnings per share | 99.8p | 80.7p | +23.7% |
| Full year dividend | 21.5p | 20.0p | +7.5% |
| Net cash flow from operating activities | £14.3m | £9.4m | +52.1% |

* Adjusted performance metrics are reconciled in note 30, the adjustments relate to IFRS 3 acquisition amortisation, share based payments charges and non-recurring charges in respect of acquisition costs and fair value adjustments.

| | 2024 | 2023 | Change |
|--------------------------|---------|---------|---------|
| Net cash / (net debt)** | (£4.7m) | (£8.1m) | -58.0% |
| ROE | 13.6% | 11.5% | 210 bps |
| ROCE | 26.4% | 20.1% | 630 bps |
| Open order book @ 31 May | £89.2m | £116.2m | -24.0% |

** Net cash / debt includes cash of £8.4m (2023: £12.2m), bank borrowings of £13.1m (2023: £14.7m) the fair value of deferred contingent consideration of £nil (2023: £5.7m) and excludes the right of use lease liabilities of £3.6m (2023: £2.0m).

Financial highlights:

- Record year of revenue and profit
- Upgraded expectations twice in period
- Like-for-like organic revenue growth in excess of 25%
- Strong cash generation resulting in net debt falling 58% year on year
- Significant progress in period in achieving growth strategy to 2030

Commercial and operational highlights:

- Relationships strengthened with Tier 1 security & defence customers
- Particularly strong year for communications equipment orders – driving like for like revenue growth of more than 60% in Systems division
- Normalising order book post Pandemic with reducing lead times
- Despite softer demand in transport and industrial markets, resilience demonstrated through diversified market exposure
- Saab selected Steatite for naval antenna assembly
- Establishment of ‘Integrated Systems’ business unit to drive innovative engineering capabilities for Tier 1 customers

Post period end:

- International \$5.1m IOT contract award from new US franchise line

Current trading:

During Q1, order intake has stabilised with the open orderbook levels returned to historically normal levels. The Group has maintained a strong orderbook with open orders being £89.2m at 31 May 2024, reflecting a small increase from year end.

The de-stocking has continued with Industrial demand in Q1 remaining slow; however, the design-in activity across our target markets remains strong and we have a number of exciting opportunities that will underpin our mid-term growth.

Trading in FY24/25 is not expected to be first-half weighted as it was in FY23/24. However, pleasingly, year-to-date trading has been broadly in line with management expectations, which supports management confidence over the full year expectations.

Commenting on the results and prospects, Nigel Rogers, Chairman of Solid State, said:

"I am delighted to announce that Solid State has delivered another record year of growth, continued strong cash generation and reduction in debt. Innovation and the Group's resilient business model, sector knowledge and customer diversity has also helped drive significant organic revenue growth.

"The orderbook continues to return to normal levels as component lead times start to shorten. The Group has a strong orderbook and is confident that the shorter lead times will enable more efficient conversion of new orders into billings.

"Solid State is ambitious and sees this record year as an important step in ultimately delivering on its 2030 goals."

¹ The Company considers the average of the most recently published research forecasts prior to this announcement by all providers – Cavendish Capital Markets Ltd and WH Ireland Limited to represent market expectations for Solid State.

| Market Expectations | FY23/24 | FY24/25 |
|-----------------------------|----------------|----------------|
| Revenue | £164.3m | £142.6m |
| Adjusted profit before tax* | £15.0m | £10.1m |
| Net (debt) / cash | £5.4m | £3.3m |

Analyst Briefing: 9.30am today, Monday 8 July 2024

An online briefing for Analysts will be hosted by Gary Marsh, Chief Executive, and Peter James, Group Finance Director, at 9.30am today, Monday 8 July 2024 to review the results and prospects. Analysts wishing to attend should contact Walbrook PR on solidstate@walbrookpr.com or on 020 7933 8780.

Investor Presentation: 3.00pm today, Monday 8 July 2024

Gary Marsh, Chief Executive; Peter James, Group Finance Director; and, John Macmichael, Managing Director of Solsta, the Group's components division, will hold a presentation to cover the results and prospects at 3pm today, Monday 8 July 2024. The presentation will be hosted through the digital platform Investor Meet Company. Investors can sign up to Investor Meet Company for free and add to meet Solid State plc via the following link <https://www.investormeetcompany.com/solid-state-plc/register-investor>. Investors who have already registered and added to meet the Company will automatically be invited.

Questions can be submitted pre-event to solidstate@walbrookpr.com, or in real time during the presentation via the "Ask a Question" function.

Investor Site Visits to Head Office in Redditch

Solid State holds site visits to its head office in Redditch where operations from both the Systems and Components divisions can be seen. Interested investors should contact solidstate@walbrookpr.com.

This announcement contains inside information for the purposes of Article 7 of the UK version of Regulation (EU) No 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended ("MAR"). Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

For further information please contact:

Solid State plc

Via Walbrook

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Analyst Research Reports: For further analyst information and research see the Solid State plc website:

<https://solidstateplc.com/research/>

Notes to Editors:

Solid State plc (SOLI) is a value added electronics group supplying commercial, industrial and defence markets with durable components, assemblies, manufactured units and power solutions for use in specialist and harsh environments. The Group's mantra is - 'Trusted technology for demanding applications'. To see an introductory video on the Group - <https://bit.ly/3kzddx7>

Operating through two main divisions: Systems (Steatite, Active Silicon & Custom Power) and Components (Solsta, Pacer LLC), the Group specialises in complex engineering challenges often requiring design-in support and component sourcing for computing, power, communications, electronic, electro-mechanical and opto-electronic products.

Headquartered in Redditch, UK, Solid State employs approximately 425 staff across the UK and US, serving specialist markets with high barriers to entry in industrial, defence and security, transportation, medical and energy.

Solid State was established in 1971 and admitted to AIM in June 1996. The Group has grown organically and by acquisition - having made three acquisitions in the last three years.

Chairman's Statement

I am delighted to announce that the Group has delivered another record year of growth, continued cash generation and reduction in debt. The Group's resilient business model, sector knowledge and customer diversity has helped drive significant organic revenue growth in FY24. Compound annualised growth in Total shareholder return ("TSR")* over the five years to March 2024 has been circa 30%. The Board has set out its ambition to maintain TSR growth of circa 20% going forward.

Performance

Government spending in security and defence continues to increase as a result of the geo-political environment, with the Group seeing direct revenue from this sector of 44% (24% Defence & Security excluding Nato). Following a review of strategy by the Board the Executive Board are implementing a programme to develop counterweight markets in Industrial, and especially Medical. The Group's resilient business model and strong relationships with Tier 1 customers puts us in a strong position to provide added-value engineered products to address our customers' demanding requirements. The key growth driver in the year has been the communications contracts initially announced in November 2022, where we have delivered in excess of £33m of communications equipment. The continued adoption of this technology this year provides a foundation for long-term recurring revenue in this market.

Our open orderbook continues to return to normal levels as component lead times start to shorten. The Group has a strong orderbook and is confident that the shorter lead times will enable more efficient conversion of new orders into billings.

Environmental, Social and Governance (ESG)

Creating a long-term sustainable business is a core element of Solid State's strategy. Our business model, strategy and adoption of our technology is inherently aligned with our environmental objective to "reduce consumption and reduce waste" to minimise the adverse impact on the environment and maximise value for our stakeholders. Our products and systems are engineered to be often upgradable and have a long product life. Our ESG Committee continues to evaluate and provide recommendations on how we can progress and deliver against our goals. Throughout FY23/24, the Group has made significant progress on all aspects of the ESG strategy, the major progress being the decommissioning of an energy-intensive production line within the US Components operation, which will, consequently, greatly reduce its CO₂ emissions and improve financial performance in the year ahead. The Group continues to strive to achieve our ESG goals and deliver on our strategy, including achieving net zero in Scope 1 and 2 emissions by 2050.

Our employees

Our Solid State culture drives the whole company and continues to play an integral part in our progress. As our business looks to grow, I'm pleased to say that we continue to invest, attract and retain talent and now have 433 employees across our sites. The investment in our people is essential to successfully delivering on our strategy and underpinning our long-term performance. On behalf of the Board, I would like to thank all our employees for their commitment to the business.

The Board and Governance

During this year, the Board is pleased to have welcomed Sam Smith as an Independent Non-Executive Director. Sam sits on the Audit, Remuneration and Nominations Committees. Since joining, Sam has added significant value and her experience and contribution in this year has been very insightful and challenging. I am confident that she will continue to make strong contributions to the growth of the Group as we look forward.

The Board has reviewed its make-up, skills, and compliance with the recently updated QCA code. As a result of this review, the Board concluded that the three independent NEDs provide a good skills balance and there is appropriate independent oversight and challenge.

The Board has established a Leadership Team during FY24, who are responsible for informing and delivering the strategy as well as executing of the day-to-day operations of the business. The Executive Board with the senior leadership teams bring a breadth of skills, experience and industry knowledge, which will further contribute to the success of the Group's strategy.

Dividend

The Directors are proposing a final dividend of 14.5p (2022/23: 13.5p) resulting in a full year dividend of 21.5p (2022/23: 20p) per share, which is covered 4.6 times by adjusted earnings (2022/23: 4 times).

The increase in dividend cover is as a result of the recognition of Systems revenue and profits on deliveries made in FY24 on specific contracts previously expected to be recognised in FY25. This ensures our dividend is sustainable and we are able to maintain our commitment to a progressive dividend policy in the year ahead.

Our progressive dividend policy is an important part of the strategy of delivering shareholder return, albeit with the ambitious growth plans of the Group, dividends are expected to continue to be a smaller component of total shareholder returns, supporting a suitable balance between investment for growth and cash returns for investors.

The final dividend is subject to approval by shareholders at the AGM on 4 September 2024. The final dividend will be paid on 27 September 2024 to shareholders on the register at the close of business on 6 September 2024, and the shares will be marked ex-dividend on 5 September 2024.

Outlook

The Board is pleased with the performance of the Group over the last 12 months, and we are confident that we can continue to replicate sustainable growth for our shareholders. Our 2030 ambition and strategy highlights our achievements for the past 12 months and the Board is excited for the next phase of the Group's organic investment and mid-term growth plans as we look to deliver on the 2030 strategy.

We are confident that we are in a strong position as the business benefits from our diversity and speed in adapting to market trends driven by customer requirements. We will continue to use this platform to make strategic investments, both organic and M&A, to drive sustainable growth for all our stakeholders.

Nigel Rogers

Non-Executive Chairman

* "Total Shareholder Return %" is calculated as follows: $\frac{((\text{current price less purchase price}) + \text{dividends})}{\text{purchase price}}$. "CAGR in TSR" is calculated as follows: $\left(\frac{((\text{current price plus dividends})}{\text{purchase price}})^{(1/\text{time period})} - 1\right)$.

Chief Executive Officer's Review

I am delighted to report that the business has delivered another year of record financial performance in FY24 with significant progress in advancing our growth strategy to 2030. Our revenue growth highlights the resilience the business has in adapting to market trends and supporting our customers during the challenges in the macro-economic environment.

We have ended the year with a strong orderbook of £88.4m and I am pleased to report that as lead times have started to reduce that our open order book has continued to return to more normal levels and was 62% of FY25 consensus revenue.

The Group's reputation with its long-standing customer relationships, puts us in a strong position to adapt to market challenges. This now gives us a strong foundation to focus on the next phase of the Group's investment in organic and acquisitive growth plans to deliver the 2030 strategy.

Strong business performance

The Group has delivered another record year of financial, strategic and operational performance driven by the exceptional result in our systems division. The business has delivered strong organic revenue growth of 27%. Second-half revenue of £75.2m benefitted from deliveries that were originally anticipated to be shipped in FY24/25 and, as a result, was 12% ahead of the second half of FY22/23.

This translates into good progress in our financial KPIs; a significant step change in revenue year on year at £163.3m (2023: £126.5m), 120 Basis Points ("bps") improvement in adjusted operating margins to 10.4% (2023: 9.2%) and 24% growth in adjusted diluted earnings per share over the prior year's record result to 99.8p (2023: 80.7p).

Sector and divisional review

Systems

The division has benefited from its first full year of Custom Power combined with very strong demand in the Defence & Security market which has contributed to the exceptional year that the systems division has had in FY24 with revenue increasing 80% to £103.5m (2023: £57.5m).

The increase in revenue reflects over five years of work and investment to get our customers to adopt our communications technology. The revenue delivered earlier than expected has been driven by customer requirements for communications products to be shipped as soon as they are available, reflecting their operational requirements.

Our long-standing relationships with Tier 1 customers and the notable NATO contract win in FY23 is now providing a foundation for long-term recurring revenue in this sector as the Group targets "through-life" support opportunities. We are investing in a new production facility during Q1 of FY25, including engineering capabilities and a project management team to establish our "Integrated Systems" business unit within our systems division to meet the demand for more complex systems from our Tier 1 Security & Defence customers.

Components

In FY24, we have seen the Components revenue start to normalise after experiencing an exceptional prior year. Component lead times have largely normalised, leading to customers now looking to reduce the levels of stockholding and orders. In common with our peer group, we continue to see a slowdown in the industrial and rail sectors, with some customers pushing out schedules through 2024. This resulted in revenue decreasing 13% to £59.8m (2023: £69.0m). However, we are seeing strong levels of design work with some particularly exciting opportunities in the medical sector.

The orderbook remains strong for FY25 and the business is expected to benefit from the commercial focus and operational efficiency gains of the recent US restructuring, which is expected to improve US operating margins in the year ahead and deliver stronger design wins and bookings going forward.

Key leadership

We continue to invest in recruiting new talent in addition to long-term succession and talent development pathways for existing talent. We are pleased to share that we have established a Group Executive Board and continue to strengthen and develop our Senior Leadership Teams that report into the Board. The Senior Leadership Team brings a breadth of experience and skills that will support the Board in executing on strategy delivery.

We continue to progress our gender diversity with the promotion and recruitment of four senior females within the last 18 months, including a Non-Executive Director on the Board.

We have rebranded our Power business unit in the UK as Custom Power and restructured our Systems Division leadership team to enable a more focused approach. We have made significant progress in the recruitment of key sales and technical talent in Custom Power and have focused on building a strong leadership team led by Matthew Richards. Strengthening the team at Custom Power will enable us to take advantage of the significant market opportunities in electrification, autonomy and medical.

Our Engineering teams are critical to the success of the Group and we are proud of attracting and retaining a skilled team that has allowed us to establish a strong foundation in supporting our growth. In FY24, we have 55 engineers across the group with a variety of disciplines and specialisms. We have given more focus on the recruitment of graduate engineers to support the succession planning and talent management processes.

Acquisitions

To achieve our strategic goals, the Board recognises that acquisitions are an integral part, and we continue to actively explore attractive acquisition opportunities across our target markets both overseas and in the UK. We have a strong pipeline aligned to our strategic goals with a mix of larger potential targets and smaller specialist businesses to develop our complementary product offering to our customers. We have invested in talent to support the Board in ensuring that the acquisitions we make are the right strategic fit for our Group.

On 31 January 2024 the Group bought out the 25% non-controlling interest giving the Group 100% ownership of eTech Developments, which has been integrated and rebranded as part of our Custom Power business unit. This acquisition significantly enhances the Group's high-power battery capabilities with appropriate safety and power management solutions.

Strategy

The Group's 2030 financial aspirations are to replicate our success seen over the last five years. We are aspiring to maintain circa 20% compound annual growth in Total Shareholder Return ("TSR").

Our strategy to achieve this growth in TSR remains unchanged. We will look to continue to invest in driving organic growth initiatives complemented by strategic acquisitions where it is a lower risk approach to deliver growth in revenues and enhanced operating margins.

We continue to target strategic markets and customers in growth sectors that have high barriers to entry and require accreditation or long-standing credibility where our engineering expertise and specialist skills are valued. By focusing on these value-added opportunities, we are aiming to continue to enhance operating margins by 2030 to 12%.

We are pleased with the progress we have made over the last 12 months in delivering on our 2030 strategy. Our 2030 strategy continues to build on the following four pillars to drive growth:

1. Talent development embedding our ESG values
2. Broadening our complementary product and technology portfolio
3. Development of our "own brand" components, systems and power offering securing recurring revenue
4. Internationalisation of the Group

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

- Investment in a new production facility in Tewkesbury to support our recently formed Integrated Systems business unit
- The Weymouth electro-optical component manufacturing facility has been certified to ISO13485 for the design and manufacture of medical devices
- Rebranding of the Group including the roll out of the new "Solsta" Brand for our components division

Our markets and business development

The Security & Defence market has been a key driver of growth for the Group this year, owing to the continued increase in Government spending driven by the geo-political environment. Group revenue in this sector contributed to 44% of FY24 (2023: circa 19%). The business has successfully positioned itself in the market as a leading provider with Tier 1 and Tier 2 customers having been established in this sector now for over five decades. The Executive Board are focusing on developing counterweight markets to Defence & Security over our strategy horizon to 2030, especially in Medical Technology. This sector exhibits many of the characteristics the Group is familiar navigating, such as high barriers to entry, accreditations and development of know how. Planned further growth in the Medical market will be achieved through a combination of organic initiatives and assuming suitable targets can be found through acquisition.

The Group will use this platform to focus on securing higher-value, longer-term projects that benefit from our increasing engineering value-added capabilities.

The medical industry has continued to be strong for the Group this year, with 10% of the revenue for FY24 contributed by this market. Our relationship with Tier 1 customers, such as Siemens Healthcare, and the Group achieving ISO13485 certification at our Weymouth component manufacturing facility, is contributing to the success of the Group in this market.

The Group, in common with our peer group, has seen a softening in the industrial sector. Our diversity of product range however (components, systems, power), with a focus on structural growth markets and our wide customer base in over 50 countries serves to validate the resilience of the group.

The exciting progress and opportunities for mid-term strategic partnerships with our Tier 1 customers provide solid commercial foundations for the next phase of the Group's organic investment and growth plans as the Board looks to deliver on Solid State's 2030 strategy.

Outlook

The Group has secured exciting mid-term opportunities with multiple Tier 1 Security & Defence customers, anchored by a key customer, for which Solid State is investing in expanding its "Integrated Systems" production capabilities. In addition to this, in FY25, we expect to invest in developing the sales channel for the Group's own brand (Durakool, Antenna and Optical) products. The combination of these investments will be a cornerstone of driving mid-term operating margin enhancement and organic growth for the Group.

The Board is pleased with the ongoing delivery of Solid State's growth strategy where the business benefits from the diversity of markets that are adopting its technology, which continues to give the Group resilience. The exciting progress and opportunities for mid-term strategic partnerships with our Tier 1 customers provides solid commercial foundations for the next phase of the Group's organic investment and growth plans as the Board looks to deliver on Solid State's 2030 strategy.

During Q1, order intake has stabilised with the open orderbook levels returned to historically normal levels. The Group has maintained a strong orderbook with our open orders being £89.2m at 31 May 2024, reflecting a small increase from year end.

The de-stocking has continued with Industrial demand in Q1 continuing to be slow; however, the design-in activity across our target markets remain strong and we have a number of exciting opportunities that will underpin our mid-term growth.

Trading in FY24/25 is not expected to be first-half weighted as it was in FY23/24. However, pleasingly, year-to-date trading has been broadly in line with management expectations, which supports management confidence over the full year expectations.

Gary Marsh

Chief Executive Officer

Chief Financial Officer's Review

Revenues

Group revenues of £163.3m (2023: £126.5m) are up 29%. The impact of currency has been a revenue headwind of circa £5.3m with the average USD rate for the year being \$1.26:£1 (FY23: \$1.20:£1), offset by a full year of Custom Power, which means like-for-like organic revenue growth is in excess of 25%. This reflects the benefit of the Systems revenue initially expected to be delivered in FY25 as noted below.

The Systems division reported revenue of £103.5m (2023: £57.5m), meaning constant currency like-for-like revenue growth is more than 65%. This exceptional growth has primarily been driven by customer demand for our communications products, where we saw strong deliveries in both the first half and late in the year where we delivered circa £10m of product in March FY24 as reported in our trading update.

The Components division achieved revenues of £59.8m (2023: £69.0m) reflecting the impact of the currency headwinds combined with the unwind of the industrial stocking which benefitted FY23. The ongoing work securing new design-ins, combined with the open orderbook, provides confidence that the underlying growth drivers remain and mid-term prospects are robust, although, as previously reported, the impact of destocking is continuing as we enter FY25.

Gross profit

Reported gross profits of £51.8m (2023: £39.7m) are up 30.5%, £12.1m year on year. The gross margin percentage is broadly stable at 31.7% (2023: 31.4%). Adjusted gross profit for the year is up £12.0m to £51.8m (2023: £39.7m).

In managing foreign exchange risk, we look to mitigate exposure by quoting in the currency of main supply when possible. The Group benefits from being largely naturally hedged against foreign exchange movements at a gross margin level. In the current year, the revenue headwind results in a margin percentage tailwind of circa 1%. This, combined with the higher margin Systems revenue increase from 45% in FY23 to 63% in FY24 as a proportion of the Group revenue, offsets the dilution of underlying margins within both divisions.

Systems contributed gross margin of £38.9m (2023: £22.2m), reflecting the impact of the strong radio communications products revenue. The high proportion of this revenue diluted the overall margin % by circa 1.1% in the Systems Division, albeit the margins remain strong.

Components contributed adjusted gross profit of £12.9m (2023: £17.5m). The margin % is down circa 3.8% as a result of £1.0m of additional costs arising from an increase in stock provisioning and stock write-offs following closure of the legacy USA production line, combined with a weaker revenue mix in the year.

Sales, general and administration expenses

Sales, general and administration ("SG&A") expenses increased to £38.1m (2023: £30.3m). Within SG&A, there were reorganisation, acquisition-related and share-based payments charges totalling £3.4m (2023: £2.1m). These items have been added back in reporting our adjusted performance (see Note 30) and are made up as follows:

- £0.0m (2023: £0.3m credit) from the Active Silicon earn-out provision true up
- £0.7m (2023: £0.3m) in relation to acquisition fair value adjustments, reorganisation and deal costs
- £1.8m (2023: £1.6m) amortisation of IFRS3 acquisition intangibles
- £0.8m (2023: £0.6m) share-based payments charge
- £0.0m (2023: £0.1m) Imputed interest charges

Adjusted SG&A expenses on an underlying basis increased by £6.7m to £34.8m (2023: £28.1m).

This reflects non-recurring costs of circa £1.0m in relation to the closure of the AEC production lines where legacy end-of-life devices have been migrated to modern technology solutions.

The full year impact of Custom Power (adding circa £2.0m) and the remaining increase of circa £3.9m reflects 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 deliver growth.

Operating profit

Adjusted operating margins increased to 10.4% (2023: 9.2%) with adjusted operating profit up to £17.0m (2023: £11.6m) reflecting the benefit of the revenue growth in the period and the associated operational gearing as well as the benefit of the increased RDEC tax credit within operating profit rather than the tax line.

Reported operating profit was up 45.7% to £13.7m (2023: £9.4m). The adjustments to operating profit are set out in further detail in Note 30.

Based on the simplified R&D regulations, the Group is now a large company in terms of the classifications for UK R&D tax benefits. Under the updated large company scheme, we have recognised £0.28m (2023: £0.29m) within operating profit in respect of an R&D expenditure credit ("RDEC"). These development programmes are a cornerstone of the Group's future high-value-added revenue streams.

Profit before tax

Adjusted profit before tax was up 44.4% to £15.6m (2023: £10.8m). Profit before tax was up 45.2% to £12.2m (2023: £8.4m). This is reported after adjusting items totalling £3.4m (2023: £2.4m) of which £Nil (2023: £0.1m) 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 25% (2023: 21%) compared to the standard rate of 25% (2023: 19%) in the UK.

The effective tax rate has increased primarily because of two factors: the RDEC tax credit recognised within other income and an increase in taxable profit diluting the benefits of R&D tax credits.

Adjusted profit after tax was up 36.0% to £11.7m (2023: £8.6m). Profit after tax was up 32.8% to £8.9m (2023: £6.7m).

The corporation tax rate in FY24/25 is currently expected to remain at 25%, albeit post the election in the coming days this may well change for future periods.

EPS

Adjusted fully diluted earnings per share for the year ended 31 March 2024 is up 23.7% to 99.8p (2023: 80.7p). Reported fully diluted earnings per share is up 20.4% to 76.0p (2023: 63.1p).

Dividend

The Board is proposing a final dividend of 14.5p (2023: 13.5p) for approval at the Annual General Meeting, giving a full year dividend of 21.5p (2023: 20.00p) as set out in the Chairman's statement.

Cash flow from operations

The strong close to the year with the shipment of communications products has resulted in a significant increase in trade receivables offset, in part, by the reduction in inventory. When this is combined with the reduction in trade payables it results in a working capital outflow for the year of £5.6m. This results in a full year cash inflow from operations of £14.3m (2023: £9.4m).

The adjusted operating cash conversion percentage (cash generated from operations/adjusted operating profit) for the full year is 84% (2023: 81%).

The increase in receivables and reduction in inventories and payables reflects a relatively short-term investment due to the significant shipments at the end of the year. Post year end, we have seen a working capital unwind of circa £4.5m.

During the period, we paid taxes of £3.3m (2023: £0.4m) as a result of settling last year's corporation tax liabilities combined with the additional profitability moving some of our Group entities into the very large company scheme, which requires us to make accelerated payments on account during the year.

Investing activities

During the year, the Group invested £1.5m (2023: £1.1m) in property, plant and equipment, and £1.3m (2023: £1.2m) in software and R&D intangibles. The Group's capital expenditure programme saw an increase in the Systems R&D investment, finalising the upgrade to our UK Power facility and continuing to enhance our test and measurement capabilities.

In the Components division, there was continued investment to integrate the Willow businesses and roll out consistent software systems. Furthermore, across the Group, we have continued our programme to replace older vehicles with hybrid and electric models.

There are capital commitments of £0.0m (2023: £0.2m) at the balance sheet date; however, post year end we are in the process of investing circa £1.0m to £1.5m in setting up a new site for our integrated systems team near Tewkesbury.

In the first half of the year, we settled the outstanding deferred and contingent consideration liabilities of £5.5m in relation to Active Silicon and Custom Power in full. A reconciliation of deferred contingent considerations of £Nil (2023: £5.7m) is included in Note 21.

Financing activities

The Group received proceeds for issuances of £0.1m (2023: £27.0m) and paid out £Nil (2022: £0.1m) for purchase of own shares into treasury.

The financing activities reflect loans drawn down of £2.1m of our multi-currency overdraft, offset by loan repayments of £3.7m, which includes the four quarterly repayments on the term loan totalling £1.3m plus the repayment in full of the RCF totalling £2.4m.

Solid State continues to have a strong relationship with Lloyds Bank. Lloyds authorised a \$6m 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, which was not utilised. Furthermore, Lloyds have extended the term of the £10.0m (2023: £7.5m) Revolving Credit Facility ("RCF"), which is now committed until 30 November 2025. At 31 March 2024, the RCF was not drawn (2023: £2.4m drawn).

Interest charges in the period totalled £1.3m (2023: £0.9m) reflecting the higher interest rates during the year.

The Group has entered or extended leases during the period, which has resulted in the recognition of £2.7m (2023: £0.1m) of additional right-of-use assets with a corresponding right-of-use liability, in accordance with IFRS16. Cash payments were made in the period in respect of lease liabilities of £1.2m (2023: £1.1m).

In the second half of the year, the Group bought out the non-controlling interest in eTech Developments limited for £0.2m making this operation wholly owned by the Group. Post year end, this has enabled the Power engineering team to be brought together under the rebranded Custom Power UK Brand.

The Group continued to maintain its progressive dividend policy, which resulted in payments of £2.3m (2023: £2.2m) in respect of dividends.

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 £64.6m (2023: £58.0m), primarily reflecting the £8.9m income for the year, less £0.7m foreign exchange less £2.3m dividends paid plus the share-based payments credit of £0.8m.

As a result of the customer demand for our communications products, which we were able to fulfil at the end of the year, the Group inventory has reduced to £25.1m (2023: £33.2m); however, trade and other receivables increased to £31.5m (2023: £19.7m).

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 secure growth.

Excluding deferred contingent considerations and IFRS16 lease obligations, the Group had a net debt position with banks of £4.7m at the year end (2023: £2.4m) having paid the final £5.5m of consideration for the acquisitions of Custom Power and Active Silicon. At 31 March 2024, the discounted fair value of the Group's deferred consideration liabilities were £Nil (2023: £5.7m). Therefore, the total year-end net debt* reduced by £3.4m at £4.7m (2023: £8.1m).

Following our prior year results, we have aligned our definitions of "Return on Equity" (ROE***) and "Return on Capital Employed" (RoCE**) with industry peers.

Pleasingly, both metrics have shown good progress in the year with the improved profitability of the Group.

Peter James

Chief Financial Officer

* including deferred consideration excluding right-of-use lease liabilities.

** defined as adjusted operating profit divided by average capital employed which is calculated as average net assets less net debt for the last two periods.

*** defined as reported profit after tax divided by total equity.

Consolidated statement of comprehensive income

For the year ended 31 March 2024

| | Note | 2024 £'000 | 2023 £'000 |
|---|-------|---------------|---------------|
| Revenue | 3, 31 | 163,303 | 126,503 |
| Cost of sales | | (111,476) | (86,829) |
| Gross profit | | 51,827 | 39,674 |
| Sales, general and administration expenses | | (38,149) | (30,266) |
| Operating profit | 4 | 13,678 | 9,408 |
| Finance costs | 6 | (1,491) | (972) |
| Profit before taxation | | 12,187 | 8,436 |
| Tax expense | 7 | (3,281) | (1,746) |
| Adjusted profit after taxation | | 11,680 | 8,553 |
| Adjustments to profit after taxation | 30 | (2,774) | (1,863) |
| Profit after taxation | | 8,906 | 6,690 |
| Profit attributable to equity holders of the Parent | | 8,872 | 6,693 |
| Profit/ (loss) attributable to non-controlling interests | | 34 | (3) |
| <i>Items that may be reclassified to profit and loss</i> | | | |
| Other comprehensive loss – FX on overseas operations | | (679) | (869) |
| Other comprehensive loss – taxation | 7 | – | (94) |
| Adjusted total comprehensive income | | 11,001 | 7,684 |
| Adjustments to total comprehensive income | 30 | (2,774) | (1,957) |
| Total comprehensive income for the year | | 8,227 | 5,727 |
| Comprehensive income attributable to equity holders of the Parent | | 8,193 | 5,730 |
| Comprehensive income/(loss) attributable to non-controlling interests | | 34 | (3) |
| Earnings per share | | | |
| | | 2024 | 2023 |
| Basic EPS from profit for the year | 8 | 78.0p | 64.5p |
| Diluted EPS from profit for the year | 8 | 76.0p | 63.1p |

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.

Consolidated statement of changes in equity

For the year ended 31 March 2024

| | Share Capital £'000 | Share Premium Reserve £'000 | Foreign Exchange Reserve £'000 | Other Reserves £'000 | Retained Earnings £'000 | Shares held in Treasury £'000 | Total £'000 | Non- controlling interests £'000 | Total Equity £'000 |
|---|---------------------------|--------------------------------------|---|----------------------------|-------------------------------|--|----------------|---|--------------------------|
| Balance at 31 March 2023 | 567 | 30,474 | (836) | 5 | 27,805 | (108) | 57,907 | 47 | 57,954 |
| Issue of new shares | 2 | 107 | — | — | — | — | 109 | — | 109 |
| Share-based payment credit | — | — | — | — | 803 | — | 803 | — | 803 |
| Transfer of treasury shares to AESP | — | — | — | — | (72) | 72 | — | — | — |
| Dividends | — | — | — | — | (2,322) | — | (2,322) | — | (2,322) |
| Acquisition of non-controlling interests | — | — | — | (69) | — | — | (69) | — | (69) |
| Transactions with non-controlling interests | — | — | — | — | — | — | — | (81) | (81) |
| Transactions with owners in their capacity as owners | 2 | 107 | — | (69) | (1,591) | 72 | (1,479) | (81) | (1,560) |
| Result for the year ended 31 March 2024 | — | — | — | — | 8,872 | — | 8,872 | 34 | 8,906 |
| Foreign Exchange via OCI | — | — | (679) | — | — | — | (679) | — | (679) |
| Total comprehensive income | — | — | (679) | — | 8,872 | — | 8,193 | 34 | 8,227 |
| Purchase of treasury shares | — | — | — | — | — | (1) | (1) | — | (1) |
| Balance at 31 March 2024 | 569 | 30,581 | (1,515) | (64) | 35,086 | (37) | 64,620 | — | 64,620 |

For the year ended 31 March 2023

| | Share Capital £'000 | Share Premium Reserve £'000 | Foreign Exchange Reserve £'000 | Other Reserves £'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 |

Consolidated statement of financial position

As at 31 March 2024

| | Note | 2024 £'000 | 2023 £'000 |
|--|------------|-----------------|-----------------|
| Assets | | | |
| <i>Non-current assets</i> | | | |
| Intangible assets | 12 | 40,109 | 41,563 |
| Property, plant and equipment | 10 | 4,229 | 4,718 |
| Right-of-use lease assets | 11 | 3,586 | 1,981 |
| Deferred tax asset | 23 | 605 | 375 |
| Total non-current assets | | 48,529 | 48,637 |
| <i>Current assets</i> | | | |
| Inventories | 15 | 25,084 | 33,228 |
| Trade and other receivables | 16 | 31,524 | 19,699 |
| Cash and cash equivalents – on deposit | 22 | – | 4,032 |
| Cash and cash equivalents – available on demand | 22 | 8,445 | 8,192 |
| Total current assets | | 65,055 | 65,151 |
| Total Assets | | 113,584 | 113,788 |
| Liabilities | | | |
| <i>Current liabilities</i> | | | |
| Trade and other payables | 17 | (21,644) | (23,735) |
| Deferred and contingent consideration on acquisitions – current | 17, 21, 22 | – | (5,679) |
| Current borrowings | 19, 21, 22 | (3,398) | (1,279) |
| Contract liabilities | 18 | (6,460) | (5,380) |
| Corporation tax liabilities | | (1,224) | (1,110) |
| Right-of-use lease liabilities | 20 | (1,106) | (1,057) |
| Provisions | 24 | (126) | (323) |
| Total current liabilities | | (33,958) | (38,563) |
| <i>Non-current liabilities</i> | | | |
| Non-current borrowings | 19, 21, 22 | (9,718) | (13,383) |
| Provisions | 24 | (843) | (715) |
| Deferred tax liability | 23 | (1,979) | (2,187) |
| Right-of-use lease liabilities | 20 | (2,466) | (986) |
| Total non-current liabilities | | (15,006) | (17,271) |
| Total liabilities | | (48,964) | (55,834) |
| Total net assets | | 64,620 | 57,954 |
| Share capital | 25 | 569 | 567 |
| Share premium reserve | 26 | 30,581 | 30,474 |
| Other Reserves | 26 | (64) | 5 |
| Foreign exchange reserve | 26 | (1,515) | (836) |
| Retained earnings | 26 | 35,086 | 27,805 |
| Shares held in treasury | 26, 27 | (37) | (108) |
| Capital and reserves attributable to equity holders of the Parent | | 64,620 | 57,907 |
| Non-controlling interests | 26 | – | 47 |
| Total Equity | | 64,620 | 57,954 |

The financial statements were approved by the Board of Directors and authorised for issue on 5 July 2024 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 2024

| | | 2024 | 2023 |
|--|------|----------|----------|
| | Note | £'000 | £'000 |
| Operating activities | | | |
| Profit before taxation | | 12,187 | 8,436 |
| Adjustments for: | | | |
| Property, plant and equipment depreciation and impairment | | 2,069 | 1,159 |
| Right-of-use asset depreciation | | 1,040 | 965 |
| Amortisation of intangible assets | | 2,281 | 2,035 |
| Profit on disposal of property, plant and equipment | | (1) | (45) |
| Share-based payment expense | | 803 | 551 |
| Finance costs | | 1,491 | 972 |
| Decrease in deferred contingent consideration | | (21) | (326) |
| Profit from operations before changes in working capital and provisions | | 19,849 | 13,747 |
| Decrease/ (increase) in inventories | | 8,078 | (12,457) |
| (Increase)/ decrease in trade and other receivables | | (12,175) | 1,767 |
| (Decrease)/ increase in trade and other payables | | (1,231) | 6,380 |
| Decrease in provisions | | (248) | – |
| | | (5,576) | (4,310) |
| Cash generated from operations | | 14,273 | 9,437 |
| Income taxes paid | | (3,331) | (573) |
| Income taxes received | | 9 | 184 |
| Total taxes paid | 7 | (3,322) | (389) |
| Net cash inflow from operating activities | | 10,951 | 9,048 |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (1,524) | (1,145) |
| Capitalised own costs and purchase of intangible assets | | (1,312) | (1,197) |
| Proceeds of sales from property, plant and equipment | | 161 | 153 |
| Settlement of deferred consideration in respect of prior year acquisitions | 22 | (5,535) | (4,625) |
| Payments for acquisition of subsidiaries net of cash acquired | | – | (28,662) |
| Net cash outflow from investing activities | | (8,210) | (35,476) |
| Financing activities | | | |
| Proceeds from issue of ordinary shares | | 109 | 26,988 |
| Repurchase of ordinary shares into treasury | | (1) | (203) |
| Borrowings drawn | 22 | 2,126 | 15,872 |
| Borrowings repaid | 22 | (3,742) | (2,772) |
| Principal payment obligations for right-of-use assets | | (1,230) | (1,093) |
| Interest paid | | (1,282) | (865) |
| Transactions with non-controlling interests | | (150) | 50 |
| Dividend paid to equity shareholders | 9 | (2,322) | (2,235) |
| Net cash (outflow)/ inflow from financing activities | | (6,492) | 35,742 |
| (Decrease)/ increase in cash and cash equivalents | 22 | (3,751) | 9,314 |
| | | | |
| | | 2024 | 2023 |
| | | £'000 | £'000 |
| Translational foreign exchange on opening cash | | (28) | (14) |
| Net (decrease)/ increase in cash | | (3,751) | 9,314 |
| Cash at beginning of year | | 12,224 | 2,924 |
| Cash at end of year | | 8,445 | 12,224 |

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

| | 2024 £'000 | 2023 £'000 |
|-------------------------------|---------------|---------------|
| Cash available on demand | 8,445 | 8,192 |
| Overdraft facility | (2,056) | – |
| Cash on deposit | – | 4,032 |
| Net cash and cash equivalents | 6,389 | 12,224 |

Notes:

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 2024, the Directors have considered the Group's cash flows, liquidity and business activities.

At 31 March 2024, the Group has net debt (excluding IFRS16) of £4.7m. Furthermore, the Group has a £10.0m revolving credit facility, which 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.

In preparing the going concern assessment, the Directors considered the principal risks and uncertainties that the business faced.

The Directors have prepared a base case and a severe downside scenario, 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 a period to 30 September 2025, which has been prepared based on an extension of the budget for FY24/25.

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 ~60% 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 Group would fully comply with covenants and maintains sufficient liquidity to meet its liabilities as they fall due.

The Directors have concluded that the likelihood of a scenario whereby the covenant headroom is exhausted is remote and therefore there are no material uncertainties 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 15 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 2023:

- Amendments to IAS 1 and IFRS Practice Statement 2, disclosure of accounting policies, effective for annual reporting periods beginning on, or after, 1 January 2023
- 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, and Pillar Two model rules effective for annual reporting periods beginning on, or after, 1 January 2023

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

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the 31 March 2024 reporting period and have not been early adopted by the Group, are listed below. None of these are expected to have a material impact on the Group's financial results in the current or future reporting periods. The Group intends to adopt these standards considered relevant when they become effective.

- Amendments to IAS 1 and IFRS Practice Statement 2, regarding the classification of liabilities and non-current liabilities with covenants effective for annual reporting periods beginning on, or after, 1 January 2024
- Amendments to IFRS 16 regarding lease liabilities in a Sale and Leaseback arrangement, effective for annual reporting periods beginning on, or after, 1 January 2024
- Amendments to IAS 7 and IFRS 7, regarding supplier finance arrangements, effective for annual reporting periods beginning on, or after, 1 January 2024
- IFRS 18 issued in April 2024 to replace IAS1, regarding presentation and disclosure in financial statements, effective for annual reporting periods beginning on, or after, 1 January 2027

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.

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, the 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.
- 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.
- 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

- 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
- 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 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.

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”).

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
- 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.

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.

Certain contracts contain distinct performance obligations, each of which transfers control of goods or services to the customer. Where such distinct performance obligations are present, revenue is recognised on each element in accordance with the policy on the sale of goods. The service element of the contract is usually insignificant in relation to the total contract value and revenue is recognised when the service is complete.

Where this is not the case, revenue is recognised in proportion to the stage of completion of the contract at the balance sheet date, where the terms of the contract allow an invoicing, including a reasonable margin, in the event of customer cancellation. The stage of completion is assessed by reference to the contractual performance obligations with each separate customer and the costs incurred on the contract to date in comparison to the total forecast costs of the contract. Revenue recognition commences only when the outcome of the contract can be reliably measured.

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.

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.

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.

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 prior financial year to mitigate the challenge presented by market component shortages which were widespread in 2023. An element of working capital risk can be mitigated with receiving advance customer deposits; however, there remains a risk of default and order cancellation.

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. In Note 15 we provide details of the inventory provisions and the amounts written off to the consolidated statement of comprehensive income in the year.

While year-on-year we have seen a significant decrease in the inventory values held, there is a risk of the remaining inventory becoming excess or obsolete. The absolute provisions have fallen £0.9m reflecting the utilisation of the provision as we ceased the legacy US production the overall percentage of gross stock provided for has increased 1%.

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. The Directors recognise that the risk of credit default continues to be higher than historical norms as the Group's receivables increase; 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 suffer adverse cash flow.

In these financial statements the Directors have provided full disclosures of the provisions for credit default in Note 21.

The calculation of the provision based on the Directors' judgemental assessment of expected credit loss reflects a £0.4m increase to the overall figure from 2023 as a result of a deterioration of the aging of receivables.

If the Group were to provide for all debt that is overdue according to agreed credit terms, the recognised provision would increase by £1.5m to £2.6m.

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 acquisitions is £1.8m; if the remaining useful economic lives of the acquired assets were limited to 5 years the charge would increase by £0.6m.

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 the revised R&D tax credit scheme as the detailed tax computations have not been completed. The assumption reflects that the level of R&D spend is comparable with the prior year submitted R&D claims. The result of this is an RDEC credit of £0.3m (2023: £0.3m) which 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 2024, there are net current and deferred tax provisions totalling, approximately, £2.5m (2023: £2.9m).

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 (estimate and judgement)

The Group continues to enter into a higher volume of contracts with customers that require judgement on appropriate milestones to recognise the related revenue in accordance with IFRS 15. This has partially driven the £1.1m (2023: £1.9m) increase in contract liabilities (Note 18) in the financial year.

Key judgements can include the timing of the transfer of ownership of inventory to the customer under bill-and-hold arrangements as well as the determination of the appropriate contractual milestones and whether the criteria have been met to recognise revenue. A further area of judgement is whether revenue can be recognised on a costs incurred to date basis, plus a reasonable margin to support revenue recognition over time. To apply a percentage of completion methodology requires a reasonable estimation of the total expected costs to complete and the contractual ability to recover the costs to date plus a margin in the event of customer cancellation.

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 to ensure this judgement is appropriately reviewed and challenged.

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:

| | 2024 £'000 | 2023 £'000 |
|---|----------------|----------------|
| Geography | | |
| United Kingdom | 69,921 | 71,649 |
| Rest of Europe | 55,360 | 18,202 |
| Asia | 8,759 | 8,811 |
| North America | 28,667 | 27,205 |
| Rest of World | 596 | 636 |
| Total revenue | 163,303 | 126,503 |
| Product | | |
| Computing products | 21,740 | 21,718 |
| Communications products | 53,530 | 11,005 |
| Power products | 28,120 | 24,789 |
| Opto electronic and electronic components and modules | 59,913 | 68,991 |
| | 163,303 | 126,503 |

See further segmental disclosures in Note 31.

4. Operating profit

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

| | 2024 £'000 | 2023 £'000 |
|--|---------------|---------------|
| Staff costs excluding share-based payments (see Note 5) | 28,714 | 23,681 |
| Share-based payment expenses | 803 | 551 |
| Depreciation of property, plant and equipment | 1,581 | 1,159 |
| Depreciation of right-of-use asset | 1,040 | 965 |
| Amortisation of intangible assets | 2,281 | 2,035 |
| (Profit)/loss on disposal of property, plant and equipment | (1) | (45) |
| Auditors' remuneration - audit fees | 247 | 245 |
| Research and development costs (includes relevant staff costs) | 2,530 | 2,190 |
| RDEC Credit | (277) | (285) |
| Foreign exchange expense | 191 | 269 |
| Stock write downs (see Note 15) | 2,049 | 777 |
| Acquisition of subsidiaries legal and due diligence | 78 | 234 |

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.

5. Staff costs

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

| | 2024 £'000 | 2023 £'000 |
|-----------------------------|---------------|---------------|
| Wages and salaries | 24,485 | 20,173 |
| Social security costs | 2,331 | 2,147 |
| Pension costs | 1,898 | 1,361 |
| Share-based payment charges | 803 | 551 |
| Total staff costs | 29,517 | 24,232 |

Wages and salaries include termination costs of £375k (2023: £45k).

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

| | 2024 Number | 2023 Number |
|-------------------------------|----------------|----------------|
| Selling and distribution | 158 | 136 |
| Manufacturing and assembly | 176 | 167 |
| Management and administration | 99 | 101 |
| | 433 | 404 |

As the Group grows, we continue to invest in and develop the senior leadership team, that are considered to be key management personnel. This is a change from the previous year due to the establishment of the Executive Board in 2024 and results in a streamlined assessment based on the revised Governance structure. Comparatives for 2023 have been presented for reference under the new basis of assessment.

This senior leadership team includes the Executive Directors. The key management team and their total compensation, including employer's NI, totals £2,436k (2023 on new basis: £1,881k; 2023 as disclosed: £4,075k). The amount charged in respect of share-based payments for key management personnel is £540k (2023 on new basis: £392k; 2023 as disclosed: £382k). The amount charged in respect of defined contribution pension payments for key management personnel is £56k (2023: £10k; 2023 as disclosed: £143k). Retirement benefits are accruing to 4 Directors under money purchase schemes (2023: 4).

6. Finance costs

| | 2024 £'000 | 2023 £'000 |
|-------------------------------|---------------|---------------|
| Bank borrowings | 1,317 | 790 |
| Interest on lease liabilities | 139 | 46 |
| Imputed interest | 35 | 136 |
| Total finance costs | 1,491 | 972 |

7. Tax expense

| | 2024 £'000 | 2023 £'000 |
|--|---------------|---------------|
| Analysis of total tax expense | | |
| Total tax charge | 3,281 | 1,840 |
| | 3,281 | 1,840 |
| Current tax expense | | |
| Group corporation tax on profits for the year | 3,795 | 1,537 |
| Adjustment in respect of prior periods | (80) | (283) |
| | 3,715 | 1,254 |
| Deferred tax expense | | |
| Deferred tax expense (credited)/ charged to income statement | (190) | 398 |
| Adjustment in respect of prior periods | (244) | 94 |
| | (434) | 492 |
| Total tax charge to income statement | 3,281 | 1,746 |
| Deferred tax expense charged to other comprehensive income | – | 94 |
| Total tax charge to comprehensive income | 3,281 | 1,840 |

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:

| | 2024 £'000 | 2023 £'000 |
|--|---------------|---------------|
| Profit before tax | 12,187 | 8,436 |
| Expected tax charge based on the standard rate of corporation tax in the UK of 25% (2023: 19%) | 3,047 | 1,603 |
| Effect of: | | |
| Expenses not deductible for tax purposes | 137 | 101 |
| Non-taxable credit | (69) | (62) |
| Difference between depreciation/amortisation for the year and capital allowances | – | 115 |
| Tax difference in relation to share options | (30) | 15 |
| Research & Development | – | 143 |
| Taxation difference in respect of intangibles on acquisition | – | (14) |
| Tax losses recognised/(utilised) | – | 78 |
| Unrecognised tax losses | 513 | – |
| Adjustments in respect of prior years | (324) | (189) |
| Overseas tax rate differences | – | 56 |
| Foreign exchange | 7 | (6) |
| Total tax charge | 3,281 | 1,840 |

The UK corporation tax rate is 25%, effective from 1 April 2023 (2023: 19%). The deferred tax liabilities and assets on 31 March 2024 and comparative figures from 31 March 2023 have been calculated based on the 25% rate.

R&D tax credits

The Group recognised a credit of £277k (2023: £285k) within other income in relation to claims made under the Research & Development expenditure credit scheme ("RDEC").

8. Earnings per share

The earnings per share is based on the following:

| | 2024 £'000 | 2023 £'000 |
|---|---------------------|--------------------|
| Adjusted earnings post tax attributable to equity holders of the parent | 11,646 ¹ | 8,556 ² |
| Earnings post tax attributable to equity holders of the parent | 8,872 | 6,693 |
| Weighted average number of shares | 11,372,709 | 10,374,314 |
| Diluted number of shares | 11,667,041 | 10,604,768 |
| Reported EPS | | |
| Basic EPS from profit for the year | 78.0p | 64.5p |
| Diluted EPS from profit for the year | 76.0p | 63.1p |
| Adjusted EPS | | |
| Adjusted Basic EPS from profit for the year | 102.4p | 82.5p |
| Adjusted Diluted EPS from profit for the year | 99.8p | 80.7p |

1 Calculated as Adjusted profit after taxation (£11,680k) excluding the non-controlling interest profit (£34k)

2 Calculated as Adjusted profit after taxation (£8,553k) excluding non-controlling interest loss (£(3)k)

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 11,372,709 (2023: 10,374,314) net of the treasury shares disclosed in Note 27. The post tax earnings are attributable to shareholders of Solid State PLC excluding Non-controlling interests.

The diluted earnings per share is based on 11,667,041 (2023: 10,604,768) 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 30.

9. Dividends

| | 2024 £'000 | 2023 £'000 |
|--|---------------|---------------|
| Prior year final dividend paid of 13.5p per share (2023: 13.25p) | 1,529 | 1,500 |
| Current year interim dividend paid of 7p per share (2023: 6.5p) | 794 | 736 |
| Cancelled dividends on shares held in treasury | (1) | (1) |
| | 2,322 | 2,235 |
| Final dividend proposed for the year 14.5p per share (2023: 13.5p) | 1,650 | 1,528 |

The proposed final dividend has not been accrued for as the dividend will be approved by the shareholders at the Annual General Meeting. Subject to approval, the ex-dividend date will be 5 September 2024 with the cash payment date 27 September 2024.

10. Property, plant and equipment

Year ended 31 March 2024

| | Land and Buildings £'000 | Short Leasehold Property Improvements £'000 | Motor Vehicles £'000 | Fittings, Equipment and Computers £'000 | Total £'000 |
|------------------------------------|--------------------------------|--|-------------------------|--|----------------|
| Cost | | | | | |
| 1 April 2023 | 496 | 2,071 | 997 | 6,179 | 9,743 |
| Foreign exchange | (8) | (2) | – | (22) | (32) |
| Additions | – | 627 | 245 | 830 | 1,702 |
| Disposals | – | (1) | (51) | (524) | (576) |
| 31 March 2024 | 488 | 2,695 | 1,191 | 6,463 | 10,837 |
| Depreciation and impairment | | | | | |
| 1 April 2023 | – | 1,172 | 385 | 3,468 | 5,025 |
| Foreign exchange | – | – | – | (8) | (8) |
| Charge | – | 335 | 167 | 1,079 | 1,581 |
| Impairment | 488 | – | – | – | 488 |
| Disposals | – | – | (42) | (436) | (478) |
| 31 March 2024 | 488 | 1,507 | 510 | 4,103 | 6,608 |
| Net book value | | | | | |
| 31 March 2024 | – | 1,188 | 681 | 2,360 | 4,229 |

| | Land and Buildings £'000 | Short Leasehold Property Improvements £'000 | Motor Vehicles £'000 | Fittings, Equipment and Computers £'000 | Total £'000 |
|------------------------------------|--------------------------------|--|-------------------------|--|----------------|
| Year ended 31 March 2023 | | | | | |
| 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 |

11. Right-of-use lease assets

| | Land and Buildings £'000 | Motor Vehicles/Other £'000 | Total £'000 |
|---------------------------------|--------------------------------|----------------------------------|----------------|
| Year ended 31 March 2024 | | | |
| Cost | | | |
| 1 April 2023 | 4,775 | 220 | 4,995 |
| Additions | 2,595 | 59 | 2,654 |
| Disposals | – | (17) | (17) |
| Foreign exchange | (9) | – | (9) |
| 31 March 2024 | 7,361 | 262 | 7,623 |
| Depreciation | | | |
| 1 April 2023 | 2,851 | 163 | 3,014 |
| Charge for the year | 1,020 | 20 | 1,040 |
| Disposals | – | (17) | (17) |
| 31 March 2024 | 3,871 | 166 | 4,037 |
| NBV | | | |
| 1 April 2023 | 1,924 | 57 | 1,981 |
| 31 March 2024 | 3,490 | 96 | 3,586 |

| | Land and Buildings £'000 | Motor Vehicles/Other £'000 | Total £'000 |
|---------------------------------|--------------------------------|----------------------------------|----------------|
| Year ended 31 March 2023 | | | |

| | £'000 | £'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 |
| Depreciation | | | |
| 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 |

12. Intangible assets

| | Development costs £'000 | Computer software £'000 | Goodwill £'000 | Acquisition intangible Assets £'000 | Total £'000 |
|---------------------------------|----------------------------|----------------------------|-------------------|---|----------------|
| Year ended 31 March 2024 | | | | | |
| Cost | | | | | |
| 1 April 2023 | 2,593 | 1,087 | 29,726 | 15,475 | 48,881 |
| Foreign exchange | – | (2) | (315) | (105) | (422) |
| Additions | 1,024 | 288 | – | – | 1,312 |
| Disposals | – | (103) | – | – | (103) |
| 31 March 2024 | 3,617 | 1,270 | 29,411 | 15,370 | 49,668 |
| Amortisation | | | | | |
| 1 April 2023 | 1,911 | 455 | – | 4,952 | 7,318 |
| Foreign exchange | – | 10 | – | (9) | 1 |
| Charge for the year | 265 | 197 | – | 1,819 | 2,281 |
| Disposals | – | (41) | – | – | (41) |
| 31 March 2024 | 2,176 | 621 | – | 6,762 | 9,559 |
| Net book value | | | | | |
| 31 March 2024 | 1,441 | 649 | 29,411 | 8,608 | 40,109 |

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

- customer relationships with a net book value of £6.7m and a remaining useful economic life between one and eight years; and
- brand with a net book value of £1.9m and a remaining useful economic life of approx. five years.

The cost of acquisition intangible assets comprises the estimated net present value of customer relationships, orderbook value and brand values identified on acquisitions. 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 impaired.

| | Development costs £'000 | Computer software £'000 | Goodwill £'000 | Acquisition intangible assets £'000 | Total £'000 |
|---------------------------------|----------------------------|----------------------------|-------------------|---|----------------|
| Year ended 31 March 2023 | | | | | |
| 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 | – | 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 |
| | | | | Cost £'000 | NBV £'000 |
| Systems Division commercial relationships | | | | 8,664 | 6,017 |
| Components Division commercial relationships | | | | 6,706 | 2,591 |
| 31 March 2024 | | | | 15,370 | 8,608 |

13. Goodwill and impairment

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

| | 2024 £'000 | 2023 £'000 |
|------------------------|-----------------------|-----------------------|
| Systems Division – UK | 3,946 | 3,946 |
| Systems Division – USA | 19,513 | 19,828 |
| Components division | 5,952 | 5,952 |
| Total | 29,411 | 29,726 |

The recoverable amounts of all the above groups of 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 five years then a terminal value. In preparing the base case projection, a pre-tax discount rate of between 11% and 12% (2023: between 10% and 12%) was used based on the Group's estimated weighted average cost of capital.

Future growth rates of 7.5% to 23% based on the markets and a terminal growth rate of 2.5% (2023: 2.5%) have been assumed beyond the first year. 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 £80.5m (2023: £141.9m) in the base case. The UK groups of CGUs have very significant headroom (in excess of 150%) and it is not considered reasonably possible that changes to the assumptions would trigger an impairment.

The CGU with the least headroom is the USA Systems Division, with a headroom of £6.4m (2023: £14.5m). The goodwill associated with the USA Systems CGU is \$24.6m (2023: \$24.6m) and the value in GBP recalculated at the exchange rate at the reporting date is £19.5m (2023: £19.8m).

Given this CGU is a recent addition, a more detailed model was prepared based on the significant growth plans for the business, with the key assumptions in the base case reflecting a discount rate of 12% and revenue growth of 23% over the 5 year period. An increase in the discount rate of 6% to 18% or a reduction in the growth rate of 9% to 14% would substantially erode the headroom. Based on this detailed assessment, the carrying value of the goodwill is supported.

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 ¹ | USA | 100% | Battery systems and energy solutions supplier |
| Solsta Holdings Inc. | USA | 100% | Holding company |
| Pacer Technologies Limited ³ | UK | 100% | Non-trading entity |
| Pacer Components Limited ¹ | UK | 100% | Supply of opto-electronic components |
| Pacer LLC ¹ | USA | 100% | Supply of opto-electronic components |
| Willow Technologies Limited | UK | 100% | Supply of opto-electronic components |
| American Electronic Components, Inc. ¹ | USA | 100% | Supply of opto-electronic components |
| Active Silicon Limited | UK | 100% | Digital image design and manufacturing |
| Active Silicon, Inc. ¹ | USA | 100% | Manufacturing sales facility |
| Solid State Supplies Electronics Limited | Ireland | 100% | Sales office |
| eTech Developments Limited ² | UK | 100% | Engineering consultation |
| Custom Power Limited ³ | UK | 100% | Non-trading entity |
| Creasefield Limited ³ | UK | 100% | Non-trading entity |
| Q-Par Angus Limited ³ | UK | 100% | Non-trading entity |
| Ginsbury Electronics Limited ³ | UK | 100% | Non-trading entity |
| Wordsworth Technology Kent Limited ³ | UK | 100% | Non-trading entity |
| Solsta Limited ³ | UK | 100% | Non-trading entity |

| | | | |
|-------------------------------|----|------|--------------------|
| Durakool Limited ³ | UK | 100% | Non-trading entity |
|-------------------------------|----|------|--------------------|

1 Indirect holdings. All other holdings are direct.

2 75% owned up to 31 January 2024 when the remaining 25% non-controlling interest was acquired by Solid State PLC.

3 The non-trading entities are exempt from filing audited accounts with the Registrar under s479a of the Companies Act 2006.

Subsequent to the year end, two new USA holding companies were established; Solid State US, Inc. and Steatite Systems Holdings, Inc.

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 |
| Solsta Holdings Inc. | 1209 Orange Stret, Wilmington, County of New Castle, Delaware 19801 |

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

| | 2024 £'000 | 2023 £'000 |
|-------------------------------------|---------------|---------------|
| Finished goods and goods for resale | 21,748 | 30,195 |
| Work in progress | 3,336 | 3,033 |
| Total inventories | 25,084 | 33,228 |

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 £4.1m (2023: £5.1m).

An impairment loss of £2.0m (2023: £1.1m loss) was recognised in the cost of sales during the year against inventory due to slow-moving and obsolete items. £3.0m of inventory was written off against provisions held.

Inventory recognised in cost of sales during the year, as an expense, was £105.3m (2023: £84.0m).

16. Trade and other receivables

| | 2024 £'000 | 2023 £'000 |
|-------------------|-------------------|---------------|
| Trade receivables | 27,997 | 16,379 |
| Other receivables | 154 | 163 |
| Prepayments | 3,375 | 3,157 |
| | 31,526,624 | 19,699 |

An impairment loss against trade receivables of £407k (2023: credit of £77k) was recognised within operating costs during the year.

17. Trade and other payables

| | Note | 2024 £'000 | 2023 £'000 |
|--|------|---------------|---------------|
| Trade payables | | 10,011 | 12,919 |
| Other taxes and social security taxes | | 3,945 | 2,952 |
| Other payables | | 322 | 376 |
| Accruals | | 7,366 | 7,488 |
| Deferred consideration on acquisitions | 21 | – | 4,029 |
| Contingent consideration on acquisitions | 21 | – | 1,650 |
| | | 21,644 | 29,414 |

18. Contract liabilities

| | 2024 £'000 | 2023 £'000 |
|----------------------|---------------|---------------|
| Contract liabilities | 6,460 | 5,380 |

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 £2,923k (2023: £2,910k), which was included within contract liabilities in the prior year.

19. Bank borrowings and facilities

| | 2024 £'000 | 2023 £'000 |
|--------------------------------------|---------------|---------------|
| Current borrowings | | |
| Bank borrowings – overdraft facility | 2,056 | – |
| Bank borrowings – term loans | 1,342 | 1,279 |
| Non-current borrowings | | |
| Bank borrowings | 9,718 | 13,383 |
| Total borrowings | 13,116 | 14,662 |

| | 2024 £'000 | 2023 £'000 |
|----------------------------|---------------|---------------|
| Within one year | 3,398 | 1,279 |
| Between one and two years | 7,734 | 4,958 |
| Between two and five years | 1,984 | 8,425 |
| Total borrowings | 13,116 | 14,662 |

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 that is repayable in full in August 2025. The Group's intention is to refinance this facility during the next financial year. The full principal balance was utilised at 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 £4.55m was outstanding at year end.
- Revolving credit facility of £10.0m (2023: £7.5m) of which £Nil (2023: £2.4m) was drawn at the balance sheet date. This facility was committed until November 2024 and was renewed in March 2024 to a November 2025 commitment date.
- The Group has a multi-currency overdraft facility of £5.0m (2023: £3.0m), which was utilised for £2.1m USD at year end (2023: £Nil).

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. During March 2024, the Group agreed a facility extension on the USD overdraft facility of up to \$6.0m from 1 April to 30 June 2024 in order to cover the maximum potential impact of the NATO project's timing differences to the cashflow. This extension was not utilised during Q1 FY25 as there were no adverse working capital timing differences.

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

20. Right-of-use lease liabilities

| | 2024 £'000 | 2023 £'000 |
|---|---------------|---------------|
| Current right-of-use lease liabilities | 1,106 | 1,057 |
| Non-current right-of-use lease liabilities | 2,466 | 986 |
| Total right-of-use lease liabilities | 3,572 | 2,043 |

| | 2024 £'000 | 2023 £'000 |
|---|---------------|---------------|
| Within one year | 1,106 | 1,057 |
| Between one and two years | 1,307 | 942 |
| Between two and five years | 1,159 | 44 |
| Total right-of-use lease liabilities | 3,572 | 2,043 |

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:

| | 2024 £'000 | 2023 £'000 |
|--|---------------|---------------|
| Right-of-use lease liabilities at 1 April | 2,043 | 2,084 |

| | | |
|---|--------------|--------------|
| Additions | 2,654 | 123 |
| Acquisitions | – | 883 |
| Payments made | (1,237) | (1,026) |
| Discounting charge | 139 | 46 |
| Disposals | (17) | (56) |
| Foreign Exchange | (10) | (11) |
| Right-of-use lease liabilities at 31 March | 3,572 | 2,043 |

Extension and termination options are included in a number of property leases across the Group. Lease liabilities have been recognised up to the next lease break point where the Group has the option to exit at that point in time. This is re-assessed annually and when a decision has been made not to exercise a break clause, the corresponding liability and asset are recognised accordingly.

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.

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.

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 | 2024 £'000 | 2023 £'000 |
|-----------------------------|---------------|---------------|
| Trade and other receivables | 28,151 | 16,542 |
| Cash and cash equivalents | 8,445 | 12,224 |
| | 36,596 | 28,766 |

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

| Trade receivables exposure | 2024 £'000 | 2023 £'000 |
|----------------------------|---------------|---------------|
| UK | 10,363 | 8,257 |
| Non-UK | 17,634 | 8,122 |
| | 27,997 | 16,379 |

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 £435k (2023: £233k), which represented 0.3% (2023: 0.2%) 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.

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 |
|--------------------------------|----------------|------------------|------------------------------|------------------------------|------------------------------|
| 2024 | | | | | |
| UK | 11,447 | 10,772 | 642 | 8 | 25 |
| Non-UK | 17,633 | 15,710 | 1,387 | 204 | 332 |
| Total trade receivables | 29,080 | 26,482 | 2,029 | 212 | 357 |
| UK | (213) | (110) | (82) | – | (21) |
| Non-UK | (870) | (616) | (52) | (1) | (201) |
| Total provisions | (1,083) | (726) | (134) | (1) | (222) |
| Total | 27,997 | 25,756 | 1,895 | 211 | 135 |
| IFRS9 | | | | | |
| UK expected loss rate | 1.86% | 1.02% | 12.77% | 0.00% | 84.00% |
| Non-UK expected loss rate | 4.93% | 3.92% | 3.75% | 0.49% | 60.54% |

| 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 | 3.72% | 1.64% | 20.30% | 1.23% | 81.06% |
| Non-UK expected loss rate | 4.36% | 2.44% | 0.55% | 12.26% | 97.64% |

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:

| | 2024 £'000 | 2023 £'000 |
|-----------------------------------|---------------|---------------|
| Opening balance | 689 | 649 |
| Acquisition of subsidiaries | – | 124 |
| Increase/(decrease) in provisions | 407 | (77) |

| | | |
|--------------------------------|--------------|------------|
| Written off against provisions | (10) | (9) |
| Foreign exchange | (3) | 2 |
| Closing balance | 1,083 | 689 |

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 2024, trade receivables of £2,241k, which were past their due date, were not impaired (2023: £1,994k).

Liquidity risk

| 2024 | Carrying amount £'000 | Contractual cash flow £'000 | 12 months or less £'000 | 1–2 Years £'000 | 2–5 Years £'000 | 5+ Years £'000 |
|--------------------------------|-----------------------------|-----------------------------------|-------------------------------|-----------------------|-----------------------|----------------------|
| Trade and other payables | 20,737 | 20,737 | 20,737 | – | – | – |
| Borrowings | 13,116 | 14,508 | 4,227 | 3,029 | 7,252 | – |
| Right-of-use lease liabilities | 3,572 | 3,879 | 1,139 | 1,403 | 1,337 | – |
| Provisions | 969 | 969 | 126 | 565 | 278 | – |
| | 38,394 | 40,093 | 26,229 | 4,997 | 8,867 | – |

| 2023 | Carrying amount £'000 | Contractual cash flow £'000 | 12 months or less £'000 | 1–2 Years £'000 | 2–5 Years £'000 | 5+ Years £'000 |
|---------------------------------------|-----------------------------|-----------------------------------|-------------------------------|-----------------------|-----------------------|----------------------|
| 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 | – |

| Movement in deferred consideration on acquisitions | 2024 £'000 | 2023 £'000 | 2024 £'000 | 2023 £'000 | 2024 £'000 | 2023 £'000 | 2024 £'000 | 2023 £'000 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Willow | | Active | | Custom Power | | Group | |
| 1 April 2023 | – | 3,500 | 1,650 | 3,101 | 4,029 | – | 5,679 | 6,601 |
| Initial recognition | – | – | – | – | – | 8,264 | – | 8,264 |
| Decrease in estimation | – | – | (21) | (326) | – | – | (21) | (326) |
| Settlement | – | (3,500) | (1,629) | (1,125) | (3,906) | (4,065) | (5,535) | (8,690) |
| Foreign Exchange | – | – | – | – | (123) | (170) | (123) | (170) |
| 31 March 2024 | – | – | – | 1,650* | – | 4,029 | – | 5,679 |

* 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 the deferred contingent consideration due on acquisitions in 2023 (Willow and Active), which were classified as Level 3 instruments.

The measurement of the contingent deferred consideration liability on Active Silicon was based on the performance of the business during the 25-month earn-out period up to 31 March 2023. The basis of the calculation was a multiple of the post tax profit included within the consolidated Group financial statements and the only immaterial variable that changed was the final taxation figure. The contingent consideration in relation to Custom Power was recognised at £Nil value based on the discounted future forecasts prepared as described in Note 2 and the required threshold was not reached during 2024.

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 | 2024 £'000 | 2023 £'000 |
|---------------------------|---------------|---------------|
| Trade receivables | 19,831 | 8,870 |
| Cash and cash equivalents | (268) | 8,235 |
| Trade payables | (6,011) | (8,149) |
| | 13,552 | 8,956 |

| EUR | 2024 £'000 | 2023 £'000 |
|---------------------------|---------------|---------------|
| Trade receivables | 563 | 448 |
| Cash and cash equivalents | 541 | 444 |
| Trade payables | (261) | (178) |
| | 843 | 714 |

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 2024 (2023: £Nil) with £Nil net exposure (2023: £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, £1,309k (2023: £1,074k). 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, £1,599k (2023: £879k).

Interest rate risk

The Group finances its ongoing business through a revolving credit facility and two term loans as described in Note 19. During the year, the Group utilised the RCF facility at a floating rate of interest. The Group's banking facilities with Lloyds Bank PLC incur interest at the rate of 2.55% over Bank of England base rate. 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 £172k (2023: £122k) higher, and if 1% lower throughout the year, the level of interest payable would have been lower by the same amount.

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 2024 was £69,291k (2023: £66,070k).

The Group defines net (cash)/leverage as net (cash)/debt plus deferred consideration, which totals £4,671k (2023: £8,117k). In calculating net (cash)/debt, the Group has excluded the right-of-use lease liabilities of £3,572k (2023: £2,042k) from its definition and calculation.

When managing its capital, the Group's main objectives 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 2024, the gearing ratio was 6.7% (2023: 12.3%).

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 2024 is shown below:

| | 2024 £'000 | 2023 £'000 |
|----------------------------|---------------|---------------|
| Cash and cash equivalents | (8,445) | (12,224) |
| Borrowings/bank overdrafts | 13,116 | 14,662 |
| Deferred consideration | – | 5,679 |
| Net debt | 4,671 | 8,117 |
| Share capital | 569 | 567 |

| | | |
|--|---------|--------|
| Share premium account | 30,581 | 30,474 |
| Retained earnings | 35,086 | 27,805 |
| Other Reserves | (64) | 5 |
| Foreign exchange reserve | (1,515) | (836) |
| Shares held in treasury | (37) | (108) |
| Equity | 64,620 | 57,907 |
| Gearing ratio (net leverage/(equity + net leverage)/cash)) | 6.7% | 12.3% |

22. Net debt

Year ended 31 March 2024 (£'000)

| | At 1 April 2023 | Cash flow | Other non-cash movement | At 31 March 2024 |
|---|-----------------------|--------------|-------------------------------|---------------------|
| Bank borrowing due within one year | (1,279) | (777) | (1,342) | (3,398) |
| Bank borrowing due after one year | (13,383) | 2,393 | 1,272 | (9,718) |
| Total borrowings | (14,662) | 1,616 | (70) | (13,116) |
| Deferred consideration on acquisition of subsidiaries within one year | (5,679) | 5,535 | 144 | – |
| Cash and cash equivalents | 12,224 | (3,751) | (28) | 8,445 |
| Net debt | (8,117) | 3,400 | 46 | (4,671) |

| | 2024 £'000 | 2023 £'000 |
|---|---------------|---------------|
| (Decrease)/increase in cash in the year | (3,751) | 9,314 |
| Increase in borrowings in the year | (2,126) | (15,873) |
| Repayment of borrowings in the year | 3,742 | 2,772 |
| Payment of deferred consideration on acquisitions | 5,535 | 4,625 |
| Net movement resulting from cash flows | 3,400 | 838 |

| | 2024 £'000 | 2023 £'000 |
|--|----------------|----------------|
| Net debt at 1 April 2023 | (8,117) | (5,177) |
| Net movement resulting from cash flows | 3,400 | 838 |
| Deferred consideration released/(recognised) | 21 | (3,704) |
| Other non-cash movements | 25 | (74) |
| Net debt at 31 March 2024 | (4,671) | (8,117) |

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 2024 is 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:

| | 2024 £'000 | 2023 £'000 |
|---|----------------|----------------|
| At 1 April | (1,812) | (1,293) |
| Deferred tax arising on acquisition of subsidiaries | – | 67 |
| Credit/ (expense) for the year | 190 | (485) |
| Effect of changes to foreign exchange rates | 4 | (7) |
| Deferred tax adjustment in respect of prior periods | 244 | (94) |
| Net deferred tax at 31 March | (1,374) | (1,812) |
| Deferred tax (liabilities)/assets in relation to: | | |
| Accelerated capital allowances on property, plant and equipment | (590) | (747) |
| Short-term timing differences on intangible assets | (1,596) | (1,736) |
| Share-based payments | 604 | 351 |
| Short-term timing differences | 151 | 114 |
| Losses carried forward | 57 | 206 |
| Net deferred tax at 31 March | (1,374) | (1,812) |
| Deferred tax assets | 605 | 375 |
| Deferred tax liabilities | (1,979) | (2,187) |
| Net deferred tax at 31 March | (1,374) | (1,812) |

The movements in respect of deferred tax in the year were as follows:

| | Accelerated capital allowances £'000 | Short-term timing differences on intangible assets £'000 | Share-based payments £'000 | Short-term timing differences £'000 | Losses carried forward £'000 | Total £'000 |
|---|---|---|-------------------------------|--|---------------------------------|----------------|
| At 1 April | (747) | (1,736) | 351 | 114 | 206 | (1,812) |
| Recognised in statement of comprehensive income | 153 | 136 | 253 | 38 | (146) | 434 |
| Effect of changes to foreign exchange rates | 4 | 4 | – | (1) | (3) | 4 |
| At 31 March | (590) | (1,596) | 604 | 151 | 57 | (1,374) |

The UK corporation tax rate is 25% (2023: 19%) effective from 1 April 2023, which was substantively enacted on 24 May 2021.

The amount of the net reversal of deferred tax expected to occur next year is, approximately, £550k (2023: £447k) relating to the timing differences identified above.

A deferred tax asset of £166k (2023: £166k), 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. There was no calculated movement in the deferred tax asset, so £Nil has been debited to other comprehensive income ("OCI") or 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.

24. Provisions

| | 2024 £'000 | 2023 £'000 |
|---|---------------|---------------|
| At 1 April | 1,038 | 694 |
| Dilapidations acquired on acquisitions at fair value | – | 22 |
| Recognition of dilapidation provisions | 178 | – |
| Provisions utilised during the year | (248) | – |
| Recognition of decommissioning asset | – | 323 |
| Foreign Exchange | 1 | – |
| (Released)/charged to statement of comprehensive income | – | (1) |
| Provisions at 31 March | 969 | 1,038 |

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. Provisions are split in current £126k (2023: £323k) and non-current £843k (2023: £715k).

25. Share capital

| | 2024 £'000 | 2023 £'000 |
|--|---------------|---------------|
| Allotted issued and fully paid 11,376,644 (2023: 11,346,394) ordinary shares of 5p | 569 | 567 |

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.

| | 2024 | | 2023 | |
|----------------------------------|-------------------|----------------|-------------------|----------------|
| | Shares No. | Value £'000 | Shares No. | Value £'000 |
| Share capital at 1 April | 11,346,394 | 567 | 8,564,878 | 428 |
| Issue of new shares | 12,000 | 1 | 2,757,516 | 138 |
| Share options exercised | 18,250 | 1 | 24,000 | 1 |
| Share capital at 31 March | 11,376,644 | 569 | 11,346,394 | 567 |

At 31 March 2024, the number of shares covered by option agreements amounted to 418,350 (2023: 352,925). At the balance sheet date, there were 128,050 (2023: 72,000) share options which had vested and remained unexercised. 18,250 options were exercised in the current year (2023: 24,000).

26. Reserves

Full details of movements in reserves are set out in the consolidated statement of changes in equity. The total value of transaction costs incurred that have been offset against the share premium account movement in the year total £Nil (2023: £1,275k).

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 |
| Other reserves | Capital redemption amount transferred from share capital on redemption of issued shares. Settlement value with non-controlling interests in excess of net asset carrying value |
| 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 2024, the Group held 21,146 (2023: 9,146) shares in treasury with a cost of £37k (2023: £108k). No shares have been cancelled.

| | 2024 No | 2023 No |
|--|---------------|--------------|
| At 1 April | 9,146 | 6,946 |
| Purchase of shares into treasury | – | 15,000 |
| Issue of shares into treasury | 12,000 | – |
| Transfer of shares to the All Employee Share Plan (AESP) | – | (12,800) |
| At 31 March | 21,146 | 9,146 |

28. Share-based payment

The total amount charged to the income statement in 2024 in respect of share-based payments was £0.8m (2023: £0.6m).

The Company operates three 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.

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 7 February 2024 56,400 (2023: 56,400) share options were granted to the Executive Directors under the LTIP. The assessed fair value at grant date of options granted during the year was £11.21 per option (2023: £9.26). The fair value was determined using a Black-Scholes model and the principal assumptions are set out below.

| Principal assumptions | 2024 | 2023 |
|---|-------|-------|
| Weighted average share price at grant date in pence | 1,185 | 986 |
| 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 | 37% | 49% |
| Weighted average risk-free rate | 4.31% | 2.28% |
| Dividend yield | 1.86% | 2.10% |

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. 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.

On 7 February 2024, 50,875 (2023: 48,825) share options were granted to the senior management under CSOP. The assessed fair value at grant date of options granted during the year was £3.15 per option (2023: £3.14). The fair value was determined using a Black-Scholes model and the principal assumptions are set out in the table below.

31,500 CSOP options vested in the year and 18,250 were exercised.

| Principal assumptions | 2024 | 2023 |
|---|-------|-------|
| Weighted average share price at grant date in pence | 1,185 | 1,006 |
| Weighted average exercise price in pence | 1,052 | 1,008 |
| Weighted average vesting period (years) | 3 | 3 |
| Option life (years) | 10 | 10 |
| Weighted average expected life (years) | 3 | 3 |
| Weighted average expected volatility factor | 37% | 49% |
| Weighted average risk-free rate | 4.31% | 2.28% |
| Dividend yield | 1.86% | 2.10% |

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. £Nil (2023: 24,000) were exercised in the year, leaving 72,000, which remain unexercised at the balance sheet date.

| | 2024 Number of options | 2024 Average exercise price in pence | 2023 Number of options | 2023 Average exercise price in pence |
|--------------------|------------------------------|---|------------------------------|---|
| At 1 April | 328,925 | 320 | 248,100 | 225 |
| Granted | 107,675 | 988 | 104,825 | 471 |
| Exercised | (18,250) | (592) | (24,000) | 0.1 |
| Cancelled/lapsed | — | — | — | — |
| At 31 March | 418,350 | 759 | 328,925 | 320 |

The weighted average exercise prices of options exercisable at the end of the period is 63p. The weighted average remaining contractual life of share options outstanding at the end of the period is 7.5 years (2023: 7.7 years). As at 31 March 2024, the total number of long-term incentive awards and share options held by employees was 418,350 (2023: 328,925) as follows:

| Option price pence/share | Option period ending | 2024 Number of options | 2023 Number of options |
|--------------------------|-------------------------|---------------------------|---------------------------|
| 0.1p | 31 March 2027 | 72,000 | 72,000 |
| 5p – 592p | 31 March 2030 | 56,050 | 74,300 |
| 5p – 1050p | 31 March 2031 | 77,800 | 77,800 |
| 5p – 1254p | 31 March 2032 | 105,225 | 104,825 |
| 5p – 1185p | 31 March 2034 | 107,275 | — |
| At 31 March | | 418,350 | 328,925 |

All Employee Share plan (“AESP”):

AESP awards up to the HMRC tax approved levels 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 28 March 2024, 13,950 (2023: 12,800) share options were awarded to the employees under the AESP.

The share price at the date of award was 1,325p (2023: 1,160p). 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 £185k (2023: £148k) as part of the total share-based payments charge.

29. Capital commitments

At 31 March 2024, there were capital commitments of £23k (2023: £172k).

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 in relation to restructuring of the USA Components business model
- Non-recurring costs relating to acquisition costs (including fair value adjustments and earn-out estimation changes)

- Tax effect of the adjusted items
- 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

| | 2024 £'000 | 2023 £'000 |
|---|---------------|---------------|
| Gross profit | 51,827 | 39,674 |
| Adjustments to gross profit | – | 88 |
| Adjusted gross profit | 51,827 | 39,762 |
| Operating profit | 13,678 | 9,408 |
| Adjustments to operating profit | 3,358 | 2,219 |
| Adjusted operating profit | 17,036 | 11,627 |
| Operating margin percentage | 8.4% | 7.4% |
| Operating margin percentage impact of adjustments | 2.1% | 1.8% |
| Adjusted operating margin percentage | 10.4% | 9.2% |
| Profit before tax | 12,187 | 8,436 |
| Adjustments to profit before tax | 3,392 | 2,355 |
| Adjusted profit before tax | 15,579 | 10,791 |
| Profit after tax | 8,906 | 6,690 |
| Adjustments to profit after tax | 2,774 | 1,863 |
| Adjusted profit after tax | 11,680 | 8,553 |
| Reported total other comprehensive income | 8,227 | 5,727 |
| Adjustments to total other comprehensive income | 2,774 | 1,957 |
| Adjusted total other comprehensive income | 11,001 | 7,684 |

| 2024 | Components £'000 | Systems £'000 | Head office £'000 | Total £'000 |
|---|---------------------|------------------|----------------------|----------------|
| Acquisition fair value adjustments within cost of sales | – | – | – | – |
| Acquisition fair value adjustments, reorganisation and deal costs | 736 | – | – | 736 |
| Amortisation of acquisition intangibles | – | – | 1,819 | 1,819 |
| Share-based payments | – | – | 803 | 803 |
| Imputed interest on deferred consideration unwind | – | 34 | – | 34 |
| Adjustment to profit before tax | 736 | 34 | 2,622 | 3,392 |
| Current and deferred taxation effect | 73 | – | (691) | (618) |
| Adjustments to profit after tax | 809 | 34 | 1,931 | 2,774 |
| Movement of deferred tax asset re share price impact on options | – | – | – | – |
| Adjustments to total other comprehensive income | 809 | 34 | 1,931 | 2,774 |

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.

Reorganisation costs in 2024 relate to the USA Components business restructure. Acquisition fair value adjustments, reorganisation and deal costs in 2023 relate to transaction costs for the acquisition of Custom Power.

In evaluating our adjusted performance metric in respect of Earnings Per Share (“EPS”), the Board considers “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 ‘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).

While we disclose “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 metrics much less appropriate when assessing performance.

| 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 |
| Increase 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 |

| | | | | |
|--|----------|------------|--------------|--------------|
| Recognition of deferred tax asset re share price impact on options | – | – | 94 | 94 |
| Adjustments to total other comprehensive income | – | 161 | 1,796 | 1,957 |

Acquisition fair value adjustments within cost of sales in 2023 relates to the unwind of the IFRS3 fair value uplift on stock to selling price less cost to sell in both periods.

31. Segment information

The Group's primary reporting format for segmental information is aligned with the Divisional management structure of the Group. We provide financial information to enable Divisional management operational control and consolidated data for Board decision making. 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 2024

| | Components division £'000 | Systems division £'000 | Head office £'000 | Total Group £'000 |
|---------------------------|---------------------------------|------------------------------|-------------------------|-------------------------|
| External revenue | 59,834 | 103,469 | – | 163,303 |
| Operating (loss)/ profit | (682) | 19,337 | (4,977) | 13,678 |
| Adjusted operating profit | 54 | 19,337 | (2,355) | 17,036 |
| (Loss)/ profit before tax | (748) | 19,190 | (6,255) | 12,187 |
| Taxation | (553) | (4,074) | 1,346 | (3,281) |
| Profit after taxation | (1,301) | 15,116 | (4,909) | 8,906 |

Consolidated statement of financial position

| | | | | |
|-------------|----------|----------|----------|-----------------|
| Assets | 27,559 | 46,643 | 39,382 | 113,584 |
| Liabilities | (10,853) | (26,404) | (11,707) | (48,194) |
| Net assets | 16,706 | 20,239 | 27,675 | 64,620 |

Other

| | | | | |
|------------------------------------|-------|-------|-------|--------------|
| Capital expenditure: | | | | |
| Intangible assets | 143 | 1,169 | – | 1,312 |
| Tangible fixed assets | 275 | 1,423 | 4 | 1,702 |
| Right-of-use assets | 156 | 2,498 | – | 2,654 |
| Depreciation and Impairment – PPE | 1,033 | 995 | 1 | 2,029 |
| Depreciation – right-of-use assets | 182 | 858 | – | 1,040 |
| Amortisation | 131 | 331 | 1,819 | 2,281 |
| Share-based payments | – | – | 803 | 803 |
| Interest | 67 | 146 | 1,278 | 1,491 |

One individual customer contributed more than 10% of the Group's revenue at £33.4m (20%) in the financial year ended 31 March 2024 (2023: No one customer contributed more than 10%).

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 |

| | External revenue by location of customer | | Total assets by location of assets | | Net capital expenditure by location of assets | |
|----------------|---|---------------|---------------------------------------|---------------|--|---------------|
| | 2024 £'000 | 2023 £'000 | 2024 £'000 | 2023 £'000 | 2024 £'000 | 2023 £'000 |
| United Kingdom | 69,921 | 71,649 | 101,179 | 102,687 | 2,779 | 2,134 |
| Rest of Europe | 55,360 | 18,202 | – | 31 | – | – |
| Asia | 8,759 | 8,811 | – | – | – | – |
| North America | 28,667 | 27,205 | 10,503 | 11,070 | 235 | 578 |
| Other | 596 | 636 | – | – | – | – |
| | 163,303 | 126,503 | 111,682 | 113,788 | 3,014 | 2,712 |

32. Related parties

During the period, fees totalling £48k (2023: £53k) in respect of accountancy services and out of pocket expenses were provided by The Kings Mill Practice, a firm of which Mr P Haining is the proprietor. A balance of £5k (2023: £5k) was due to The Kings Mill Practice at 31 March 2024.

33. Post balance sheet events

During Q1 of FY25 the Group intends to commit to a 15 year lease for premises in Tewkesbury with break clauses at 5 and 10 years. The annual rent is £160k, resulting in a minimum commitment of £0.8m. The assessment of expected tenure and resulting right of use asset and liability will be recognised in H1 FY25.

On 1 April 2024 a long-term incentive award for the senior management team in the USA was communicated. This award has a maximum liability of \$4.2m, is based on delivering growth in revenue as well as EBITDA margin and can commence vesting based on achievement of set performance goals from 2028 to 2030. While the Group has the option to equity or cash settle these awards, the scheme is expected to be cash settled as the number of shares is uncertain and the reward is a fixed quantum for a given performance.

Subsequent to the year end, the Group agreed a facility extension on the USD overdraft facility of up to \$6m to the end of June 2024 in order to cover the maximum potential impact of the NATO project's timing differences to cash flow. This facility was not utilised.

Two new USA holding companies were incorporated, Solid State US, Inc. and Steatite Systems Holdings, Inc. with the intention to simplify the structure of the US Systems Division legal entities. Solid State PLC owns 100% of Solid State US, Inc., which in turn owns 100% of Steatite Systems Holdings, Inc.