Enduring Strength

Annual Report and Accounts
for the year ended 31 March 2024

About Us

We are a leading provider of test and measurement solutions for the global telecoms and cloud computing markets.

Introduction

Calnex Solutions designs, produces and markets test and measurement instrumentation and solutions for the telecoms and cloud computing industries. Calnex's portfolio enables R&D, pre-deployment and in-service testing for network technologies and networked applications, enabling its customers to validate the performance of the critical infrastructure associated with telecoms and cloud computing networks and the applications that run on it.

To date, Calnex has secured and delivered orders in 68 countries across the world. Customers include BT, China Mobile, NTT, Ericsson, Nokia, Intel, Qualcomm, IBM and Meta.

Founded in 2006, Calnex is headquartered in Linlithgow, Scotland, with additional locations in Belfast, Northern Ireland, Stevenage, England and California in the US, supported by sales teams in China and India. Calnex has a global network of partners, providing a worldwide distribution capability.

INVESTORS IN PEOPLE™
We invest in people Gold

Financial

Revenue (£'000)

16,274

Underlying EBITDA[1] (£'000)

80

(Loss)/profit before tax (£'000)

(384)

1 Refer to note 32 for explanation of the alternative performance measures calculations. A full reconciliation between Underlying EBITDA and profit before tax is also shown in the Financial Review on page 26.

See KPIs | Page 27

Contents

For more information, please visit
www.calnexsol.com

Highlights

Delivering for our customers and proving resilience in challenging times.

Revenue (£'000)
16,274
FY23: 27,449 -41%

Underlying EBITDA[1] (£'000)
80
FY23: 7,980 -98%

Basic EPS (pence)
0.05
FY23: 6.75 -99%

Diluted EPS (pence)
0.04
FY23: 6.42 -99%

(Loss)/profit before tax (£'000)
(384)
FY23: 7,208 -105%

Closing cash and fixed term deposits[2]
11,868
FY23: 19,098 -38%

Financial Highlights

- Performance impacted by the wider economic environment and resulting deferral of investment in telecoms market.
- Three consecutive 6 month periods of stable order levels (H2 FY23 through to H2 FY24).
- Revenue of £16.3m (FY23: £27.5m).
- Gross margins maintained at 73%, broadly in line with prior year (75%).
- Loss before tax of £0.4m (FY23: profit before tax of £7.2m).
- Profit after tax £0.04m (FY23: £5.9m)
- Closing cash position of £11.9m (31 March 2023: £19.1m, including fixed term deposits).
- Proposed final dividend of 0.62 pence per share, making a total of 0.93 pence per share for FY24 (FY23: 0.93 pence).

1 Refer to note 32 for explanation of the alternative performance measures calculations. A full reconciliation between Underlying EBITDA and profit before tax is also shown in the Financial Review on page 26.

2 The Company takes advantage of high interest deposit accounts for surplus cash balances not required for working capital. Under IAS 7 Statement of Cash Flows, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment.

Operational Highlights

- Refocused engineering programmes on areas of the market showing near-term resilience and growth opportunities, such as cloud computing and defence.
- Successful launch of new network assurance offerings SNE-X and SNE-Ignite, and positive initial customer response to SyncSense our newly developed data centre and telecoms network timing management product.
- NE-ONE offering for application assurance testing performing strongly, particularly in the defence, government, and satellite markets, with further success anticipated in FY25.
- Development of major new release of Lab Synchronisation (Paragon-Neo) offering to capitalise on increasing demand for 800 Gb/s telecoms testing, expected to launch in H2 FY25.
- FY23 closing headcount was maintained through FY24 (with the only increases being graduate hires), with Calnex well-placed to convert the telecoms sales pipeline once the trading environment improves.
- Post-period end review of sales channels and channel partner arrangements has identified opportunities to strengthen existing customer engagements and to reach new customers. To provide the Company with the ability to optimise the channel partner arrangements, the Board has elected to terminate its reseller agreement with Spirent and initiated the process of implementing the company's new sales channel strategy.

Outlook

- Recently launched products are gaining traction, providing confidence in a return to growth in FY25.
- Cloud computing and data centre markets represent a growing opportunity, based on the increased data centre infrastructure investment and testing required to support the increasing demand for AI and virtual reality-based applications.
- Challenges across the wider telecoms market are expected to remain for the duration of the year but the fundamental long-term need for telecoms testing solutions remains unchanged.
- Longstanding customer relationships across all territories leave us well positioned to convert our telecoms sales pipeline once the trading environment improves.

Market Overview

Calnex supplies its technology to two growing markets: the telecoms industry and the cloud computing industry.

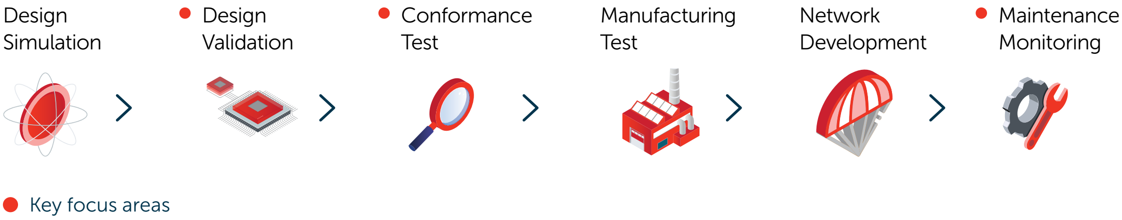
Test and measurement market segmentation

Testing and measurement is typically carried out at each stage of the development cycle, and it is therefore crucial that this can be performed reliably to prove robustness of performance and conformance to the standards required by market participants and regulators. Failure to pass the testing can lead to delayed release of new products or delay in commissioning/repair of network capacity.

Calnex is focused on the Design Validation, Conformance Test and Maintenance Test phases of the development life-cycle, which are high value niches, due to their position at critical points in the development life-cycle. All these stages in the development cycle require significant technical capability using high value-add test equipment and there are high barriers to entry for new participants. The competitive landscape varies between product families, but in all cases, Calnex looks to be either the market leader or a leading participant.

In the test phases targeted by Calnex, customers need to have confidence that the test equipment they purchase is reliable and will enable them to carry out the necessary testing efficiently. Calnex has consistently delivered such products to its customers.

New product development cycle



Telecoms
The telecoms industry is a highly competitive environment, requiring innovative products, technologies and services to support investment in new digital infrastructure.

The industry comprises equipment vendors, such as Nokia, Ericsson, Cisco and Huawei, which develop hardware and software systems for deployment by network operators, such as BT, China Mobile and AT&T, within their networks. Component manufacturers, such as Intel, Broadcom and Qualcomm, sell components and sub-assemblies to equipment vendors, which are then built into their products.

Why is testing needed in Telecoms?
Global telecoms networks are extremely diverse and when changes are introduced it is vital that the new network conditions can be tested effectively both prior to and following technical deployment. The test and measurement sector is an integral part of developing, building and maintaining all telecom and data networks, whether they are deployments by telecoms operators or within data centres.

The transition to 5G will increase the market for test instrumentation, from both new and existing customers, across each of the Group's customer categories. There is continuous innovation occurring within the equipment vendors to improve the value they deliver to their customers, to ensure they remain competitive with their product portfolio when selling to their customers, the network operators. It is vital that new technology is fully evaluated before release to ensure that vendor innovation is not overshadowed by unreliable performance.

Budgets impacted from the top down, but long-term opportunity remains
The global spend on Mobile Network Infrastructure is predicted in a recent Frost & Sullivan[3] report to grow from US$61.9 billion in 2023 to US$68.8 billion in 2028, with the growth rate increasing in the second half of this window. This spend is split across the three constituent elements of the telecoms network, namely, Core network, the Transport network and RAN network, (the Radio Access Network is the network supporting and including the radio connections to mobile phone users). 67% of this spend is in the RAN network, which is a primary focus of Calnex products.

What are telecoms and networks standards?
Standards and recommendations within the telecoms testing sector are published documents that establish mandatory or recommended specifications and procedures designed to ensure the interoperability of equipment from multiple equipment vendors, set the minimum performance of equipment and define the core needs of networks.

While there are a number of well-established bodies that have been developing standards for many years, (for example the International Telecommunications Union, 'ITU-T'), a number of new forums are gaining market traction. These include O-RAN Alliance (Open Radio Access Network Alliance)[4], which is focused on the promotion of increased participation in the development of equipment for deployment in the network supporting the mobile radio transmission equipment in mobile networks, and the OCP (Open Compute Project), which has a mission to "apply the benefits of open source and open collaboration to hardware and rapidly increase the pace of innovation in, near and around data centres"[5]. The development of recommendations from both established and emerging forums is increasing the addressable market for test equipment as more companies and more groups within established companies look to develop and promote equipment conforming to these recommendations.

Calnex has a highly sophisticated and differentiated product offering and an advanced knowledge of future market requirements through its close relationships with end customers, market participants and international standards bodies.

"Global telecoms networks are extremely diverse and when changes are introduced it is vital that the new network conditions can be tested effectively both prior to and following technical deployment."

3 Frost and Sullivan, "Global 5G Network Infrastructure Growth Opportunities", Feb 2024.
4 Open Radio Access Network Alliance, https://www.o-ran.org/.
5 Open Compute Project, https://www.opencompute.org/about.

Market Overview continued

Cloud computing

Hyperscalers and enterprises that are building and operating large data centres to host cloud computing services represent an opportunity for Calnex, for example established hyperscalers such as Meta, Amazon and Google, as well as smaller sector specialist companies such as Optiver and Equinix that build and create their own data centres.

> **"The growth in cloud computing and applications hosted in cloud computing will increase the market for test instrumentation, from both new and existing customers."**

The opportunities can be categorised into two groups. The first opportunity comes from the build-out of the data centre server-based infrastructure using similar technology to that used in the telecoms industry, often conforming to the same international standards originally developed for telecoms network deployment. This aspect represents an emerging opportunity to expand the Group's addressable market.

The second opportunity is from testing applications running in the cloud, in particular, where there is real-time interaction between end devices and the processing happening in the cloud. When this happens, the behaviour and performance of the network connecting the end device to the cloud can potentially impact the operation and/or experience of the user of the end device. Calnex's wide range of network emulators offers the most comprehensive portfolio of solutions to enable the verification of robustness of end application performance to behaviours of real world networks.

Why is testing needed?

The case for deploying testing infrastructure in this sector is similar to that for testing telecoms networks. It is vital to ensure the equipment will operate as specified under all connectivity and topologies in which it may be deployed. Once deployed, test equipment to monitor for failures and to locate and resolve problems that may arise post deployment is required to ensure high availability of the full capability of the data centre.

In addition, if the cloud-based applications running on infrastructure within a data centre are not robust to real world network effects that occur within the data centre, the application will not deliver the performance or experience expected. For example, with wearable augmented or virtual reality devices where the data or image processing is all occurring in the cloud, the end users of these devices will have a poor user-experience when the network latency changes, which may in turn lead to reputational damage to the provider of the devices or reduced sales of the device.

The growth in cloud computing and applications hosted in cloud computing will increase the market for test instrumentation, from both new and existing customers.

A growing opportunity for Calnex

The expansion of the scale and numbers of data centres continues. A recent report suggested there are already over 8,000 data centres across the world, with the US hosting the largest share. Between them, the US, UK, Germany and China host around 50% of all data centres[6]. The emergence of AI will accelerate the growth in data centre capacity. Generative AI and the emergence of Virtual, Augmented and Mixed Reality hardware and software are predicted to be the top two drivers of growth of digital content in 2024[7].

AI software in the cloud will require a substantial increase in computational bandwidth when compared to more traditional software. As the use of AI in the cloud increases, it is clear that the capability of the cloud computing industry will have to expand considerably to deliver the needs of applications utilising AI techniques.

6 United States International Trade Commission, "Data Centres Around the World: A Quick Look", May 2021.
7 Frost & Sullivan, "Top 10 Growth Opportunities in Digital Content Services, 2024", January 2024.

The initial opportunity for Calnex from companies operating data centres was created by their utilisation of very high-speed interfaces. Calnex identified that data centres would need to test and measure the time synchronisation to the servers within these data centres. More recently, Calnex's focus has expanded to include the test needs of applications running in the cloud computing hosted in data centres to identify opportunities to prove performance of these applications. The build-out of these data centres remains a dynamic environment where new services delivered by data centres, such as network hosting, are anticipated to generate further requirements for test solutions and future opportunities for Calnex.

Our differentiation

The Group will continue to track developments in technology and standards in markets where it already benefits from a strong market position with limited direct competition. Calnex has a highly sophisticated and differentiated product offering and an advanced knowledge of future market requirements gained from its close relationships with end customers, market participants and international standards bodies, which together act as a significant barrier to entry to potential competitors.

Calnex products are often differentiated by their high specifications and the complexity of the product platforms. The Group is highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets. By delivering the optimal solution at the right time, market leading products with high end functionality can achieve healthy margins. The competitive advantage arising from Calnex's knowledge of standards in the telecoms sector is paralleled in cloud computing.

Calnex continues to work closely with customers and the key regulatory bodies to help define the industry changes that Calnex products will be required to test and measure.

Strategy Overview

Our three pillar growth strategy

Calnex has a three pillar growth strategy to capitalise on the structural growth drivers in the telecoms market:

1

Continued product innovation to capitalise on build out of mobile network and growth of 5G

Follow the market demands for higher transmission rates and track new standards to strengthen our product offering.

Key developments in FY24

- Paragon-Neo product development to support 800 Gb/s testing, which marks the natural next wave of the telecoms industry at a higher speed.
- Continued to track developments and enhance capability in products to support evaluation of O-RAN recommendations.

See Strategic Report on pages 17 and 18.

2

Expansion within the cloud computing sector and other Ethernet market niches

Target growth applications where strong value can be gained from the deployment of Calnex's products.

Key developments in FY24

- Strong progress across SNE-X and SNE-Ignite products to build Calnex's presence in key markets for Network Emulation.
- Launch of SyncSense, Calnex's newly developed data centre and telecoms network timing management product.
- The NE-ONE product, which offers Network Emulation for real-world testing of networks and applications is gaining traction in the defence sector.

See Strategic Report on pages 17 and 18.

3

Target select acquisition and strategic partnership opportunities to add to product portfolio

Selective acquisition and strategic partnership activity, where complementary products or technologies can be acquired to enhance Calnex's existing portfolio in related or adjacent growth markets.

Key developments in FY24

- Strong sales of the NE-ONE demonstrates the successful integration of iTrinegy, following the acquisition in FY22.
- Expanded ability to search and evaluate target companies with appointment of Strategic Partnership manager.

See Strategic Report on pages 17 and 18.

"We have successfully expanded our new product development programmes to focus on near-term growth channels – our recent product innovations are gaining traction and we anticipate a return to growth in FY25."

Tommy Cook
CEO

Our Products

Evolving product portfolio

Calnex provides sophisticated hardware and software test and measurement solutions to its customers across three main application ranges:

Lab Synchronisation

Calnex's Lab Synchronisation test capabilities are delivered by the Paragon product range, used to test the synchronisation capabilities of telecoms equipment within the development phase.

Network Synchronisation

Calnex's Sentinel and Sentry product ranges provide the ability to test network synchronisation once telecoms equipment has been deployed, both in the telecom networks and within data centres installations.

Network and Applications Assurance (NAA) – formerly Cloud & IT

Calnex's SNE, SNE-X and SNE-Ignite Network Emulation platforms are used to replicate network behaviour in real-world conditions, enabling the infrastructure testing of Ethernet, cloud and data centre technology & networks.

Calnex's acquisition of iTrinegy in April 2022 added the NE-ONE product to the portfolio. This product enables Network Emulation testing of software applications and digital transformation testing that utilise the telecoms and cloud computing infrastructure.

Paragon-neo

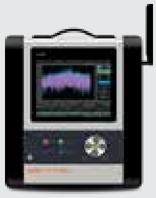
First to very high accuracy for multiple rate from 100M-to-400G, measuring to sub-billionth of second accuracy.

- Positioned as the platform to support all future rates including greater than 400G.

Paragon-X

First to offer multi-rate to 10G, physical layer and packet timing, and implementation of full system end-to-end emulation for high accuracy time testing.

- Future opportunities in emerging applications out-with telecoms.



Sentinel

First to measure time from the air signal.

- Best-in-class at maintaining high-accuracy time in the field.
- Designed to meet the testing needs of new 5G networks.

Sentry

Designed to meet the testing needs of data centres deploying accurate time to all servers.

Provides monitoring of accurate time to all the servers located within a data centre.

- High degree of leverage in technology between Sentinel & Sentry, each product structured and optimised to align with the specific form, fit and function needs of its target application.

SyncSense

Monitoring of time quality across a distributed network, such as data centre or a Telecom network.

- The system will collate and display an image of the network, highlighting the nodes that appear to have problems. This provides network managers an indication of the quality of synchronisation across every node in a network to identify potential issues.

SNE

Positioned to provide comprehensive Network Emulation for Infrastructure testing.

- Supports multi-port/multi-user support up to 100G interfaces.
- SNE & SNE-X is PC based with software test core for highly flexible, complex network scenario emulation.
- SNE-Ignite also incorporates hardware test core for high capacity and high precision emulation scenarios.
- Market leader in port count, multi-user and flexibility.

NE-ONE

Positioned to provide comprehensive Network Emulation for testing of software applications and digital transformation testing.

- Hardware platform available to host software product.
- Software can be hosted in VMware, AWS and Azure environments.

Our Business Model

Our unique position

Calnex operates a lean business model, with a global network of regional distributors and channel partners. Calnex has a highly sophisticated and differentiated product offering, with an in-depth knowledge of future market requirements.

Market-leading solutions

Calnex products' solutions for network synchronisation and emulation enable its customers to validate the performance of the critical infrastructure associated with telecoms networks. This has allowed the Group to establish a position at the forefront of the global test and measurement industry.

Calnex has active innovation programmes across all product areas in both telecoms and data centre/cloud computing markets to drive growth and widen its offering to serve unmet needs. New products have gained traction in new sectors, such as defence, edge computing and the low-orbit satellite sector.

Calnex's products are differentiated through their high specifications and the complexity of the product platforms.

Longstanding customer partnerships

The longevity and depth of Calnex's customer relationships demonstrate its reputation in the industry and trusted partner status with global reach.

Given the highly specialised nature of Calnex's offering, customers are sticky with around 75% of sales typically repeat orders. This provides financial stability, enabling the business to invest in R&D.

Clear purpose and strategy

Calnex's three-pronged growth strategy provides motivation for staff and attracts investors. The Group's strategy capitalises on the drivers in the telecoms market:

1. Continued product innovation to capitalise on the build out of the mobile network and growth of 5G.
2. Expansion within the cloud computing sector and growth in applications hosted in cloud computing.
3. Target select acquisition and strategic partnership opportunities to add to product portfolio.

Engineering expertise

Calnex employs a team of experts highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets.

First to market

Calnex holds close relationships with customers, regulatory bodies and leading market participants, meaning it consistently brings new technologies to market first. Together, these also act as a significant barrier to entry to potential competitors.

Industry know how

Calnex is a young business with an experienced senior leadership team.

The Group's ability to offer a wide range of solutions is attractive to customers and provides a point of differentiation.

Calnex's position and reputation within the industry means it is well placed to make further acquisitions.

Operational model

These qualities are supported by a lean business model, with global distribution channels in place and manufacturing outsourced to a high-quality and long-standing local partner:

Distribution channels

Global reach through network of regional resellers and distributors.

With an expanded product offering and growing global customer base, the Board has undertaken a review of the Company's sales channels and channel partner arrangements, to ensure that they will meet the Company's evolving requirements. See page 19 of the Strategic Report for more details.

Calnex maintains direct contact and has strong, ongoing relationships with end customers, due to a highly technical sales process.

Manufacturing capability

Manufacturing outsourced to Kelvinside Electronics since 2007.

Kelvinside Electronics operates from a custom built 40,000ft^2 facility located in Kilsyth, Scotland.

High quality short- and medium-term sales forecasting information, along with close working relationships, enable optimisation and management of global supply-chain procurement and production schedules.

Operational excellence

Large company structure, with sophisticated marketing and R&D processes.

Successful expansion through product and technology acquisitions, most recently with the acquisition of iTrinegy in FY23.

Proven ability to integrate bolt-on acquisitions who benefit from access to global sales channel and increased R&D structure.

The target industry sectors are all rapidly evolving environments – the migration of mobile to 5G and the emergence of the equipment and applications utilising cloud computing. This requires innovative products and technologies to support the investment in new digital infrastructure. This drives growth in the need for Calnex's test and measurement instrumentation and solutions.

Maturity of the operational model combined with agile methodology provides scalability, adaptability and creates value for Calnex's customers, colleagues, shareholders and the markets in which we operate.

Our solutions create value:

Our customers

The test and measurement sector is an integral part of the communications networks in both the telecoms industry and increasingly in the cloud computing industry; as it is typically required at each stage of the development cycle and it enables market participants to develop, manufacture, deploy and maintain the telecom equipment and networks. Calnex helps to ensure test and measurement within these industries can be carried out reliably to prove conformance to the standards required by market participants and regulators.

Our evolving market

Calnex continues to work closely with customers and the key regulatory bodies to track and monitor the industry changes that Calnex's products will be required to test and measure.

Our colleagues

Calnex strives to be an employer that people enjoy working for. We provide a supportive and productive work environment and help our employees in taking care of their physical and mental wellbeing, with a focus on each staff member's career path.

Our shareholders

Calnex's focus is on delivering returns for its shareholders. A robust balance sheet provides a foundation for growth across the expanding markets and support dividend payments.

Chair's Statement

Forward resilience

"

In the year I continued to be struck by the dedication of the Calnex team, who worked tirelessly to respond dynamically to market conditions, focusing on the opportunities showing the most near-term resilience."

Overview
While the year ended 31 March 2024 was a difficult period for Calnex, we are positive moving forward. In the year I continued to be struck by the dedication of the Calnex team, who worked tirelessly to respond dynamically to market conditions, focusing on the opportunities showing the most near-term resilience. The Calnex team is experienced at navigating the business through challenging trading environments, reinforcing confidence in a return to growth during FY25.

Resilient performance in FY24
As previously reported, the Group's financial performance in FY24 was impacted by the ongoing downturn across the telecoms market, with caution across the sector leading to subdued spending levels. The Company reports revenue of £16.3m and a small loss before tax of £0.4m. We have a healthy liquidity position, with cash as at 31 March 2024 of £11.9 million.

Measured cost-action was undertaken, while refocusing the Group's engineering programmes on opportunities showing the most near-term potential within the Group's established telecoms market and in the newer markets of cloud computing and defence. This year has seen the launch of new products across both these end markets, which have shown well received signs of initial uptake. The Board is encouraged by the level of engagement with customers on the Group's new product programmes and, in particular, expects that continued orders from the defence and cloud computing sectors will enable Calnex to return to growth in FY25.

ESG

Calnex continues to operate with a high regard to a good level of environmental awareness, social responsibility, and governance. Calnex is a "people first" company, built on trust and respect. Not only for each other but also for the environment and for the local communities of our employees across the globe, where we do our best to make a meaningful impact. Our employees are encouraged to share their views, contribute to decision making, challenge each other and improve our processes to make a positive contribution to business success. This is reflected in the approach we take to delivering leading-edge test and measurement solutions for 5G networking and wireless technologies.

Our software-first approach significantly reduces the impact our products have on the environment by building in best-in-class longevity and providing long-term expert support through cutting-edge upgrades designed to meet customer requirements. Although already a low environmental impact business, the senior management team and our staff are keen to do more to tackle environmental challenges and have several initiatives running to address this. Our employee-led environmental, social & charity team also continues to be extremely successful, with high levels of employee engagement experienced throughout the year. This in turn enables the business to retain its talented team.

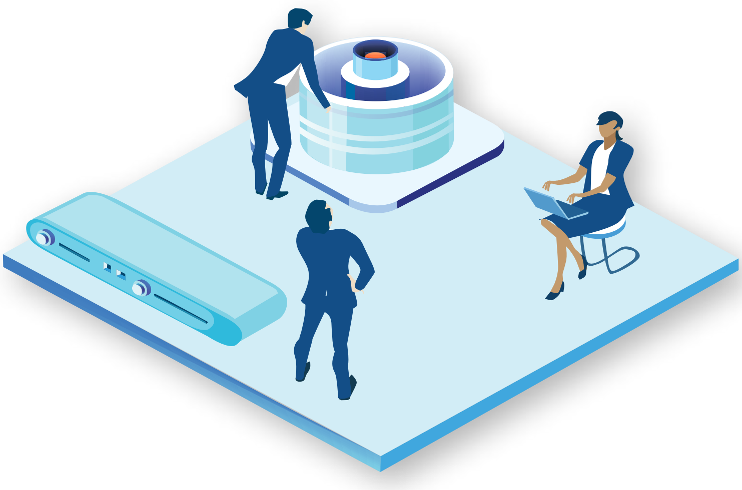
"With the product innovation and investments that have been taking place, we expect business growth in FY25 without reliance on the revival of the telecoms market, although we are confident that the fundamental need for our telecoms solutions in the long-term remains unchanged."

Stephen Davidson
Non-Executive Chair

Outlook

With the product innovation and investments that have been taking place, we expect business growth in FY25 without reliance on the revival of the telecoms market, although we are confident that the fundamental need for our telecoms solutions in the long-term remains unchanged. We are, therefore, well-placed to capitalise on a return to normalised investment programs when the market stabilises.

Stephen Davidson
Non-Executive Chair
20 May 2024



CEO's Statement and Operational Review

Sustained progress

We have continued our focus on product innovation, maintaining R&D spend and adjusting our engineering programme to focus on areas showing the most near-term potential across both the telecoms and cloud computing markets. We believe that the fundamental drivers of the end markets for our products remain strong.

Our financial performance in 2024 was impacted by the well-documented and ongoing downturn across the telecoms sector, with caution across the market leading to subdued spending levels during the period. However, there remain reasons for optimism moving forward. We have continued our focus on product innovation, maintaining R&D spend and adjusting our engineering programme to focus on areas showing the most near-term potential across both the telecoms and cloud computing markets. We believe that the fundamental drivers of the end markets for our products remain strong.

Within telecoms, we have focused on the area of 800Gb/s synchronisation testing for release in FY25, an unmet need where there is growing customer demand, while we also saw early successes in the year with recently launched products across the cloud computing and data centre markets.

We are confident that the action taken during FY24 to diversify our product offering positions us for a return to growth in FY25. Longer term, we continue to be supported by favourable underlying trends. We are confident that budgets will return in the telecoms market as the economic backdrop improves, in turn creating the need for test and measurement equipment to prove that new systems operate effectively and conform to rigorous international standards.

We continue to be supported by a strong balance sheet, with cash as at 31 March 2024 of £11.9 million. This cash position enables us to continue targeting growth opportunities across our key sectors and maintain relationships with customers as they plan future investment in their projects.

Customer metrics

The number of customers who ordered from us this year was 274 (FY23: 305 customers). The proportion of orders coming from customers from cloud computing markets continued to increase to 39% (FY23: 34%), with the sales of NE-ONE products the driving force behind this increase as we diversify into new sectors.

Our top 10 customers accounted for 52% of orders (FY23: 47%) on a 3-year average basis, and 76% of our orders were from repeat customers (FY23: 74%) on a 3-year average basis. Our geographical spread of orders across regions shows America 32%, North Asia 25% and ROW 43%. Although each region's order levels in the year have been impacted by the slowdown in the telecoms market, ROW's performance was mitigated by the diverse range of end customer sectors in the region.

Market backdrop

Spending within the telecoms sector is generally led by the large infrastructure projects of the major telecoms operators, which filter down through the wider ecosystem. As previously reported, we are continuing to see a particularly prolonged period of limited customer spend, with network build-out projects continuing to be either slowed or delayed amidst a high interest rate environment and increased geopolitical tensions.

Due to the team's long history in the sector, we have experienced markets such as these before and we are adept at managing the business back to growth, as is expected in FY25. We have maintained close customer relationships, with customers confirming that they remain committed to the delivery of projects once spending budgets are released. We have also focused on segments of the telecoms market where demand remains, such as 800Gb/s synchronisation testing, the next wave of high-speed interface testing, driven by emerging technologies continually increasing the need for higher bandwidth.

While the wider telecoms market is anticipated to remain challenging throughout the remainder of 2024, the underlying structural growth drivers remain intact, including the increase in network complexity and the build-out of mobile infrastructure utilising 5G technology. The need for the testing solutions we provide will naturally increase as the transition to 5G continues and new technological standards gain traction. The scale of our long-term growth opportunity is considerable, with telcos projected to invest US$342.1 billion in their networks in 2027 alone[1].

Newer markets of cloud computing and defence continue to offer significant growth opportunities for Calnex. The impact of network connection on the performance of cloud-based applications is increasingly recognised, and there is an ever-increasing demand for testing solutions across these markets. With the rapid progress of incorporating Artificial Intelligence into applications and the uncertainty that surrounds its operation under varied networking impairment effects, test instrumentation is more important than ever. The development of these technologies that are both new and unknown drives the need for reliable testing, which in turn creates significant scope for growth for Calnex.

With these new developments, we are starting to see opportunity not only from data centres but also from devices and applications that incorporate cloud-based processing with end user devices. The performance of the network can impact the performance of the application or user experience, which can then impact the market share of the application or end user device.

1 PWC "Perspectives from the Global Telecom Outlook 2023–2027", 2023.

"The fundamental drivers that underpin the build out of the mobile network and the expansion of the data centres and cloud computing capacity have not changed."

Tommy Cook
Chief Executive Officer

CEO's Statement and Operational Review continued

Product innovation
Innovation is the lifeblood of our business, expanding our ability to capture a growing proportion of our customers' spend and taking us into new areas of the testing market where our engineering expertise provides us with a competitive edge. During the year, we pivoted R&D spend to focus on opportunities showing the most near-term resilience and potential within the established telecoms market and in the newer markets of cloud computing and defence.

Targeting growth in the telecoms market
R&D spend has been channelled into the development of our Lab Synchronisation (Paragon-Neo) offering, which provides support for very high-speed interfaces, 800Gb/s testing, which marks the natural next wave of the telecoms industry at a higher speed.

During the year we enhanced the Paragon platform and expect to launch a major new release in H2 FY25 to support leading edge 800Gb/s interface testing, for which we are already receiving customer requests and expect to generate revenue during FY25.

Cloud computing and data centre markets
We are seeing strong early progress within the cloud computing markets, given the significant investment into data centres to support the growth in cloud services and adoption of AI. New opportunities in the areas of network time monitoring as well as data centre efficiency and effectiveness, are currently in the early stages of development.

We have recently launched SNE-Ignite and SNE-X products to strengthen our portfolio. The SNE-Ignite is the high-performance platform that will initially target testing of telecoms equipment designed for use in the O-RAN Mobile network deployments. The SNE-X is our high-speed, high port count platform designed to prove the performance of new, real-time cloud-based applications. Both products are helping to build Calnex's presence in key markets for Network Emulation. SNE-X, the second version, is already finding some promising opportunities with Hyperscalers and companies developing wearable devices, such as virtual and augmented reality devices.

Our NE-ONE product, the recently acquired Network Emulation product following the acquisition of iTrinegy in April 2022, is performing well. The platform provides a targeted solution for engineering teams developing software applications to be hosted in-house or in cloud services. Since forming a business development team last year to drive sales for the platform, the product has been successful in the defence, government, and satellite markets, with further success anticipated in FY25. We have been particularly encouraged by the strong relationships formed with many major system integrators, through whom we have secured several defence contracts in the year and see this as an avenue for future growth in this market.

Our enhanced Network Emulation portfolio has a strong competitive position due to the breadth of Calnex's product offering. Although there are other solutions available, we are the only provider of both a hardware-based and software-based offering, which allows the Group to provide the optimal solution to meet our customers' needs.

SyncSense, Calnex's newly developed data centre and telecoms network timing management product, has also been well received by customers. SyncSense offers a Timing Performance Monitoring solution that provides real-time topology and network operational information associated with the distribution of time across large networks. The product will leverage the reputation of Calnex as the Sync experts and can be sold in conjunction with the Sentinel and Sentry platforms to provide fault diagnoses insight capability to complement the fault identification capability of SyncSense. Customer engagement is at an early stage, but feedback has been encouraging.

Financial performance
Financial performance was impacted by the challenging trading environment. We report revenue of £16.3m (FY23: £27.4m), and a small loss before tax of £0.4m (FY23: profit of £7.2m). Importantly, gross margins remained strong during the year. Our investment into newer markets has driven strong sales growth across our Network and Applications Assurance ('NAA' – formerly Cloud & IT) products, and NE-ONE product orders grew by 56% over the course of the year, compared with revenue growth of 15% in the year. The variance in revenue versus order growth is as a result of the level of multi-year support contracts being purchased by customers in the year which are recognised as revenue over the life of the contract).

During the year, tight cost control measures have been implemented, including overhead cost reduction and reduced spend in areas such as travel. We continue to benefit from a healthy cash balance, with cash as at 31 March 2024 of £11.9m (FY23: £19.1m). There was significant investment in inventory during the year to develop more flexibility in the ability to respond to customer orders plus an element of inventory build-up from material received to support previous order expectations.

People

The engine of our business is our dedicated group of staff globally. In the year headcount has been maintained, with new hires being frozen excluding graduate hires. Total headcount as at 31 March 2024 was 160 (FY23: 155).

We work as one team, sharing the successes, the challenges and the Group's ambitions moving forward. Our retention rate of staff over FY24 was 96% (with an average tenure of 5.3 years) which reflects Calnex's culture of inclusion, respect, and support. We firmly believe that we possess the right team to drive the business forward.

Calnex enjoys and thrives on a diverse workforce where inclusion is key to building high performing, engaged and successful teams. Our strong values, as reflected in our Investors in People Gold Award, are promoted through a variety of employee engagement programmes, such as supportive initial training and mentoring programmes, culture sessions and an extensive training and development framework.

Sales channel review

With an expanded product offering and growing global customer base, the Board has undertaken a review of the Company's sales channels and channel partner arrangements, to ensure that they will meet the Company's evolving requirements. The Board's review has identified opportunities to strengthen existing customer engagements and to reach new customers by adding both new channel partners and resources to support direct selling. As part of this, and considering the proposed acquisition of the Company's main distributor, Spirent by a third party, the Board has commenced discussions with new and existing channel partners to facilitate changes to strengthen the current arrangements.

Calnex has direct relationships with its end customers due to the technical nature of the Company's products and has close relationships with many existing and potential channel partners. In order to provide the Company with the ability to optimise the channel partner arrangements, the Board has elected to initiate the termination of its reseller agreement with Spirent. The existing agreement with Spirent will terminate with effect from 31 July 2024 and the Board is confident that the positive discussions to date with new and existing partners, including Spirent, will result in a straightforward transition to the new sales channel arrangements, with minimal impact on the business.

Outlook

We are confident of a return to growth in FY25, having expanded our new product development programmes to focus on near-term growth channels – specifically the development of new capability in the telecoms market to capitalise on demand for 800Gb/s, as well as our product launches to capitalise on the increasing demand in the cloud computing and data centre markets. Our recent product innovations are gaining traction and we anticipate a return to growth in the current year, notwithstanding the challenges in the telecoms market which are expected to remain for the duration of this year. We expect the growth in utilisation of AI will increase the growth rate of data centre infrastructure and increase the complexity of the relationship between edge devices and processing happening in the cloud, both of which should lead to increased opportunities.

The fundamental drivers that underpin the build out of the mobile network and the expansion of the data centres and cloud computing capacity have not changed. Our longstanding customer relationships across all territories leave us well positioned to convert our telecoms sales pipeline once the trading environment improves.

Our healthy balance sheet will enable us to weather these uncertainties, providing the Board with confidence in the medium- and long-term future of Calnex and in our ability to deliver for our customers, team, and shareholders.

Tommy Cook

Tommy Cook
Chief Executive
20 May 2024

ESG

A meaningful impact

Calnex is a "people first" company built on trust and respect. Not only for each other but also for the environment and for the local communities of our employees across the globe, where we do our best to make a meaningful impact.

The Group follows the Quoted Companies Alliance Practical Guide to ESG, which is intended to supplement The Quoted Companies Alliance Corporate Governance Code (the QCA Code), which the Group also follows. The QCA Practical Guide provides pragmatic steps for small and medium sized listed companies to develop how to identify and disclose those ESG issues that are important to them and outlines an approach that is proportionate to the resource availability within smaller companies, whilst also giving stakeholders the relevant information that they need. We have established an internal ESG Steering Committee, members of which are a cross departmental team of senior leaders who are responsible for reporting to the Senior Management Team on all ESG related activities and initiatives throughout the business.

"Working for Calnex and being able to give something back to our local community gives me a great sense of pride in our company."

Calnex is an innovative and forward-thinking business where our employees are encouraged to share their views, contribute to decision making, challenge each other and improve our processes to make a positive contribution to business success. This is reflected in the approach we take to delivering leading-edge test and measurement solutions for 5G networking and wireless technologies.

Our focus is increasingly on delivering platform products that enable software upgrades in line with customers' aspirations. We can't control how our customers use our products, but we can influence how they benefit from additional functionality without the need for additional hardware. Thanks to the skills of our team, our in-depth knowledge, and market insight, many of our customers enjoy hardware longevity of between 10 and 15 years.

Our software-first approach significantly reduces the impact our products have on the environment by building in best-in-class longevity and providing long-term expert support through cutting-edge upgrades that anticipate customer requirements.

Although already a low environmental impact business, the senior management team and our staff are keen to do more to tackle the environmental challenges facing the planet and have several initiatives running to address this. Our employee-led environmental, social & charity team also continues to be extremely successful, with high levels of employee engagement experienced throughout the year.

We also work closely with the UK Electronics Skill Foundation (UKESF), supporting the future talent of Engineering in providing student placements and supporting STEM education and development.

People

We work as one team. Respectful of each other, we consider how our actions, ideas and approaches impact others. We are transparent, sharing in the successes, the challenges and the Group's ambitions moving forward. We help and encourage each other, supporting the business and our colleagues in building on an already successful company. Calnex also enjoys and thrives on a diverse workforce where inclusion is key to building high performing, engaged and successful teams. Our retention rate of staff over FY24 was 96% (with an average tenure of 5.3 years).

Our strong values, as reflected in our Investors in People Gold Award, are promoted through a variety of employee engagement programmes:

- Robust **Recruitment Process** that only ever hires top talent and employees who value and support a positive working culture.
- Supportive **Induction Training Programme** including a comprehensive internally delivered training programme that supports the integration of new employees.
- **Mentoring Programme** to support the development of staff and career progression. All new employees are assigned a mentor as part of their probation.
- Employee-built **Annual Review Programme** that recognises personal achievements and supports development and career progression.
- **Extensive Training and Development Framework** to further develop skillsets and secure educational qualifications. Including a minimum of 5 days training as part of our Drop Everything and Learn initiative, as detailed below.
- Group-wide mandatory **Compliance Training** to remain legally compliant worldwide.
- A benchmarked **Benefits Package** that strongly supports the financial, physical and mental wellbeing of our people including, amongst other things, profit share for staff if the Company achieves budgeted profit targets, an employee share incentive plan, a flexible/hybrid working model, an employee wellbeing activity programme (including fitness classes, an onsite gym, and free use of facilities at the local sports and recreation centre), income protection and life assurance polices which covers all staff and a healthcare scheme of which 84% of UK employees signed up for in FY24.
- **Quality Management System** that encourages inclusivity and drives process improvement.

ESG continued

- Regular **Culture sessions** chaired by Calnex's CEO to gather feedback on the Company's culture, practices and processes, encouraging employees to provide their input into organisational development. In FY24 we held 17 meetings with 122 employees attending.
- **Annual Employee Surveys** to enable two-way dialogue on topics such as company strategy, career progression opportunities and other current topics affecting the working lives and wellbeing of our employees. During FY24, 68% of employees completed the anonymous survey. The results and feedback from the survey helped us to focus on key areas resulting in the implementation of a new learning platform, increased Senior Leadership development and building on the Psychological Safety training.
- **Free Financial Education Workshops** for UK employees, delivered by St James' Place, including an onsite and online employee clinic for those employees who want to seek free financial advice.

Learning and development

Building on the prior year Power Skills programme and following a suggestion from one of our employees who had attended the programme, we identified a need this year to deliver more technical training to our Engineering team (58% of our employee base). After trialling 3 different platforms, employee feedback and system performance led us to choose the **Udemy** platform. The Udemy platform not only provides the high level of technical training the team requires, it also provides an abundance of content (24,000+ courses) relevant to all job roles at building on the Power Skills programme, supporting employees in not only advancing their technical knowledge but also looking after the general wellbeing and softer skills development. Every employee at Calnex has a licence and 'DEAL' time (**Drop Everything and Learn**) of at least 5 days per year with managers also having the ability to assign learning paths to their direct reports, actively supporting their personal development with suggestions on learning content to focus on.

In recent years, we have partnered with Connect Three to provide Leadership Development (LDP) and Power Skills programmes to our employees. Our LDP is a mandatory programme for managers which supports them in leading high performing teams, developing capability, effective communication and leading effective change, which, in turn, will help with overall business productivity. As the business continues to grow and change, self-awareness and **Psychological Safety** training has also become a key element of this programme as we strive to retain the positive, inclusive and collaborative culture that has contributed to our success to date.

As we continue to build on our Psychological Safety awareness training (branded as our **Positive Connections** programme in-house), 89% of our people managers and leaders have now completed the LDP programme and presented their learnings to the senior leadership team, with suggestions for personal skills gap training and opportunities for improvement in how we manage our people and develop our leaders. The Insights Discovery (psychometric profiling) approach was used as part of the training, to help our people managers understand themselves and others, with the goal to strengthen workplace relationships and interactions. This programme is in line with our desire as a company to have trust and respect, inclusivity and approachability at the forefront of our culture in the way we behave towards each other, and our general desire to take care of the professional development and wellbeing of our employees.

In the last 12 months, our learning and development activities have supported all our managers and leaders in developing themselves and the organisation. As a result, we have a stronger internal network of managers supporting each other, sharing challenges and successes and building new cross functional relationships, which in turn supports positive communication and collaboration across departments.

Calnex Corporate Giving Scheme

We have two main initiatives in place under the Calnex Corporate Giving Scheme – the Calnex Corporate Responsibility Fund where employees can nominate charities, clubs or organisations for a monetary donation each quarter and our Calnex in the Community scheme where employees are given two days each financial year to volunteer within their local community during working hours, without the need to book annual leave.

The Board is committed to setting aside a portion of the annual budget each year for the Calnex Corporate Responsibility Fund. The scheme is managed by an employee-led team (with senior management sponsorship) who consider proposals from employees for donations or support for groups and events that matter to them.

The Calnex senior management team want to empower our employees to make a difference in their communities by directing the Company to support initiatives that our people truly care about.

The Calnex in the Community Scheme is also very popular with our employees. Group volunteering activities such as planting trees and helping out at food banks are beneficial in so many ways. Beyond the obvious benefit of the primary task and the psychological benefit from making a positive contribution, we recognise how significantly such activities boost team spirit and engender pride in being associated with a company that helps our employees make a meaningful, local difference.

This financial year Calnex has donated £33,770 to 77 charities and organisations and social events across the globe through our Corporate Giving Scheme. These donations were made to a wide range of different charitable causes including donating to meals for the homeless, mental and physical health charities, animal rescue organisations, sports clubs and rewilding programmes. 55 out of the 77 charities were put forward by employees across the globe. Key charitable donations included:

- Foodbanks across Scotland, England and Northern Ireland.
- Puppy supplies were donated to Dog Rescue in Bulgaria
- Birmingham Children's Hospital
- SiMBA charity and the Miscarriage Association
- Save the Children
- Breast Cancer Now

As well as monetary donations, we also supported homeless and hygiene bank charities and sexual assault referral centres in the UK and the US by creating care packages including items such as personal hygiene products and winter essentials, delivered in Calnex tote bags.

Our annual Christmas giving continued with our charity raffle in aid of HopScotch who give vulnerable children a much-deserved seaside holiday. Through employee ticket sales and Calnex Corporate matching scheme, £4,560 was raised. Our festive giving campaign also includes our gift tag appeal, where employees across all UK sites bring in toys which are then given to local charities to support vulnerable children over Christmas. In total over 140 presents were distributed to children across Scotland, England, and Northern Ireland. Calnex also made monetary donations to similar charities in America and Asia.

During FY24 Calnex organised 11 volunteering events for our 3 sites across the UK, and overall, we had 92 employees who participated in at least one of these events throughout the year, an 80% increase in employee participation on the prior year. These events were a combination of cross departmental and inter-department volunteering, both fostering team building as well as helping out in the local community.

ESG continued

Products
Our products are innovative, leading-edge test and measurement solutions for designers and operators of the equipment and infrastructure that enables 5G networking and wireless technologies. 5G technologies provide enhanced mobile broadband, mission critical communications and the Internet of Things, all of which have a significant global impact across many aspects of society and industry.

Through the sales and post sales engagement with customers, we gather feedback on features and requirements that we need to enhance the product for the future. Regular engagement with customers is core to the value we deliver to support our customer's current and future needs.

Our approach to product development is as follows:

- we develop hardware platforms that can be enhanced with downloadable software upgrades in line with customers' everchanging needs. For example, both our Paragon-X and Sentinel platforms, introduced in 2010, and 2013 respectively, are still supported by the Company;
- our products are built into test racks where they remain for as long as the customers' products are supported. Customers expect their products, once deployed in networks, to be utilised for 10-15 years;
- this longevity feeds back through the supply chain as our customers now expect that same longevity from test equipment vendors;
- all our products comply with the Restrictions of Hazardous Substances Directive;
- our products are manufactured by a highly skilled contract manufacturer, Kelvinside Electronics, whose close proximity allows for excellent two-way support and communication regarding the complex technical challenges of building and testing our products; and
- our bespoke product packaging is manufactured by a local supplier with a comprehensive environmental policy including a focus to reduce, reuse and recycle all packaging materials wherever possible.
- We are certified to ISO9001 for our Quality Management System, and ISO45001 for Health and Safety.

Environment
Both Calnex's operational processes and products have a low environmental impact.

The majority of our staff are office-based and have the ability to work part of the week from home where their responsibilities allow, performing their operations using computer and internet-based services. Our contract manufacturer, Kelvinside Electronics, is ISO14001 (Environmental Management Systems) certified. Our products, sales and customer support services are managed by locally-based partners together with Calnex support staff, which greatly minimises global travel for our people.

Our company HQ and the majority of our operations are based in serviced premises leased from Oracle in Linlithgow. Calnex uses the waste recycling services provided by Oracle. Oracle have also invested in efficient lighting and air conditioning systems which minimise energy consumption on site.

The small amount of electrical component and circuit board waste we generate is disposed of in accordance with the WEEE regulations.

Our products are designed as platforms enabling our customers to take advantage of future software upgrades and hardware longevity which means the customer can retain the hardware for a number of years after the initial purchase.

Other environmental initiatives include:

- During the year, we have collaborated closely with Spirent to understand their approach to reaching their net zero targets. This involves Calnex working closely with Spirent on identifying the carbon and other environmental reporting information they need from their suppliers, to be able to achieve their goals. This close collaboration will assist Calnex in prioritising our climate related projects and reporting requirements, particularly as we work towards Scope 1 and 2 emissions reporting in future periods and our medium-term goal of establishing an Environmental Management System that is fit for purpose for a company of our size.
- A Product Packaging Project was launched in FY23 to measure and improve the recyclability of our product packaging, working with Spirent and our local packaging supplier, Dewar Brothers. This project has continued with pace in FY24. We used a defined measurement method to provide consistency in measurement across all our product lines. All material included in the packaging that we deliver to customers is identified and weighed and assessed for its recyclability. This exercise has helped to allocate an internal environmental score to each product in our portfolio and we have started to see an improvement in the amount of recyclable material used in our packaging. Some of the notable initiatives we have progressed are changing to paper tape from traditional polypropylene tape, launching a project to reduce the amount of physical paperwork sent with our products, and working with component suppliers to reduce plastic packaging and find recyclable or recycled alternatives.
- We are continuing with our product design improvement exercise, launched in FY23, to assess if we can reduce or change materials included in our hardware designs to take environmental impact into account, whilst also adding appropriate recycling labelling information to customers. Every improvement identified is reviewed to ensure changes do not have a detrimental impact on quality of the product, protection of our intellectual property or the customer experience; and
- A Terracycle initiative (a voluntary based recycling platform) was introduced to our HQ office in Linlithgow during the year to help employees recycle items that would normally end up in landfill, such as make-up containers, toothbrushes and toothpaste tubes, contact lenses and writing instruments such as pens and pencils. This initiative has been extremely popular with employees, and we intend to have this as an ongoing initiative in future periods.
- The Calnex Marketplace was an idea put forward during one of our employee-led Green Team Committee meetings, which has been a great success. This platform gives employees the ability to sell or donate household items to other employees, which may have ended up in landfill. Some items have included old TVs, laptops, DVDs, furniture, toys, puzzles, paint and clothes. Since its launch, employees have put more than 50 items on our marketplace.

Tommy Cook

Tommy Cook
Chief Executive
20 May 2024

Financial Review

Chief Financial Officer's Statement

While the results for this year are disappointing, importantly gross margins have remained healthy and we continue to benefit from a strong balance sheet and cash balance, robust customer relationships and a high quality and productive R&D team, providing us with confidence in a return to a stronger financial performance in future periods.

The wider economic concerns and downturn in our telecoms markets had an impact on revenue levels across all geographies.

Amongst our three territories, Rest of World (EMEA, India, South East Asia, Australasia) was the least affected by the slow-down. Although revenues in the year fell in relation to the prior year, the impact of the ongoing downturn in the telecoms industry was mitigated by the diverse range of end customer sectors in the region. Within North Asia, China remains challenging due to the impact of US restrictions and growing business in Taiwan and Japan continues to be a priority for Calnex. The Americas region was the most impacted by the telecoms slow down and, as a result, our current focus is on cloud-based infrastructure and applications and on government sector opportunities, which present a higher number of near-term opportunities.

From a product line perspective, Lab Sync (Paragon-Neo and Paragon-X) experienced a reduced performance in the year which, given their dominance in the telecoms market, is directly driven by the slowdown in the sector. Sentinel, our telecoms focused Network Sync product, experienced a similar trend in the year. Sales of Sentry, our Network Sync product aimed at data centres, are continuing as planned.

Our NAA network emulation product for infrastructure testing,SNE, had a challenging year given its exposure to the US market. Order performance picked up in H2 however, as a result of growing demand for our newly launched SNE-X & SNE-Ignite products. NE-ONE, our NAA network emulation for testing of applications product, experienced growth in orders and revenue in the year, driven by channel expansion and a strong performance in defence and satellite communications sectors.

Financial KPIs

Revenue (£'000)

16,274

2024	16,274
2023	27,449
2022	22,046

Gross profit (£'000)

11,947

2024	11,947
2023	20,472
2022	16,528

Gross margin %

73%

2024	73%
2023	75%
2022	75%

Underlying EBITDA[2] (£'000)

80

2024	80
2023	7,980
2022	6,352

Underlying EBITDA[2] %

0%

2024	0%
2023	29%
2022	29%

(Loss)/profit before tax (£'000)

(384)

2024	(384)
2023	7,208
2022	5,973

(Loss)/profit before tax %

(2)%

2024	(2)%
2023	26%
2022	27%

Closing cash and fixed term deposits[3] (£'000)

11,868

2024	11,868
2023	19,098
2022	15,357

Capitalised R&D (£'000)

5,579

2024	5,579
2023	4,523
2022	3,905

Basic EPS (pence)

0.05

2024	0.05
2023	6.75
2022	5.19

Diluted EPS (pence)

0.04

2024	0.04
2023	6.42
2022	5.19

2 Refer to note 32 for explanation of the alternative performance measures calculations. A full reconciliation between Underlying EBITDA and the statutory measures is also shown below.

3 The Group takes advantage of high interest deposit accounts for surplus cash balances not required for working capital. Under IAS 7 Statement of Cash Flows, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment and shown separately on the balance sheet.

Financial Review continued

Reconciliation of statutory figures to alternative performance measures – Income Statement

	FY24 £000	FY23 £000
Revenue	**16,274**	27,449
Cost of sales	**(4,327)**	(6,977)
Gross Profit	**11,947**	20,472
Other income	**797**	751
Administrative expenses (excluding depreciation & amortisation)	**(8,884)**	(9,928)
EBITDA	**3,860**	11,295
Amortisation of development costs	**(3,780)**	(3,315)
Underlying EBITDA	**80**	7,980
Other depreciation & amortisation	**(697)**	(746)
Operating (Loss)/Profit	**(617)**	7,234
Interest received	**357**	–
Finance costs	**(124)**	(26)
(Loss)/Profit before tax	**(384)**	7,208
Tax	**424**	(1,297)
(Loss)/Profit for the year	**40**	5,911

Revenue
Revenues in the year fell 41% to 16.3m (FY23: £27.4m), as a result of subdued telecoms customer spending levels across all of our regions. Revenues from the Americas and Asia regions both decreased by 48% and ROW saw a 31% decline on the prior year. ROW accounted for 48% of total revenues (FY23: 41%), Americas 31% (FY23: 35%) and North Asia 21% (FY23: 24%) in the year.

Revenue model
Calnex generates revenues through the sale of bundled hardware and software, alongside the provision of software support and extended warranty programmes.

The Group's core sales model is bundled hardware and software. Sales pricing is dependent on the product type and the complexity of the software configuration built into the product package. Calnex also sells stand-alone software upgrades under licence.

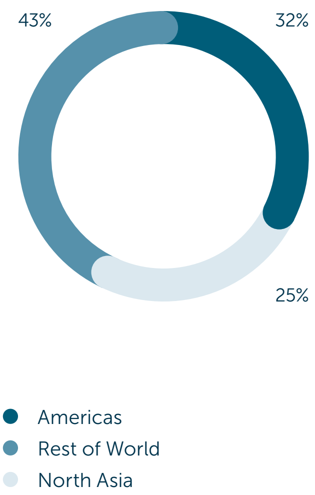
Each of Calnex's units comes with a standard warranty period including maintenance and software upgrade cover in the event of any software upgrades being released for the options purchased. Calnex also sells software support programmes which provide customers with access to future software upgrades which are not included as part of the standard warranty. The Group also offers extended warranty programmes to cover repairs falling outside of the standard warranty period.

Bundled hardware and software revenues are recognised when the product is delivered to the customer, with stand-alone software revenues recognised in line with the length of the licence period. Revenues from software support and extended warranty programmes are typically recognised on a straight-line basis over the term of the contract.

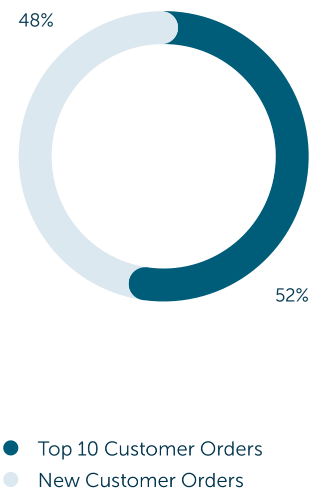
Many of the products and services developed and deployed by Calnex's customers are interlinked and need to be tested independently, such as the individual components which are then built into the equipment used in telecoms networks. Calnex's test products can be used by a combination of equipment vendors, component manufacturers and network operators, to carry out testing during a new product development cycle. Products verified utilising Calnex's test solutions can be used in the knowledge that they will deliver consistent performance.

Sources of Revenue

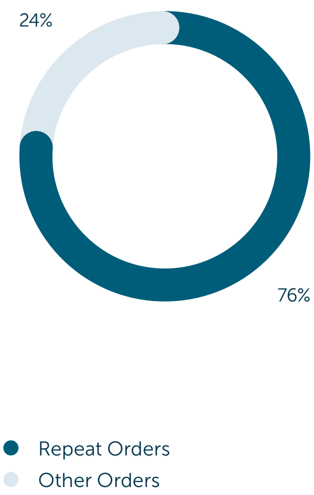
Geographical split (orders)
(3 year order average)



Top 10 customer orders
(3 year order average)



Repeat customers
(3 year order average)



The Group's customers are located across the world. Our global customer base and distributor network enables the Group to spread risk across our three key regions: the Americas, North Asia and Rest of the World (ROW).

On a three-year average basis, the split of orders across the three key regions was 43% for ROW (FY23: 39%), 32% for Americas (FY23: 34%) and 25% (FY23: 27%) for North Asia. North Asia has been experiencing a steady decrease since FY20 reflecting the ongoing US-China geopolitical tensions.

In FY24, Calnex received orders from 274 customers, a decrease of 31 on 305 customers in FY23, driven by market conditions.

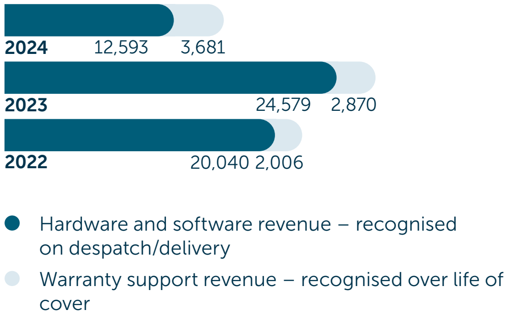
The Group's top ten customers in FY24 accounted for 51% of total orders (FY23: 39%) and 52% of total orders on average over the last three years (FY23: 47%).

In FY24, no underlying customer accounted for more than 15% of Calnex's total orders.

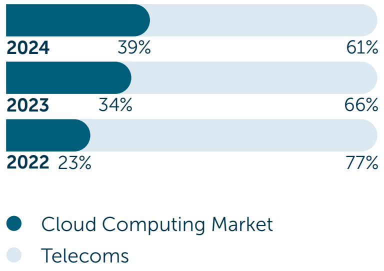
The average length of customer relationship across the top ten customers in FY24 is 11 years (FY23: 10 years), demonstrating our high levels of repeat demand from these customers. In addition, the Group typically experiences a high level of repeat business from its total customer base. In FY24, using a three-year order average, 76% of orders were generated from existing customers (FY23: 74%).

Sources of Revenue continued

Revenue streams (£'000)



Telecoms/Cloud Computing Market (%)



In FY24, 77% (FY23: 90%) of the Group's revenues were generated from the sale of bundled hardware and software products, with 23% (FY23: 10%) from software support and extended warranty programmes.

This increase in support programmes, both as an absolute figure and as a proportion of total Group revenues, reflects the ongoing availability of operating expense budget at customers and the value they place on ensuring they can continue to receive support on our offerings

Calnex's sales are predominantly derived from telecoms customers where the end-application is a telecoms (fixed and mobile) network. Customers from the cloud computing markets include hyperscale/data centre providers, defence and enterprise customers. FY24 saw an increase in the proportion of total orders that came from cloud computing customers from 34% in FY23 to 39%, driven by a strong NE-ONE performance, and an increase in sales to hyperscalers, coupled with the effect of lower order volumes from telecoms customers.

As telecoms networks evolve, we are finding a number of companies whose primary business is hyperscale/datacentres and IT are also moving into the telecoms space. We classify sales to these companies from cloud computing markets for use in telecoms applications as telecoms sales for the purposes of this analysis.

Gross Profit

Gross profit decreased by 42% to £11.9m (FY23: £20.5m) reflecting the decline in revenue. Gross margin, which is calculated after discounts to channel partners are applied, is in line with the prior year at 73% (FY23: 75%). Gross margin is net of commissions payable to our channel partners and can fluctuate by 1-2% through the year depending on the mix and timing of the hardware and software bundles shipped.

Underlying EBITDA

Underlying EBITDA, which includes R&D amortisation, fell to £0.1m in the year (FY23: £8.0m) as a result of the lower trading volumes. Administrative expenses (excluding depreciation & amortisation) were £8.9m in FY23 (FY23: £10.0m). This decrease on the prior year relates to lower commission costs as a result of lower order volumes, a reduction in recruitment costs as new hires were restricted to graduate hires only, reduced legal and professional costs (FY23 administration costs include £0.2m of non-recurring acquisition related deal costs) and no performance bonuses or profit share being accrued at the end of the current year due to Group FY24 budgeted profit targets not being achieved.

Amortisation of R&D costs increased by £0.5m to £3.8m (FY23: £3.3m) due to increased R&D investment in the current and previous years to support the product roadmap. R&D spend is capitalised and amortised to the P&L over five years.

Underlying EBITDA margin was nil% in FY24 (FY23: 29%), driven by the effect of the drop through of reduced revenue volumes and the relatively fixed cost base.

(Loss)/profit before tax

Profit before tax fell to a small loss of £0.4m in the year (FY23: profit of £7.2m) and the margin was a loss of 2% in FY24 compared to a profit margin of 26% in FY23, with the drop attributable to the fall in revenue performance.

Tax

The Group's loss-making position resulted in a tax credit of £0.4m for the year (FY23: charge of £1.4m), driven predominantly by the proportion of R&D SME enhanced tax credit relief.

This tax credit represents an effective tax rate of a of 111% credit (FY23: 18% charge).

The weighted average applicable tax rate for FY24 is 25%, which without any further tax differences, would result in a tax credit of £0.1m. The difference between the applicable rate of tax credit and the effective rate of 111% credit is due to the following:

- Availability of enhanced 86% SME R&D deduction (increasing the effective rate credit by 138%);
- Timing differences not recognised in the computation (decreasing the effective rate credit by 120%);
- Expenses disallowable for tax purposes (increasing the effective rate credit by 84%);
- Other differences, such as prior year adjustments and overseas taxes (decreasing the effective rate credit by 16%).

The weighted average applicable tax rate for FY23 was 19%. The difference between the applicable rate of tax and the effective rate of 18% was due to the following:

- Availability of enhanced 130% SME R&D deduction (decreasing the effective rate by 2.2%);
- Deferred tax charged directly to equity (decreasing the effective rate by 2.2%);
- Recognition of the change in tax rate to 25% on certain deferred tax assets and liabilities as they are expected to reverse after 1 April 2023 (increasing the effective rate by 0.7%);
- Overseas taxes (increasing the effective rate by 2.0%);
- Other differences, such as prior year adjustments and disallowable expenses (increasing the effective rate by 0.7%).

Earnings per share

Basic earnings per share was a small profit of 0.05p in the year (FY23: 6.75p profit) and diluted earnings per share was a small profit of 0.04p (FY23: 6.42p profit), with the movement compared to the prior year attributed to reduced trading volumes, offset partially by the tax credit.

Cashflows

Closing cash at 31 March 2024 was £11.9m (31 March 2023: £19.1m including fixed term deposits). The Group experienced an outflow of total cash and fixed term deposits of £7.2m in the year (FY23: £3.7m), reflecting the trading performance in the year, continuing investment in R&D to support our product roadmap and increases in working capital.

Working capital in the year increased by £3.7m (FY23: £0.4m increase) driven predominantly by a £2.8m increase in inventory. At the start of the year, the Group had planned to increase levels of product to increase responsiveness to order intake. This was further increased as a result of the tail end effects of supply chain issues coupled with investment in inventory to support the previous order expectations prior to the slowdown in customer spending. The inventory will be sufficient to support the FY25 forecasts (excluding new products in the roadmap such as the Paragon 800Gb/s) and positions the Company well to deliver faster turnaround of orders in the year ahead.

As a result of higher volumes of software support and extended warranty packages being sold in the year, the deferred revenue balance increased by £0.7m to £4.5m from £3.8m in the prior year. This was offset by a reduction in trade and other payables balances of £1.5m as a result of lower trading volumes with our contract manufacturer at the year end due to our levels of inventory in-house and the reduction in performance bonus and profit share accruals as no bonuses are due to be paid out in relation to the FY24 year.

The Group paid £0.9m in tax in the period based on the profit generated in the prior year. Given the Group was loss making before tax in FY24, this cash is potentially refundable in FY25 after submission of the FY24 year-end tax return. If refundable after the submission of the tax return, it will be shown as a receivable in the FY25 balance sheet up to receipt of the cash.

Cash used in investing activities is principally cash spent on R&D activities, which is capitalised and amortised over five years. Investment in R&D in the year was £5.6m (FY23: £4.5m). £0.6m of this increase was people spend, reflecting inflationary salary increases, the full year effect of hires made in FY23 and increases in graduate headcount. R&D equipment spend accounted for £0.4m of the increase in cash spend, which was predominantly driven by the requirements of the Paragon Neo 800 Gb/s project, which is due to complete in the second half of FY25.

The Group places surplus cash balances not required for working capital into notice and fixed term deposit accounts. Under IFRS, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment. This is shown separately on the balance sheet and on investment is classified as a cash outflow within investing activities in the consolidated cashflow statement in prior periods. As at 31 March 2024, the Group held surplus cash in notice accounts, but did not hold any on long term deposit.

There is currently no debt on the balance sheet, leading to no borrowings related cashflows in the current or prior periods. Closing cash at 31 March 2024 was £11.9m (31 March 2023: £19.1m including fixed term deposits).

Dividend

The directors are proposing a final dividend with respect to the financial year ended 31 March 2024 of 0.62p per share. The final dividend will be proposed for approval at the Annual General Meeting in August 2024 and, if approved, will be paid on 30 August 2024 to all shareholders on the register as at close of business on 26 July 2024, the record date. The ex-dividend date will be 25 July 2024.

Ashleigh Greenan
Chief Financial Officer
20 May 2024

Principal Risks and Uncertainties

The Board has overall responsibility for the Group's risk management processes and internal control procedures. The Board provides oversight and has established controls designed to help the Group meet its business objectives by appropriately managing the principal risks and uncertainties that could have a material impact on the Group's performance.

The Board regularly assesses the Group's exposure to risk and seeks to ensure that risks are mitigated wherever possible. Risk assessments are also undertaken by the Board whenever there is a potential material change to the principal risks and uncertainties.

The Audit Committee has responsibility for reviewing the Group's internal controls and risk management systems for effectiveness. It oversees and reviews the Group's executive management team's internal control and risk management processes throughout the year.

Day-to-day risk management is the responsibility of the Group's executive management team and the senior managers within the business. Any potential changes to risk are reviewed regularly during executive management meetings.

The Board maintains a risk register for all principal activities of the Group. The risk register details the potential risk likelihood, mitigating factors, mitigated level impact and action owner. The executive management team meet regularly and consider new risks and opportunities presented to the Group, making recommendations to the CEO which are then fed back to the Audit Committee and Board if significant. Employees are also encouraged to report any new risks through the Group's internal reporting procedures.

The Board sets out below the principal risks and uncertainties that the directors consider could have a material impact on the business. These risks are monitored on a continuing basis. The Board recognises that the nature and scope of risks can change and that there may be other unknown risks to which the Group is exposed, or which may become material in the future.

A bottom-up financial planning process is conducted once a year for review and approval by the Board. The Group's results, compared with the annual financial plan (and any relevant reforecasts), are reported to the Board on a monthly basis.

The Group maintains appropriate insurance cover in respect of actions taken against the directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed by the Board on a periodic basis, after detailed specialist advice from the Group's insurance brokers.

The Group has in place documented authority levels for approving purchase orders, invoices and all bank transactions, with any expenditure in excess of predefined levels requiring approval from the executive directors.

The Group is focused on meeting the highest levels of customer satisfaction and has an ISO9001 certified Quality Management System in place. Quality procedures for the development of products, services and maintenance support are documented and reviewed frequently.

Given the size of the Group, the Board has concluded it is not appropriate to establish a separate, independent internal audit function but will keep this under review.

Details of financial risks are outlined in note 23 to the financial statements. Refer to pages 96 to 99 for more details.

Movement Key:

Increased Decreased Unchanged

Risk	Impact	Mitigation	Movement since prior year
Manufacturing and relationship with single manufacturer	The Group outsources the manufacturing of a high percentage of its products to a single contract manufacturer, Kelvinside Electronics. Kelvinside Electronics procures and stocks all components (both electronic and mechanical parts) and manufactures the printed circuit assemblies for Calnex's products. The Group is therefore highly reliant on Kelvinside Electronics being able to manufacture Calnex's products within agreed timescales, including the sourcing of unique parts, in line with agreed specifications. In the event that Kelvinside Electronics is unable to meet product orders or that products manufactured by Kelvinside Electronics are found not to meet agreed specifications or are faulty, there could be a significant impact on Calnex's ability to fulfil customer orders.	The Group's executive management team monitors Kelvinside Electronics' disaster recovery plans and the availability of alternative UK-based contract manufacturers with comparable capability and is satisfied that in the unlikely event of a manufacturing or other issue affecting Kelvinside Electronics, the Group should be able to manage the situation, partly through investment in additional safety stock (main equipment and critical components), until the outage was resolved or production has been moved to an alternative supplier (including the sourcing of replacement components in the event it was not possible to transfer the stock held by Kelvinside Electronics). The Group's close working relationship and information sharing process with Kelvinside Electronics includes regular communication and sharing of rolling forecasting and stock level data. This process provides early warning of any potential delay concerns from end suppliers and prompts discussion around specific procurement arrangements on certain parts. The business' management team regularly reviews alternative parts supply.	Unchanged

Principal Risks and Uncertainties continued

Movement Key:

Increased Decreased Unchanged

Risk	Impact	Mitigation	Movement since prior year
Supply of electronic components	A shortage of electronic components and resulting extended lead times can affect all sectors utilising such parts. Procurement of parts was a challenge through FY23 and began to ease through FY24.	In the prior year, the Group worked closely with the procurement teams at our contract manufacturer, Kelvinside Electronics, to secure stock to maintain production throughout the period of components shortage. Demand plans and safety stock levels were adjusted to increase the resilience to shortages with lead times now returning to pre-pandemic levels. The typical lead times our customers expect is now 4-6 weeks, in line with lead times prior to the components shortage issues. The Directors and executive management team continue to work closely with Calnex's internal operations team and Kelvinside Electronics to monitor and manage the component supply.	Decreased
Distribution channel	For the last 12 years, we have had a productive relationship with Spirent with a sales channel distribution agreement. They provided around 65-70% global coverage during this period. We have recently reviewed our sales channel strategy and decided to migrate our route to market to a strategy involving regional partners and, in some cases, selling direct to end customers and have therefore given Spirent notice that we wish to terminate the sales channel distribution agreement. The nominal end date of the Spirent agreement is 31st July 2024, but both companies have agreed to continue to cooperate through the period immediately after this date to close deals that are close to securing. This is a pragmatic approach for both companies and does not impact new relationships as the new partners will be focused on finding new opportunities.	While Calnex was engaged with Spirent, we also maintained agreements with around 40 regional partners to coverage territories and product lines not sold through Spirent. We have always maintained contingency plans to respond to a situation where the relationship with Spirent changed. These plans are now being enacted given Spirent have been informed we plan to terminate the contract. As all customers that bought via the Spirent channel had contact with Calnex for pre-sales and/or post-sales support, Calnex has strong connectivity with all end customers. The Board are confident that orders that would have been taken through Spirent can be migrated to alternative partners with minimal impact to business levels. The migration plan includes consideration to move to selling direct in some regions or to some customers. In these cases, a transitional plan is being put in place to utilise regional partners to ensure order flow can be maintained while the logistics to sell direct are implemented.	Increased Increased risk during the transition. Unchanged Unchanged risk in maintaining strong customer engagement post channel migration.

Risk	Impact	Mitigation	Movement since prior year
Economic and business cycle impact on capital spend	A significant proportion of the group's income is capital expenditure incurred by our customers to serve their engineering development projects. During times of economic uncertainty some such programmes across the sector can be subject to delays or postponement, though are rarely cancelled.	Stay closely connected to end-customers to ensure we can fully capitalise when spend approvals are restored. Explore options to use opex-based models where relevant, including rental and service models.	↑
Cyber Security Risk	The operational processes of Calnex and the management of the company's intellectual property are all dependent on our IT systems. There are risks at all levels of the business ranging from all staff being subjected to potential scam emails and internet viruses, to a malicious cyber-attack on the company resulting in a potential ransomware threat.	The Group operates comprehensive staff training, systems and data security back-up and insurance procedures to protect against a cyber-based incident. The Group has a continual improvement approach to IT security controls and business procedures to mitigate cyber security risks, including regular tests of its security arrangements, for example implementing regular third-party penetration tests, to identify and subsequently address possible weaknesses within the current systems.	↔
Other third-party suppliers, distributors and contractors	The Group is reliant, to an extent, on third parties for various processes, products and services which the Group requires in order to deliver its products. Termination of these relationships and/or breach of arrangements agreed with third parties and/or failure of such third parties to otherwise deliver the contracted services and/or failure to engage alternative third parties could be a risk to the Group.	The Group monitors its relationships and maintains open dialogue with these key third parties closely to mitigate against this risk.	↔

Principal Risks and Uncertainties continued

Movement Key:

Increased Decreased Unchanged

Risk	Impact	Mitigation	Movement since prior year
Geopolitical landscape	The political landscape within which the Group operates is going through a period of change, particularly with regards to US/UK/China relationships, the consequences of the Russian invasion of Ukraine and other rising tensions across the globe including those between China and Taiwan and developments in the Middle East. Changes to UK and international government policy, funding regimes, infrastructure initiatives, or the legal and regulatory framework may result in structural market changes or impact the group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency.	The Group monitors carefully future developments that arise out of these changes to the landscape and will engage in any relevant regulatory processes. The geographical spread of the Group's operations acts as a mitigating factor against any concentrated economic risk. The Group has carried out little business with Russia, Ukraine or Belarus over the years hence the conflict involving these countries has had minimal direct impact on the business although the wider implications of the conflict continue to be monitored. There has been some impact of the situation in the Middle East with some business in Israel being postponed.	Unchanged
Technological change	The markets for the Group's products are characterised by rapidly changing technology, and increasingly sophisticated customer requirements. It is critical to the success of the Group to be able to anticipate changes in technology or in industry standards and to successfully develop and introduce new, enhanced and competitive products on a timely basis and keep pace with technological change.	Calnex, since inception, has developed and maintained a close involvement with the standards community and with regulatory bodies to ensure it has early insight to industry developments to keep the Group's R&D programmes well informed. Senior management also have regular meetings with key end customers to maintain visibility over their technology roadmaps. The insight from these relationships enables Calnex to produce a demand-led offering in line with market developments, customers' future requirements and regulatory standards.	Unchanged

Risk	Impact	Mitigation	Movement since prior year
Key individuals	The Group's business, development and prospects are dependent on a number of key management personnel. The loss of the services of one or more of such key management personnel may be a risk to the Group.	The directors believe the Group operates a progressive and competitive remuneration policy which includes the potential awards of share incentives to staff. The future development and implementation of this policy will play an important part in retaining and attracting key management personnel.	↔
Competitive position	In the telecoms industry the Group's competitors are, in many cases, significantly larger enterprises with greater financial and marketing resources. There may also be new entrants to the market. In response to competitive activity, the Group may be forced to make changes to its products or services.	The executive management team monitor competitors' service offerings closely. Strong customer engagements also provide visibility of future needs which provide mitigation against a competitor gaining a significant time-to-market advantage.	↔

S172 (1) Statement

Section 172 (1) of the Companies Act obliges the directors to promote the success of the Group for the benefit of the Company's members as a whole.

The section specifies that the directors must act in good faith when promoting the success of the Company and in doing so have regard (amongst other things) for:

- the likely consequences of any decision in the long-term;
- the interests of the Group's employees;
- the need to foster the Group's business relationship with suppliers, customers and others;
- the impact of the Group's operations on the community and environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The ways in which these duties are addressed is set out below:

Consequences of any decision in the long-term

The Board is responsible for the decisions made in support of the long-term success of the Group and how the business has implemented strategic, operational and risk management decisions. For more information on the business strategy and developments during the year, refer to pages 8 to 9 of the Strategic Report.

Employees

The Group has a strong focus on maintaining a culture of employee engagement and wellbeing. Our employees play a key role in the success of our business' strategic goals and the Board recognises the importance of a positive and supportive working environment for our staff.

Refer to pages 20 to 25 of the Strategic Report for further detail on our culture and employees, including activities during the year.

Suppliers, customers and regulatory authorities

The Board recognises that trusted and constructive partnerships with our suppliers, customers and regulatory authorities are important to the success and growth of the business. The Board and the executive management team ensure transparent and regular communication with suppliers and customers and the business values the feedback we receive. We take every opportunity to ensure that this feedback is taken into consideration in the Group's decision making.

The sophisticated nature of Calnex's products requires a high level of customer and supplier interaction from Calnex staff throughout the sale process and the Group is typically regarded as a trusted partner by both its distributors and customers. The high level of engagement with customers and our key contract manufacturer provides Calnex with visibility of industry direction and gives valuable insight for the Group's R&D and product development activities.

The Group also has processes in place to monitor new regulations and compliance requirements that may impact the business – including, for example, compliance with required standards and certifications, financial accounting and reporting updates and tax accounting and reporting compliance. Although Calnex itself is not regulated as a supplier of electronic test instrumentation, the Group is required to comply with certain regulations regarding safety, quality and radio frequency emissions standards in order to market its products in certain jurisdictions.

Refer to pages 16 to 19 of the Strategic Report for further detail on the Group's interaction and relationship with our customers and suppliers.

Community and environment

Although it is not mandatory for a Group of Calnex's size to report under the Streamlined Energy and Carbon Reporting (SECR) rules, awareness of the impacts on the environment and the community around us are considered in the Group's decision-making processes. The nature of the Group's business model and activities means a high proportion of processes which address current environmental challenges are embedded into our supply chain – predominantly through our landlord, our contract manufacturer and our distributor network. All of these key stakeholders who feed into Calnex's business model are also prioritising the environment in their planning and strategic decisions.

The Board is committed to fund a Calnex Corporate Giving Scheme each year. An employee-led team (with senior management sponsorship) considers proposals from employees for donations or support for groups and/or events that matter to them. The Calnex senior management team want to support groups local to our employees to help to make a difference in our local communities.

Refer to pages 20 to 25 of the Strategic Report for more detail on the community and environmental activities undertaken by the Group and its supply chain.

Maintaining high standards of business conduct

The Company is incorporated in the UK and is governed by the Companies Act 2006. Calnex has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"). The Board recognises the importance of maintaining high standards of corporate governance, and together with the requirements to comply with the AIM Rules, this ensures that the interests of the Group's stakeholders are protected. Robust financial controls are also in place and regularly reviewed and documented.

The Board ensures ethical behaviour and business practices are maintained across the business and compliance policies are provided to staff upon joining the business and recirculated annually. Training is also provided at regular intervals thereafter to ensure that all employees within the business are aware of their importance:

- Anti-bribery and corruption training is mandatory for all staff. The Group expects honest and professional behaviour from all staff and stakeholders and there is zero tolerance for bribery and unethical behaviour by anyone working in or with the Group;
- The Group also has an anti-slavery and human trafficking policy statement which all staff are made aware of; and
- A whistleblowing policy is in place to allow employees to raise any concerns confidentially with senior management, Board members or with Protect, the whistleblowing charity.

Section 172 (1) Statement continued

Shareholders

The Board recognises the requirement to present fair, balanced and understandable information to all stakeholders and particularly our shareholders. The Group is committed to transparent and effective communications with its shareholders so that there is a clear understanding of the Group's strategic objectives and performance.

The Group's approach to investor relations is described in more detail in the Corporate Governance section at page 49.

The following table summarises some of the significant decisions made by the Board during the year ended 31 March 2024 which demonstrate the way in which the Board has exercised its section 172 (1) duty and the stakeholder groups impacted by their decision.

Events in the year

Significant event	Key stakeholder group affected
Community & Environment/Charitable Giving • The Calnex Board is committed to setting aside a portion of our budget each year to fund the Calnex Corporate Giving Scheme. • In FY24 Calnex donated £33,770 to 77 charities and organisations and social events across the globe through the scheme. • Refer to pages 20 to 25 of the Strategic Review for more details.	Community and environment Employees
Telecoms market downturn • We are continuing to see a prolonged period of limited customer spend within the telecoms sector and as a result, we have taken action to diversify our product offering to position us for a return to growth in FY25. • We have maintained close customer relationships, with customers confirming that they remain committed to the delivery of projects once spending budgets are released. • Measured cost-action was undertaken in FY24 and will continue into FY25. • We have continued our focus on product innovation, maintaining R&D spend and adjusting our engineering programme to focus on areas showing the most near-term potential across both the telecoms and the newer markets of cloud computing and defence. • Refer to pages 14 to 19 of the Strategic Report for more details.	Consequences of any decision in the long-term Shareholders Employees Suppliers, customers and regulatory authorities

Sales Channel • With an expanded product offering and growing global customer base, the Board has undertaken a review of the Company's sales channels and channel partner arrangements, to ensure that they will meet the Company's evolving requirements. The Board's review has identified opportunities to strengthen existing customer engagements and to reach new customers by adding both new channel partners and resources to support direct selling. As part of this, and considering the proposed acquisition of Spirent, the Board has commenced discussions with new and existing channel partners to facilitate changes to strengthen the current arrangements. • Refer to pages 18 to 19 of the Strategic Report for more details.	Consequences of any decision in the long-term Shareholders Suppliers, customers and regulatory authorities
Training and employee development • We continue to build on our employee training and development programmes to support our employees with technical and softer skills development with our Positive Connections training programme promoting Psychological Safety awareness for our people managers and our new online training platform, Udemy, providing specific technical training, plus a large range of content relevant to all job roles at Calnex. • Refer to pages 21 to 23 of the Strategic Review for more information.	Employees Consequences of any decision in the long-term

Further details
For further details of how the Board operates and the way in which it makes decisions, including key activities during the financial year ended 31 March 2024 and Board governance, refer to the Corporate Governance section at pages 44 to 49 and the Board Committee reports thereafter.

This Strategic Report was approved by the Board on 20 May 2024 and signed on its behalf by:

Ashleigh Greenan
Chief Financial Officer and Company Secretary
20 May 2024

Board of Directors

Our leadership

Stephen Davidson
Independent Non-Executive Chair

Stephen Davidson is an accomplished director of both public and private companies, with more than 20 years' PLC-board experience. He is currently a Non-executive Director at JSE-listed Datatec plc and MCB Group Limited. Stephen was previously Non-executive Director at Informa plc, Actual Experience plc, Rosenblatt Group plc, Restore plc, Jaywing plc, Inmarsat plc and MECOM plc. In his earlier career Stephen was Chief Financial Officer and then Chief Executive Officer of Telewest Communications plc and Vice Chair of Investment Banking at WestLB Panmure.

Tommy Cook
Chief Executive Officer

Tommy is the founder and CEO of Calnex Solutions. He has over 40 years' experience in telecoms test and measurement ranging from hands-on design and programme management of R&D projects through to leading business teams within the market segments in which Calnex currently operates. Tommy has participated in a number of Industry Standards forums during his career, including the ITU-T and MEF groups, and presented technical and market insight papers in industry forums.

Ashleigh Greenan
Chief Financial Officer

Ashleigh qualified as a chartered accountant with Deloitte before spending 5 years at KPMG in transaction services. She has held senior finance and corporate development roles at Exova Group plc, the UK materials testing business, before joining Parsons Peebles Group Limited, where she was a director of a number of group companies and held the role of Chief Financial Officer until she joined Calnex in early 2020.

Graeme Bissett
Independent Non-Executive Director

Graeme is an experienced corporate financier and qualified chartered accountant, having previously been a partner with Arthur Andersen LLP and finance director of international groups. He is currently a non-executive director of Aberforth Split Level Income Trust plc and Cruden Holdings Ltd. Graeme was formerly Chair of Macfarlane Group PLC and acted as a non-executive director of businesses including Smart Metering Systems plc, Interbulk Group plc and Belhaven Group plc. He also undertakes a number of pro bono appointments.

Margaret Rice-Jones
Independent Non-Executive Director

Margaret has over 20 years' experience at Board level in public and private software and technology companies. Margaret's current roles include acting as Chair at Origami Energy Limited, a VC-backed energy-focused technology business, non-executive director at Holiday Extras Investments Limited and Chair of the Scale-Up Institute. Previously, Margaret was Senior Independent Director of Xaar plc and chaired private companies Skyscanner Limited and Penguin Portals Limited until they were sold for £1.4bn and £509m, respectively.

Helen Kelisky
Non-Executive Director

Helen brings over 30 years' of technology sales leadership experience and a track record of driving top line growth, leading national and international businesses. Helen is currently Managing Director of Google Cloud in the UK and Ireland, responsible for leading its sales strategy and go-to-market sales operations. Previous roles include Board member and Vice President of cloud sales at Salesforce UKI, and Vice President of Cloud at IBM, where she spearheaded the $1 billion+ business for cloud services and software Sales and Delivery. Helen has is also on the board of directors for Women in Telecoms and Technology (WiTT) and Tech UK.

Corporate Governance Report

"The Board is committed to maintaining high standards of corporate governance and considers that a strong corporate governance foundation is essential in delivering shareholder value."

Stephen Davidson
Chair of the Board

Introduction

I have pleasure in introducing Calnex's Corporate Governance Statement.

In accordance with the London Stock Exchange AIM Rules for Companies ('AIM Rules'), the Board has chosen to apply the Quoted Companies Alliance's ('QCA') Corporate Governance Code 2018 (the 'QCA Code') on the basis that it is the most appropriate governance code for the Group, having regard to its size and structure.

On November 2023 the QCA published a revised QCA Corporate Governance Code 2023 ('QCA Code 2023'). The QCA Code 2023 will apply to financial years starting on or after 1 April 2024. The Board intends to transition to the QCA Code 2023 from 1 April 2024 and will report on this in the Annual Report for the year ended 31 March 2025.

The Board is committed to maintaining high standards of corporate governance and considers that a strong corporate governance foundation is essential in delivering shareholder value. The Board has governance procedures and policies that are considered appropriate to the nature and size of the Group and i ts subsidiaries.

The QCA Code is constructed around ten broad principles. The QCA has stated what it considers to be appropriate arrangements for small and mid-size companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures.

A summary of how the Group currently complies with the QCA Code is set out below. There is also a summary on the Group's website corporate governance page.

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

The Board is committed to delivering long-term value for Calnex's shareholders. The Board conducts an annual review of the Group's strategy, alongside regular discussions on progress against the business' strategic aims.

The Group's business model and strategy and key developments during the year are discussed in more detail on pages 8 to 13 of the Company Overview.

Principle 2: Seek to understand and meet shareholder needs and expectations

The Group is committed to open and ongoing engagement with all its shareholders on the business' performance and strategy and maintaining positive relationships with shareholders is important to the Board.

The Chair of the Board is responsible for ensuring that appropriate methods of communication are established between the executive directors and shareholders, ensuring shareholders' views and feedback are shared with the Board.

The Chief Executive Officer and Chief Financial Officer meet with the Group's major shareholders on investor roadshows in the days following the release of the Group's interim and annual results, and certain other ad hoc meetings that take place during the year, to discuss the Group's performance and to understand shareholder needs and expectations. The non-executive directors are also available to discuss any matters that shareholders wish to raise and discuss.

The Group ensures that any price sensitive information is released to all shareholders, institutional and private, at the same time in accordance with London Stock Exchange requirements. Updates to the market are published via the regulatory news service ("RNS") on matters of a material substance and/or a regulatory nature. In conjunction with the Group's brokers and public relations advisers, RNS announcements will be distributed in a timely fashion to ensure shareholders are able to access material information on the Group's progress.

The Group's website (www.calnexsol.com) has a section for investors, which is kept updated to contain all publicly available financial information and news on the Group. Our shareholders also have the opportunity to ask questions through a dedicated investor relations email address throughout the year. The Group engages the services of a financial PR consultancy, which acts as another point of contact for investors.

The Annual General Meeting is an important opportunity for the Board to engage with shareholders, particularly retail investors. The Notice of AGM is sent to shareholders at least 21 days before the meeting. The Chair of the Board, together with all the other directors, whenever possible, attend the AGM and are available to answer shareholder questions.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long term success

Refer to the s172 Statement on pages 38 to 41 and the ESG section of the Strategic report on pages 20 to 25 for further details on how we engage with our stakeholders.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

A summary of the Group's risk management framework and the principal risks and uncertainties relating to Calnex and its business, along with how those risks are mitigated, is on pages 32 to 37 of the Strategic Report.

Corporate Governance Report continued

Principle 5: Maintain the board as a well-functioning, balanced team led by the chair

The Company is controlled by the Board of Directors. The members of the Board have a collective responsibility and legal obligation to promote the interests of the Group. They are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the Chair of the Board.

A Statement of Directors' Responsibilities is set out on page 64 and the experience of the Board is set out on pages 42 to 43.

Board composition
The Board consists of six directors, two of whom are full time executives and four of whom are part time non-executives. The non-executive directors devote as much time as is necessary to fulfil their roles. The Group considers all four of the non-executive directors to be independent.

The Board is satisfied with the balance between executive and non-executive directors. The Board considers that its composition is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between executive and non-executive directors. The Group believes that the makeup of the Board represents a suitable balance of independence and detailed knowledge of the business to ensure that it can fulfil its roles and responsibilities as effectively as possible. The executive directors are directly responsible for running the business operations and the non-executive directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board.

The Board is highly committed and experienced and is supported by qualified executive and senior management teams. The executive management team includes two members of the Board, the Chief Executive Officer and the Chief Financial Officer.

Before undertaking the appointment of a non-executive director of the Board, the Chair establishes that the prospective director can give the time and commitment necessary to fulfil their duties, in terms of availability both to prepare for and attend meetings and to discuss matters at other times.

Board meetings
Board meetings are planned to occur not less than seven times a year with additional meetings as and when required. The Chair is responsible for ensuring that directors receive accurate, sufficient and timely information. A scheduled meeting calendar is arranged as far in advance as possible, and ad hoc meetings are held in person or by video conference when it is necessary for the Board to discuss specific issues.

The Company Secretary compiles the Board and committee papers which are circulated to directors prior to meetings, together with a formal agenda. The Company Secretary provides minutes of each meeting, and every director is aware of the right to have any concerns minuted and to seek independent advice at the Group's expense where appropriate. Information on the Group's operational and financial performance is circulated to the directors in advance of meetings.

The business reports monthly on its headline performance against its agreed budget and market consensus, and the Board evaluates any significant variances. Executive management are invited to meetings from time to time, providing the whole Board with the opportunity for direct enquiry and a thorough overview of the Group.

Meetings of the Board and its committees held in the year to 31 March 2024 and the attendance of the directors are summarised below (those directors that are not members of the Committees attend by invitation):

	Board	Audit Committee	Remuneration Committee	AIM Compliance Committee	Nomination Committee
Minimum requirement for meetings	7	3	3	2	1
Meetings held in year	10	3	3	2	1
Stephen Davidson	10	3	3	2	1
Tommy Cook	10	2	3	2	1
Ashleigh Greenan	10	3	3	2	1
Graeme Bissett	10	3	3	2	1
Margaret-Rice Jones	10	3	3	2	1
Helen Kelisky	10	3	3	2	1

Roles and responsibilities of the Chair and the Executive Directors

The role of the Chair and CEO are split in accordance with best practice.

The Chair has the responsibility of ensuring that the Board discharges its responsibilities and facilitates full and constructive contributions from each member of the Board in determination of the Group's strategy and overall commercial objectives. The Chair oversees the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring the non-executive directors are properly briefed on matters. The Chair has overall responsibility for corporate governance matters in the Group and chairs the Nomination Committee.

The Board retains ultimate accountability for good governance and is responsible for monitoring the activities of the executive management team.

The CEO manages the day-to-day business activities of the Group and the executive management team ensuring that strategic and commercial objectives are met. He is accountable to the Board for the operational and financial performance of the business. The CFO is responsible for the Group's financial controls and reporting to the Board.

The executive management team which comprises representatives from sales, operations, R&D, finance and HR reports to and regularly engages with the CEO. The day-to-day operations of the Group are managed by the executive management team.

Board Committees

The Group has established Audit, Remuneration, Nomination and AIM Compliance committees with clearly defined terms of reference which are set by the Board:

- The Audit Committee has the primary responsibility of monitoring the quality of internal controls and ensuring that the financial performance of Calnex is properly measured and reported on. The Committee also considers the appropriateness of the Group's accounting policies on an annual basis. The Committee liaises with Group's auditors on future changes to such accounting policies. Further details are included in the Audit Committee Report at pages 55 to 58.
- The Remuneration Committee reviews the performance of the executive directors and makes recommendations to the Board on matters relating to their remuneration and terms of service. Further details are included in the Remuneration Committee Report at pages 50 to 54.
- The Nomination Committee regularly reviews the structure, size and composition of the Board. Further details are included in the Nomination Committee Report at page 59.
- The AIM Compliance Committee is responsible for ensuring that the Group has in place at all times appropriate procedures, resources and controls to enable it to comply with the AIM Rules. Further details are included in the AIM Compliance Committee Report at page 60.

Principle 6: Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Each member of the Board brings different skills and experience to the Board and the Board Committees. The Board is satisfied that there is sufficient diversity in the Board structure to bring a balance of skills, experience, independence and knowledge to the Group. Where vacancies arise or gaps are identified that must be addressed, the Board (via the Nomination Committee) follows a rigorous selection process using external executive search agencies. More detail on the biographies of the Board of Directors can be found on pages 42 to 43.

The Board conducts an annual review of its composition to ensure there is adequate diversity to allow for its proper functioning and that the Board works effectively together as a unit. When a new appointment to the Board is to be made, consideration will be given to the particular skills, knowledge and experience that a potential new member could add to the existing Board composition.

The non-executive directors hold senior positions with other companies ensuring that their knowledge is continuously refreshed. Specific training will be provided to the Board by the Group when required to support the directors' existing skillsets.

The Board has access to external advice, including the Company's solicitors where required. The Board is provided with specific training on the AIM Rules for Companies by its Nominated Adviser on an annual basis. The Company's Nominated Adviser is available to provide guidance and additional training to the Board on specific regulatory matters as required.

Corporate Governance Report continued

Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The effectiveness of the Board, individual directors and senior management is evaluated on an ongoing basis as part of the Board's ongoing review of the business.

In line with the requirements of the QCA Code, an annual evaluation process is undertaken, led by the Chair, which considers the effectiveness of the Board, its Committees and individual directors, highlighting relevant areas for improvement. A detailed questionnaire is completed by each director, with the results collected by the Chair and discussed by the Board. The most recent evaluation during the year concluded that the Board and the Committee performances had been satisfactory.

The Board will undertake an external review of its performance at an appropriate time in the future.

The Board's effectiveness is also assessed in an informal manner by the Chair on an on-going basis. The Chair has been tasked with assessing the individual contributions of each of the members of the team to ensure that their contribution is relevant and effective, they are committed and, where relevant, can continue to be considered independent.

The performance of the Chair is reviewed annually by means of a survey led by the Audit Committee Chair who canvasses views from directors and key advisers.

The Nomination Committee is responsible for considering succession planning and advising the Board accordingly.

Principle 8: Promote a corporate culture that is based on ethical values and behaviours

The Board places significant importance on the promotion of ethical values and behaviours within the Group and takes ultimate responsibility for ensuring these are promoted and maintained throughout the organisation and that they guide the Group's business objectives and strategy.

Calnex is an innovative and forward-thinking business where employees are encouraged to share their views, contribute to decision making, challenge behaviours and improve processes to make a positive contribution to business success. The Group has a diverse workforce where inclusion is key to building high performing, engaged and successful teams.

The impact of the Group's people-related processes is monitored through the annual employee appraisal process and through the use of a satisfaction and engagement survey which is performed annually. The executive team reviews the key findings of the survey and determines whether any action is required.

The Group has documented procedures with respect to its responsibilities regarding ethical behaviour, specifically bribery and corrupt practices and modern slavery and employees receive training in these areas on a regular basis.

The Group has adopted, and will operate as applicable, a code for Directors' and applicable employees' dealings in securities in accordance with Rule 21 of the AIM Rules for Companies.

All Group policies are available to the staff through the Group SharePoint.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision making by the Board

The Board has overall responsibility for promoting the success of the Group.

Further detail on Board and Committee roles and responsibilities are described above under 'Principle 5: Maintain the board as a well-functioning, balanced team led by the chair'.

The Board has a formal schedule of matters reserved to it, including the approval of annual financial plans and the review of performance against these plans, the Group's strategy and objectives, and the treasury and risk management policies.

The Board reviews its governance framework on a regular basis to ensure it is fit for purpose and carries out a review of the Committees' Terms of Reference during each financial year.

Reports of the Board's Audit, Remuneration, AIM Compliance and Nomination Committees can be found at pages 50 to 60 of the Governance section of this Annual Report.

Principle 10: Communicate how the company is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Group places a strong emphasis on the standards of good corporate governance and maintaining an effective engagement with its shareholders and key stakeholders, which it considers to be integral to longer-term growth and success and it aims to ensure that all communications concerning the Group's activities are fair, balanced and understandable.

Communications with shareholders and communications with other relevant stakeholders are described in detail above under *'Principle 2: Seek to understand and meet shareholder needs and expectations' and 'Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success'* respectively.

The Group's website sets out details of the Group and its activities, regulatory announcements and press releases, annual and half year reports, AGM notices, outcome of AGM votes and other governance materials required by the AIM Rules for companies and the QCA Code.

Stephen Davidson
Chair of the Board
20 May 2024

Remuneration Committee Report

On behalf of the Board, I am pleased to present Calnex's Remuneration Committee Report for the year ended 31 March 2024.

This report outlines the Group's remuneration policy for its directors and shows how that policy was applied during the year. As the Company is quoted on the AIM Market of the London Stock Exchange ('AIM'), Calnex is not required to comply with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and is under no obligation to prepare a directors' remuneration report. This section of the annual report has been prepared on a voluntary basis and fulfils the relevant requirements of Rule 19 of the AIM Rules for Companies.

Members of the Remuneration Committee

The Remuneration Committee comprised the non-executive directors throughout the year and, up to and including 31 March 2024, was chaired by Margaret Rice-Jones. The Committee invites the executive directors to attend its meetings when appropriate. In exercising this role, the directors have regard to the recommendations set out in the QCA Code.

No director or senior manager is permitted to be involved in any decision as to his/her own remuneration.

The non-executive directors of the Committee have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group.

Roles and responsibilities

The duties of the Remuneration Committee are set out in its terms of reference, which are available on the Company's website. The Remuneration Committee meets at least three times a year and its main responsibilities are:

- to ensure that the Company's remuneration policy attracts and retains employees with the right skills and expertise needed to enable the Company to achieve its goals and strategies;
- to ensure that fair and competitive compensation, with appropriate performance incentives, is awarded;
- to review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of service;
- to make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation.

- for all long term incentive plans, to determine each year the overall number of awards and the individual awards to executive directors and senior management;
- to review and approve Group-wide salary increases and discretionary employee profit share payments; and
- to review any major changes in employee benefits structures throughout the Group.

The Committee met three times during the year to 31 March 2024. Activities included review and approval of:

- the executive directors' bonus plan structure;
- the executive directors' remuneration for the year ended 31 March 2024;
- the executive management team bonus plan structure;
- a review of the next phase of equity incentive arrangements for senior management; and
- share option awards and other equity related incentive schemes.

The members' attendance record at Committee meetings during the financial year is set out in the Corporate Governance report at page 46.

The Company allows executive directors to hold external directorships subject to agreement by the Chair on a case-by-case basis and, at the discretion of the Committee, to retain the fees received from those roles.

Directors' Remuneration for the year ended 31 March 2024 (unaudited)
The table below sets out the detailed emoluments of each director who served during the year:

	2024					2023
	Salary/fees £000	Benefits in kind £000	Bonus £000	Pension £000	Total £000	Total £000
Executive directors						
Tommy Cook[1]	205	6	–	–	211	237
Ashleigh Greenan[2]	152	1	–	7	160	181
Non-executive directors						
Stephen Davidson	72	–	–	–	72	59
George Elliott[3]	–	–	–	–	–	26
Graeme Bissett	52	–	–	–	52	50
Margaret Rice-Jones	50	–	–	–	50	42
Helen Kelisky	44	–	–	–	44	9
Ann Budge[4]	–	–	–	–	–	39
Total	575	7	–	7	589	643

1 Benefit in kind figures for Tommy Cook include £4.7k relating to a company car.
2 Salary figures for Ashleigh Greenan include £5k car allowance.
3 George Elliott resigned as director on 17 August 2022. His remuneration is to the date of his resignation.
4 Ann Budge resigned as director on 28 February 2023. Her remuneration is to the date of her resignation.

The table above does not include the value of share options held by the directors, details of which are set out below.

The main components of executive directors' remuneration comprise:

- Basic salary
- Performance-related bonus
- Defined contribution to personal pension plan
- Other benefits such as car allowances, medical and life assurance
- Long term incentives (share option scheme)
- Share Incentive Plan participation (under HMRC rules, the SIP has to be open to all employees, including executive directors)

Basic salaries
The basic salary of the executive directors is reviewed annually by the Remuneration Committee, with changes, if any, taking effect on 1 April of each year, to take account of market and other factors.

Remuneration Committee Report continued

Performance-related bonus
The executive directors participate in a bonus plan which is linked to the achievement of financial and individual performance targets set by the Remuneration Committee.

In the year to 31 March 2024, the bonus plan was structured to pay a maximum of 100% of annual basic salary for the Chief Executive Officer and the Chief Financial Officer.

Bonuses payable are subject to the discretion of the Remuneration Committee after considering an overall view of the Group's performances and its assessment of financial and personal performance.

In the year ended 31 March 2024, performance against targets resulted a bonus award for the Chief Executive Officer and the Chief Financial Officer of nil% (FY23: 20%), as a result of the Group's performance compared to budgeted targets for the year.

Pension contributions
The Chief Executive Officer does not participate in the Company pension scheme. A contribution of 5% per annum of basic salary is paid into the scheme by the Company, on behalf of the Chief Financial Officer.

Other benefits
The Company pays for private healthcare for each executive director and 50% towards the cost of private healthcare for their immediate family, together with life assurance scheme cover. The Company provides a company car for the Chief Executive Officer and a company car allowance for the Chief Financial Officer.

Equity incentive schemes
The Company has long-term incentive schemes in place designed to provide the executive directors and other senior management with share options vesting equally after three, four and five years based on performance of the Company's ordinary share price. These long-term incentives are provided through the operation of the following arrangements:
- Calnex Solutions plc EMI Share Option Plan (EMI Plan), which allows tax advantaged options to be granted over the Company's shares to selected employees of the Group (including executive directors) based in the UK. As of March 2022, the Company is no longer eligible to grant EMI options to employees due to its size.
- Calnex Solutions plc Company Share Options Plan (CSOP Plan), which allows tax advantaged options to be granted over the Company's shares to selected employees of the Group (including executive directors) based in the UK.
- USA Incentive Stock Option Addendum to the EMI Plan (USA ISO Addendum): The EMI plan permits the Board to establish schedules to the Plan in order to adapt the Plan to other jurisdictions covering overseas employees and as a result, the Board has authorised an addendum in order to adapt the Plan to the tax laws of the United States, which allows tax advantaged options to be granted over the Company's shares to selected employees in the USA;
- Calnex Solutions plc Unapproved Share Option Plan (Unapproved Plan) which enables non-tax advantaged options to be granted to selected employees and contractors worldwide; and
- Calnex Solutions plc Notional Share Option Plan (Notional Plan) which enables non-tax advantaged shadow equity interests to be granted to selected employees and contractors worldwide, which are settled by way of a cash payment. The price per share payable on exercise of any share options will normally be equal to the market value of a share on the date they were originally granted.

Details of options for directors who were in office at 31 March 2024 are as follows:

	2024			
	Type	No. of shares under option	Exercise price	Date of grant
Executive directors				
Ashleigh Greenan	EMI Plan	500,000	48p	05/10/2020

One third (166,666) of the share options awarded vested in October 2023; the next third (166,666) vests in October 2024; the remaining third (166,667) vests in October 2025. No performance conditions are applicable to options under the EMI Plan other than continued employment.

Long Term Incentive Plan (LTIP)

The Committee implemented a performance based LTIP during the period, to ensure that the executive and senior management team are appropriately incentivised to continue to deliver performance against financial KPIs, which in turn generates long term sustainable value for shareholders. Annual awards granted under the LTIP are subject to performance metrics. This is in line with long term incentive structures typically adopted by larger AIM companies and Main Market companies.

The Committee granted the first awards to the executive and senior management team in June 2023, following the announcement of the Company's annual results for the year ending 31 March 2023 (the "FY24 Awards").

Key terms of the performance based LTIP:

- Awards are structured as nominal cost share options which vest subject to the satisfaction of performance metrics.
- Awards are granted on an annual basis.
- The normal maximum opportunity will be up to 100% of salary in respect of a financial year. The Committee considers this to be market competitive taking into account the scale of the Company.
- Awards will vest subject to the satisfaction of performance metrics measured over three years. The FY24 Awards will be subject to performance metrics measured over the period 1 April 2023 to 31 March 2026.
- The performance metrics for the FY24 awards are Earnings Per Share (50% weighting), Revenue (25% weighting) and absolute Total Shareholder Return (25% weighting). The Committee believes that these metrics incentivise the executive and senior management team to deliver long term top-line and profitable growth and provide alignment with shareholder interests.
- The awards will be subject to malus between the grant date and the vesting date and subject to clawback between the vesting date and the fifth anniversary of the grant date in specific circumstances.
- In line with good governance practice, the Committee will also have discretion to adjust the formulaic vesting outcome if it is not reflective of underlying financial performance during the performance period.
- In order to further support stewardship and provide alignment with shareholders, the Committee has introduced shareholding guidelines for Executive Directors. The Chief Executive Officer and Chief Financial Officer are required to build up and maintain a holding in Company shares equal to 200% of salary and 100% of salary respectively.

For FY24, Tommy Cook and Ashleigh Greenan were granted awards of options at the level of 100% of salary, using a share price of 111p, representing the closing share price for the day preceding the award date. The table below sets out the details of the LTIP share options awarded.

	Date of grant	Earliest exercise date	Exercise price	No. of options awarded
Tommy Cook	5 June 2023	5 June 2026	1 pence	184,460
Ashleigh Greenan	5 June 2023	5 June 2026	1 pence	132,433

FY25 LTIP award

The Committee intends to grant further awards to the same participants in June 2024, following the announcement of the Company's annual results for the year ending 31 March 2024 (the "FY25 awards"). We recognise the recent challenges in some of the markets we serve and the decline in the company's share price and we intend to be mindful of this when considering the quantum of LTIP and other option awards issued in the coming years.

The Remuneration Committee has conducted a thorough review of the approach taken to the use of equity-based incentive schemes as part of overall remuneration across the business, to ensure that the remuneration structure remains appropriate to support the company and incorporates evolving best practice and regulatory developments. As an innovative technology company, operating in an area of scarce skills, we compete for talent in a global market. As such, we have always believed that equity-based incentives distributed at all the levels of the company is a key tool for us to both attract and retain key talent.

For the FY25 LTIP award, the Remuneration Committee will use the same performance measures as last year (Earnings Per Share (50% weighting), Revenue (25% weighting) and absolute Total Shareholder Return (25% weighting)). These will be measured at the end of the 3-year period i.e. 31 March 2027.

Remuneration Committee Report continued

Threshold vesting for all measures will be set above market consensus at the time of award as a matter of policy. In recognition of the share price movements over the last 12 months the Committee is proposing to use a baseline share price of 71p for the TSR calculation threshold (the 3-month average price from 1 January 2024 to 31 March 2024).

In setting the targets for maximum vesting, the Remuneration Committee believes that it will set levels to be appropriately aligning with shareholder interests for a return to growth in both revenues, profit and share price. They represent a stretching set of targets which reflect the growing opportunity in data centres and a return of the telecoms market as 5G roll outs accelerate.

Executive directors' service contracts
The executive directors have entered into service contracts with the Group that are terminable by either party on no less than six months' notice.

Non-executive directors
The non-executive directors do not participate in performance related bonus or share based incentive arrangements. Each of the non-executive directors has a letter of appointment stating their annual fee. The level of fees for non-executive directors (other than the Chair) is determined by the Chair and the executive directors. The Chair's fees are determined by the Committee members other than the Chair. The appointment of non-executive directors may be terminated on one months' written notice at any time.

Share price information
The market price of the Calnex Solutions plc ordinary shares at 31 March 2024 was 58.5 pence and the range during the year was 41.0 pence to 140.5 pence.

Calnex Solutions plc Employee Share Incentive Plan (SIP)
The Company has put in place a Share Incentive Plan (SIP), an HMRC approved all-employee plan that offers the Company the ability to award equity to employees in a flexible and tax-advantaged manner. The SIP is open to all UK resident employees, including executive directors.

Employees can acquire Ordinary Shares ("Partnership Shares") up to the lower of £1,800 or 10% of their salary in any tax year and will be awarded one additional Ordinary Share ("Matching Shares") by the Company for every Ordinary Share they acquire. The Company can also award up to £3,600 worth of free Ordinary Shares ("Free Shares") in any tax year per employee. Dividends paid on SIP shares can be paid out in cash or re-invested to purchase further SIP shares ("Dividend Shares"). The Company currently opts to pay dividends out in cash.

Free and Matching Shares are subject to a holding period of three years and employees cannot remove them from the SIP during this period whilst they remain employed by the Company. These shares are held in trust in the name of the individual. Under the terms of this scheme, the Free and Matching Shares will be forfeited if the participant leaves the employment of the Company within this holding period unless the employee is a good leaver. If the employee withdraws any Partnership Shares within the same holding period, they will forfeit the corresponding Matching Shares unless they are a good leaver.

Once SIP shares have been held in the SIP for 5 years from the date of award there is no income tax or NICs to pay. Any increase in value whilst shares remain in the SIP is not subject to Capital Gains Tax.

Under the SIP Plan, shares may only be awarded to UK based employees of the Group. As the Board also wanted to have the discretion to grant awards to contractors and overseas employees, it was necessary to set up the separate Notional Plan. This Plan acts as a non-tax advantaged shadow equity interest plan to the SIP, mirroring the SIP awards for overseas employees and contractors with equity ownership being replaced by cash settlement.

Directors' share interests
The directors' shareholdings in the Company are shown in the Directors' Report on page 62.

Margaret Rice-Jones
Chair of the Remuneration Committee
20 May 2024

Audit Committee Report

On behalf of the Board, I am pleased to present Calnex's Audit Committee Report for the year ended 31 March 2024.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the Group's financial reporting and internal control policies, compliance with corporate governance and procedures for the identification, assessment, and reporting of risk. It reviews reports from the executive management team and external auditors relating to the interim and annual accounts and the Group's accounting and internal control systems. The Audit Committee is also responsible for advising on the appointment of and overseeing the relationship with the external auditor.

Members of the Audit Committee
The Audit Committee comprised the non-executive directors throughout the year or from date of appointment as appropriate and is chaired by Graeme Bissett. The Committee invites the external auditor, executive directors and other senior managers to attend its meetings when appropriate.

The Audit Committee is considered to have sufficient, recent and relevant financial experience to discharge its functions.

Roles and responsibilities
The duties of the Audit Committee are set out in its terms of reference, which are available on the Company's website. The Committee's key functions include reviewing and advising the Board on:

- the integrity of the financial statements of the Group, including its annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance;
- compliance with accounting standards and legal and regulatory requirements;
- decisions of judgement and risk affecting financial reporting;
- disclosures in the interim and annual report and financial statements;
- any change in accounting policies;
- the effectiveness of the Group's financial and internal controls;
- the Group's risk management processes, including principal risks and internal control findings highlighted by management or external audit;
- the appointment and remuneration of the external auditor;
- any significant concerns of the external auditor about the conduct, results or overall outcome of the annual audit of the Group; and
- any matters that may significantly affect the independence of the external auditor.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and Interim Report remains with the Board.

The Audit Committee has committed to meet no less than three times in each financial year. The Audit Committee met three times in the year ended 31 March 2024. The members' attendance record at Committee meetings during the year is set out in the Corporate Governance report at page 46.

Audit Committee Report continued

Significant areas considered by the Committee in relation to the financial statements for the year ended 31 March 2024 are set out below:

Carrying value and capitalisation of intangible assets	The group had intangible assets, comprising intellectual property, development costs, and goodwill with a total carrying value of £14.1m as at 31 March 2024, consisting of development costs of £11.3m, intellectual property of £0.8m and goodwill of £2.0m. These assets inherently carry a greater risk of error as their valuation is subject to management estimation. £5.6m of expenditure has been capitalised as development costs in the year. Conditions for capitalisation are prescribed by IAS 38 Intangible Assets and the satisfaction of these criteria is subject to management judgement. The brought forward net book value of intangible assets in respect of development costs was £9.5m and closing net book value was £11.3m as at the end of FY24. This value, including costs capitalised in the year, is allocated to products using the Group's R&D work planner, based mainly on the monthly number of R&D employees working on each project, together with an assessment of forecasted sales for each product. There are no development costs included within the historical balance for projects that were unsuccessful or cancelled. During the year, a review of the brought forward development costs has resulted in an elimination of costs and amortisation of £1.7m, resulting in a net book value impact of £nil. This reflects removal of fully amortised aged spend on product features that are now considered to be superseded by current product developments. Goodwill of £2.0m was also recognised on the April 2022 acquisition of iTrinegy Ltd. In compliance with the IAS 36 Impairment of Assets, the carrying value of goodwill within the consolidated financial statements of the Company was also tested for impairment. The Board believes that the goodwill figure fairly represents the benefits that Calnex's sales and distribution teams can bring to the NE-ONE product, which is evident in the sales volumes achieved in the year. As the Group has a central cost structure and a central pool of assets and liabilities, the Board does not consider segmentation in their review of costs or the statement of financial position. Critical to the core hardware and software sales across all platforms is a centralised R&D and support team who provide key customer engagement and support both pre and post order submission. This is viewed as an essential product discriminator to win business within the sector. As such, the impairment review of goodwill was performed at a Group level, which the Board deems reflective of the way the entity manages its operations and with which the goodwill would naturally be associated. There have been no indicators of impairment of the intangible assets or goodwill balances in the year.

Share-based payments

In the year to 31 March 2024, a charge of £0.7m was made to the Income Statement in relation to share based payments.

The following share options were issued in the year:

- 26,550 new CSOP share options were awarded vesting over 3-5 year periods. The share options in issue at the start of the year was 5,199,000, and the closing balance of 5,191,183 after the 26,550 additions and 34,367 of option exercises in the year. The fair value assessment on these options was calculated using the Black-Scholes Model. Key assumptions used in the model included:
  - Expected market volatility of 51.8%. This was determined by calculating the historical volatility of the Group's share price over the previous year, which the Board considers to be representative of future volatility;
  - Risk free rate of 5.0%; and
  - Dividend yield of 1%.
- During the year no cash settled options were granted. The fair value has been measured at the reporting date using the Black-Scholes model. Due to the proximity of the reporting date to the issue of equity settled share options granted, the model assumptions on volatility, risk free rate, and dividend yield used for the cash settled options do not materially differ from those applied to the share options above.
- During the year a management long term incentive plan ('LTIP') was created inclusive of market based vesting conditions (Revenue, EPS and Total Shareholder Return ('TSR')), over a vesting period of 3 years. To determine fair value, a Black-Scholes model was utilised for the EPS and Revenue tranches, and a Monte Carlo valuation method was used for the TSR tranche. Key assumptions used in the model included:
  - Share price at grant date of 111p;
  - Dividend yield of 0.84%;
  - Volatility of 43.8% (TSR tranche); and
  - Risk free rate of 4.39% (TSR tranche).

Audit Committee Report continued

Activities in the year ended 31 March 2024 included:

- the review and approval of the Group's Annual Report and Accounts for the year ended 31 March 2023;
- the review and approval of the Group's September 2023 Interim Report;
- the review and approval of the audit plan presented by the Group's auditors for the year ended 31 March 2024;
- the review of the independence of the Group's external auditors;
- the consideration of the reports from management and external auditors identifying any accounting or judgemental issues requiring the Board's attention; and
- the monitoring of internal controls and reviewing the Group's risk management framework.

The Audit Committee also met after the year end to approve the Group's Annual Report and Accounts for the year ended 31 March 2024. The Audit Committee reviewed and was satisfied that the judgements exercised by management on material items contained within the Group's Annual Report and Accounts are reasonable.

External auditors

The Company engaged RSM UK Audit LLP ("RSM") to act as external auditors for the year to 31 March 2024. RSM have been the Group's external auditors since September 2020. RSM is invited to attend Committee meetings when appropriate. The Audit Committee has unrestricted access to the external auditors and will also meet with them without management in attendance.

The external auditors prepare an audit plan which details the scope, materiality, key areas of focus and the timetable for audit. This plan is reviewed and agreed in advance by the Audit Committee. Following the completion of the audit, the external auditors present their findings to the Audit Committee for discussion.

Internal audit

The Audit Committee has considered the Group's internal control and risk management policies and systems, their effectiveness, and the requirements for an internal audit function in the context of the Group's overall risk management system. The Audit Committee is satisfied that the Group does not currently require an internal audit function, however, it will continue to review the situation.

Whistleblowing

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. During the year, there were no incidents for consideration.

Graeme Bissett
Chair of the Audit Committee
20 May 2024

Nomination Committee Report

On behalf of the Board, I am pleased to present Calnex's Nomination Committee Report for the year ended 31 March 2024.

The Nomination Committee will regularly review the structure, size and composition of the Board and will also consider the selection and re-appointment of directors.

Members of the Nomination Committee
The Nomination Committee is chaired by Stephen Davidson and has Graeme Bissett, Margaret Rice Jones, Helen Kelisky and Tommy Cook as members. The Committee invites the Chief Financial Officer to attend its meetings when appropriate.

Roles and responsibilities
The duties of the Nomination Committee are set out in its terms of reference, which are available on the Company's website. The Committee's duties include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, together with Board and senior management succession planning;
- recommending to the Board any changes required;
- identifying and nominating candidates to fill Board vacancies;
- reviewing the results of the Board performance evaluation process; and
- making recommendations to the Board concerning suitable candidates for the membership of the Board's Committees and the re-election of directors at the annual general meeting.

The Committee meets at least once a year and otherwise as required. It reports to the Board on how it has discharged its responsibilities. The members' attendance record at Committee meetings during the financial year is set out in the Corporate Governance report at page 46.

The Nomination Committee met on one occasion during the financial year ended 31 March 2024. Activities in the year ended 31 March 2024 included:

- a review of the balance of skills, knowledge and experience of the Board together with the size, structure and composition of the Board; and
- A review of the Committee's Terms of Reference.

The Nomination Committee has a formal, rigorous and transparent procedure for the appointment of new directors to the Board. The process involves the Nomination Committee and Board interviewing suitable candidates who are proposed by an external search company. Careful consideration is given to ensure appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is maintained.

Stephen Davidson
Chair of the Nomination Committee
20 May 2024

AIM Compliance Committee Report

On behalf of the Board, I am pleased to present Calnex's AIM Compliance Committee Report for the year ended 31 March 2024.

Calnex Solutions plc is quoted on AIM and as a result the AIM Compliance Committee is responsible for ensuring that the Company has in place at all times sufficient procedures, resources and controls to enable it to comply with the AIM Rules.

Members of the AIM Compliance Committee
The AIM Compliance Committee is chaired by Graeme Bissett and has Stephen Davidson, Margaret Rice Jones, Helen Kelisky and Ashleigh Greenan as members. The Committee invites the Chief Executive Officer to attend its meetings when appropriate.

AIM Rule Compliance Report
The AIM Compliance Committee can confirm that the Group has complied with all of the Company's obligations under the AIM Rules, including AIM Rule 31 which requires the following:

- Have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
- Seek advice from its Nominated Advisor ("Nomad") regarding its compliance with the AIM Rules whenever appropriate and take that advice into account;
- Provide the Company's Nomad with any information it reasonably requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Nominated Advisors, including any proposed changes to the Board and provision of draft notifications in advance;
- Ensure that each of the Group's directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules; and
- Ensure that each Director discloses without delay all information which the Group needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the Director.

Meetings
The duties of the AIM Compliance Committee are set out in its terms of reference, which are available on the Company's website.

The Committee meets at least twice a year and otherwise as required. It reports to the Board on how it has discharged its responsibilities. The members' attendance record at Committee meetings during the year is set out in the Corporate Governance report at page 46.

The Committee met twice in the year to 31 March 2024.

Graeme Bissett
Chair of the Audit Committee
20 May 2024

Directors' Report

The Directors present the Group's annual report and the audited consolidated financial statements for the year ended 31 March 2024.

Principal activity

The principal activity of the Group is the design, production and marketing of test and measurement instrumentation and solutions, enabling its customers to validate the performance of critical infrastructure associated with telecoms networks, enterprise networks and data centres. A detailed explanation of the Group's principal activities and business model can be found in the Company Overview section at pages 2 to 7.

Results and Dividends

The Group's profit for the year after tax was £0.04m (FY23: £5.9m).

The Company paid an interim dividend of 0.31 pence per ordinary share on 15 December 2023 to those shareholders on the register as at 1 December 2023 (FY23 Interim dividend: 0.31p).

The directors are proposing a final dividend with respect to the financial year ended 31 March 2024 of 0.62p per ordinary share. The final dividend will be proposed for approval at the Annual General Meeting in August 2024 and, if approved, will be paid on 30 August 2024 to all shareholders on the register as at the close of business on 26 July 2024, the record date. The ex-dividend date will be 25 July 2024.

Directors and their interests

The directors, who held office during the year ended 31 March 2024 and up to the date of approval of these financial statements, are as follows:

Director	Board title	Date of appointment
Stephen Davidson	Non-Executive Chair	10 January 2022
Tommy Cook	Chief Executive Officer	27 March 2006
Ashleigh Greenan	Chief Financial Officer	15 May 2020
Graeme Bissett	Non-Executive Director	1 May 2020
Helen Kelisky	Non-Executive Director	17 January 2023
Margaret Rice-Jones	Non-Executive Director	10 January 2022

Biographical details of persons currently serving as directors are set out on pages 42 to 43.

The directors who held office at 31 March 2024 had the following interests in the ordinary shares in the capital of the Company:

Director	Ordinary shares No	Ordinary EMI share options No.	Ordinary LTIP options No.
Stephen Davidson	25,000	–	–
Tommy Cook	17,377,764	–	184,460
Ashleigh Greenan	170,000	500,000	132,433
Graeme Bissett	147,412	–	–

Financial risk management objectives and policies

Details of the Group's financial risk management objectives and policies are set out in note 23 to the consolidated financial statements. The key non-financial risks that the directors consider could have a material impact on the business are set out on pages 32 to 37 of the Strategic Report.

Directors' Report continued

Research and development
The Group is highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets. Refer to the Market Overview section on pages 4 to 7 of the Strategic Report for more information. The total capitalised development expenditure for research and development in the year was £5.6m (FY23: £4.5m), and total amortisation was £3.8m in the year (FY23: £3.3m) in the consolidated income statement. Details of the Group's policy for the recognition of expenditure on research and development is set out in note 3 to the consolidated financial statements.

Future Developments
The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 32 to 37.

Insurance for Directors and Officers
The Company has agreed to indemnify its directors against third party claims which may be brought against them and has put in place a Directors' and Officers' insurance policy.

Substantial shareholdings
At 20 May 2024 the Company is aware of the following interests in 3% or more of the issued ordinary share capital in the Company:

Shareholder	Shares	% holding
Thomas (Tommy) Cook (CEO)	17,377,764	19.9%
BGF Investment Management Limited	10,515,500	12.0%
Close Brothers Group	7,912,957	9.0%
Scottish Enterprise	7,860,693	9.0%
Sanford DeLand Asset Mgt	3,200,000	3.7%
Liontrust Asset Mgt	3,071,359	3.5%
Hargreaves Lansdown Asset Mgt	2,935,218	3.4%

Share Capital
Details of the issued share capital, together with details of the movement in the Company's issued share capital during the year are shown in note 27 to the consolidated financial statements.

Independent Auditor and disclosure of information to auditor
The directors confirm that each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Group and Parent Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

RSM UK Audit LLP were appointed as auditors on 18 September 2020 and have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Information incorporated by reference
The Company Overview, Strategic Report and the Corporate Governance Report are incorporated by reference into this Directors' Report and should be read as part of this report.

The Company Overview and Strategic Report can be found on pages 2 to 41 and contain details of the Group's business model and strategic priorities. The purpose of the Strategic Report is to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006. An indication of the likely future developments in the business of the Group is also included in the Strategic Report, which satisfies the reporting requirements of section 414C (11) of the Companies Act 2016.

Going Concern
The financial information for the year to 31 March 2024 has been prepared on the basis that the Company will continue as a going concern.

The Board has approved financial forecasts for the current and succeeding financial years to 31 March 2026. Based on this review, along with regular oversight of the Company's risk management framework the Board has concluded that given the Company's cash reserves available of £11.9m, the Company will continue to trade as a going concern.

The Group's financial performance in FY24 was impacted by the ongoing downturn across the telecoms market, with caution across the sector leading to subdued spending levels. Although the year ended 31 March 2024 experienced a reduction in revenues compared to the prior year, the Group starts the new financial year with a healthy liquidity position, with cash as at 31 March 2024 of £11.9 million.

The Group is continuing to see a prolonged period of limited customer spend within the telecoms sector and as a result, The Company has taken action to diversify the product offering to position the business for a return to growth in FY25. Close customer relationships have been maintained, with customers confirming that they remain committed to the delivery of projects once spending budgets are released.

Measured cost-action was undertaken in FY24 and will continue into FY25, whilst the Company has continued focus on product innovation, maintaining R&D spend and adjusting engineering programme to focus on areas showing the most near-term potential across both the telecoms and the newer markets of cloud computing and defence.

The Group is confident that the action taken during FY24 to diversify the product offering positions the business for a return to growth in FY25, thereby protecting the liquidity position. Longer term, The Group continues to be supported by favourable underlying trends. The Board is confident that budgets will return in the telecoms market as the economic backdrop improves, in turn creating the need for test and measurement equipment to prove that new systems operate effectively and conform to rigorous international standards.

Approved by the Board of Directors on 20 May 2024 and signed on its behalf below.
By order of the Board.

Ashleigh Greenan
Chief Financial Officer and Company Secretary
20 May 2024

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors have elected under company law and are required by the AIM Rules of the London Stock Exchange to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards and have elected under company law to prepare the Company financial statements in accordance with UK-adopted International Accounting Standards and applicable law.

The Group and Company financial statements are required by law and UK-adopted International Accounting Standards to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. state whether they have been prepared in accordance with UK-adopted International Accounting Standards;
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Calnex Solutions plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board.

Ashleigh Greenan
Chief Financial Officer and Company Secretary
20 May 2024

Independent Auditor's Report to the Members of Calnex Solutions plc

Opinion
We have audited the financial statements of Calnex Solutions plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2024 which comprise the consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated and company cash flow statements and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2024 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Summary of our audit approach

Key audit matters	**Group and Parent** Valuation and existence of intangible assets – development costs
Materiality	**Group** Overall materiality: £405,000 (2023: £564,000) Performance materiality: £303,000 (2023: £423,000) **Parent Company** Overall materiality: £388,000 (2023: £544,000) Performance materiality: £291,000 (2023: £408,000)
Scope	Our audit procedures covered 98.8% of revenue, 99.3% of total assets and 98.6% of profit before tax.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of Calnex Solutions plc continued

Valuation and existence of intangible assets – development costs

Key audit matter description	We identified the valuation and existence of development costs as a key audit matter due to the significant management judgement required around the capitalisation of costs in line with IAS 38 – Intangible Assets and the subsequent commercialisation lifecycle and related amortisation period. The Group conducts a significant amount of development activity and has to identify projects meeting the IAS 38 criteria for capitalisation, and capture the specific costs associated with those projects. Management then have to identify an appropriate amortisation period, which aligns with the benefits derived from the development activity, again, requiring judgement and estimation. As disclosed in note 12, £5,579k of cost was capitalised in this regard in the year, amortisation of £3,780k was charged and the net book value as at 31 March 2024 was £11,321k.
How the matter was addressed in the audit	Our procedures in relation to the valuation and existence of development costs, held within Intangible Assets, included: • Understanding and documenting management's procedures over the capitalisation of development costs • Assessing the nature of costs capitalised • Evaluating the appropriateness of costs capitalised, on a sample basis, by agreeing costs to supporting documentation including external invoices and payroll records • Assessing whether costs may have been capitalised in respect of aborted projects or projects which are no longer revenue generative and considering the implications on gross and net book value • Evaluating the amortisation period applied and its appropriateness in respect of the historic and future product lifecycle

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

	Group	Parent company
Overall materiality	£405,000 (2023: £564,000)	£388,000 (2023: £544,000)
Basis for determining overall materiality	5% of the average earnings before interest, tax, depreciation and amortisation over the last 3 financial years.	5% of the average earnings before interest, tax, depreciation and amortisation over the last 3 financial years.
Rationale for benchmark applied	EBITDA was used as a benchmark, as it was assessed that the shareholders' will be primarily interested in the group and parent company's ability to generate operating cashflows from which to pay future dividends.	
Performance materiality	£303,000 (2023: £423,000)	£291,000 (2023: £408,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £20,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £19,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
The group consists of 2 components, located in the United Kingdom and United States of America.

The coverage achieved by our audit procedures was:

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	1	98.8%	99.3%	98.6%
Analytical Procedures	1	1.2%	0.5%	1.0%
Total	**2**	**100%**	**99.8%**	**99.6%**

There were no audit procedures undertaken by component auditors.

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

- checking the integrity and accuracy of the cashflow forecasts prepared by management;
- assessing the reasonableness of assumptions and explanations provided by management to supporting information, where available; and
- auditing the accuracy and consistency of disclosures made in the financial statements in respect of principal risks and going concern.

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

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Independent Auditor's Report to the Members of Calnex Solutions plc continued

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 64, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

The most significant laws and regulations were determined as follows:

Legislation/Regulation	Additional audit procedures performed by the Group audit engagement team included:
IFRS; Companies Act 2006; and AIM listing rules	• Review of the financial statement disclosures and testing to supporting documentation; and • Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	• Inspection of advice received from external tax advisors and review of the corporation tax computation; and • Consideration of disclosures in the financial statements.

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

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition	• Performing data analytics on sales in the year and testing exceptions outside the normal expected sales cycle; • Substantively testing the cut off and completeness of revenue transactions; • Considering the appropriateness of revenue recognition policies and assessing their compliance with IFRS 15.
Management override of controls	• Testing the appropriateness of journal entries and other adjustments; • Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and • Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Use of our report

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

RSM UK Audit LLP

ALAN AITCHISON (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Third Floor, Centenary House
69 Wellington Street
Glasgow
G2 6HG

20 May 2024

Consolidated Statement of Comprehensive Income

	Note	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Revenue	5	**16,274**	27,449
Cost of sales		**(4,327)**	(6,977)
Gross profit		**11,947**	20,472
Other income	6	**797**	751
Administrative expenses		**(13,361)**	(13,989)
Operating (loss)/profit	7	**(617)**	7,234
Interest received		**357**	–
Finance costs	10	**(124)**	(26)
(Loss)/Profit before taxation		**(384)**	7,208
Taxation	11	**424**	(1,297)
Profit and total comprehensive income for the year		**40**	5,911
Basic earnings per share	29	**0.05**	6.75
Diluted earnings per share	29	**0.04**	6.42

Consolidated and Company Statement of Financial Position

	Note	Group		Company	
		31 March 2024 £'000	31 March 2023 £'000	**31 March 2024 £'000**	31 March 2023 £'000
Non-current assets					
Intangible assets	12	**12,110**	10,565	**11,337**	9,525
Goodwill	13, 14	**2,000**	2,000	**–**	–
Plant and equipment	15	**341**	404	**341**	404
Right-of-use assets	21	**287**	533	**287**	533
Deferred tax asset	22	**1,246**	272	**1,246**	272
		15,984	13,774	**13,211**	10,734
Current assets					
Inventories	16	**5,373**	2,748	**5,373**	2,748
Trade and other receivables	17	**3,340**	3,130	**3,570**	3,455
Corporation tax receivable		**435**	–	**435**	–
Cash and cash equivalents	18	**11,868**	17,583	**11,683**	17,186
Short term investment	18	**–**	1,515	**–**	1,515
		21,016	24,976	**21,061**	24,904
Total assets		**37,000**	38,750	**34,272**	35,638
Current liabilities					
Trade and other payables	19	**4,845**	5,988	**4,804**	5,806
Corporation tax		**–**	843	**–**	741
Lease liabilities	21	**220**	260	**220**	260
		5,065	7,091	**5,024**	6,807
Non-current liabilities					
Trade and other payables	19	**1,510**	1,396	**1,510**	1,356
Lease liabilities	20	**195**	431	**195**	431
Deferred tax liabilities	21	**2,877**	2,457	**2,683**	2,197
Provisions	22	**15**	15	**15**	15
		4,597	4,299	**4,403**	3,999
Total liabilities		**9,662**	11,390	**9,427**	10,806
Net assets		**27,338**	27,360	**24,845**	24,832
Equity					
Share capital	28	**109**	109	**109**	109
Share premium		**7,511**	7,495	**7,511**	7,495
Share option reserve	26	**1,414**	873	**1,414**	873
Retained earnings		**18,304**	18,883	**15,811**	16,355
Total equity		**27,338**	27,360	**24,845**	24,832

The profit for the financial year of the parent company is £75,267 (2023: £3,428,306). As provided for by section 408 of the Companies Act 2006, no income statement is presented in respect of the parent company.

The accounts were approved by the Board of Directors and authorised for issue on 20 May 2024. The accounts are signed on their behalf by:

Ashleigh Greenan
Director
20 May 2024

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Share option reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 March 2022	109	7,484	502	13,733	21,828
Transactions with owner in their capacity as owners					
Share options exercised	0	11	–	–	11
Share options	–	–	371	–	371
Dividends paid	–	–	–	(761)	(761)
Total transactions with owner in their capacity as owners	0	11	371	(761)	(379)
Total comprehensive income for the year	–	–	–	5,911	5,911
Balance at 31 March 2023	**109**	**7,495**	**873**	**18,883**	**27,360**
Transactions with owner in their capacity as owners					
Share options exercised	0	16	(195)	195	16
Share options	–	–	736	–	736
Dividends paid	–	–	–	(814)	(814)
Total transactions with owner in their capacity as owners	0	16	541	(619)	(62)
Total comprehensive income for the year	–	–	–	40	40
Balance at 31 March 2024	**109**	**7,511**	**1,414**	**18,304**	**27,338**

Company Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Share option reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 March 2022	109	7,484	502	13,688	21,783
Transactions with owner in their capacity as owners					
Share options exercised	0	11	–	–	11
Share options	–	–	371	–	371
Dividends paid	–	–	–	(761)	(761)
Total transactions with owner in their capacity as owners	0	11	371	(761)	(379)
Total comprehensive income for the year	–	–	–	3,428	3,428
Balance at 31 March 2023	**109**	**7,495**	**873**	**16,355**	**24,832**
Transactions with owner in their capacity as owners					
Share options exercised	0	16	(195)	195	16
Share options	–	–	736	–	736
Dividends paid	–	–	–	(814)	(814)
Total transactions with owner in their capacity as owners	0	16	541	(619)	(62)
Total comprehensive income for the year	–	–	–	75	75
Balance at 31 March 2024	**109**	**7,511**	**1,414**	**15,811**	**24,845**

Consolidated and Company Cash Flow Statement

		Group		*Company*	
		31 March 2024 £'000	31 March 2023 £'000	**31 March 2024 £'000**	31 March 2023 £'000
Cashflows from operating activities					
(Loss)/profit before tax from continuing operations		**(384)**	7,208	**(403)**	4,459
Adjusted for:					
Finance costs	10	**124**	26	**124**	26
Interest received		**(357)**	(160)	**(357)**	(160)
Government grant income		**(218)**	(201)	**(218)**	(201)
R&D tax credit income		**(579)**	(390)	**(579)**	(390)
Gain on disposal of fixed asset		**(4)**	–	**(4)**	–
Share-based payment transactions	25	**746**	574	**746**	574
Depreciation		**424**	371	**177**	371
Amortisation		**4,053**	3,690	**4,032**	3,422
Impairment of investment		**–**	–	**–**	2,436
Movement in inventories	16	**(2,820)**	(1,554)	**(2,820)**	(1,557)
Movement in obsolescence provision	16	**195**	(122)	**195**	(122)
Movement in trade and other receivables	17	**(211)**	1,619	**(14)**	1,484
Movement in trade and other payables	19	**(903)**	(329)	**(737)**	(770)
Cash generated from operations		**66**	10,732	**141**	9,572
Movement in provisions (overseas tax)		**–**	(140)	**–**	(140)
Corporation & foreign tax payments		**(850)**	(70)	**(713)**	–
R&D tax credit refunds received		**–**	589	**–**	589
Net cash from (absorbed by) operating activities		**(784)**	11,111	**(572)**	10,021
Investing activities					
Purchase of intangible assets	12	**(5,598)**	(4,523)	**(5,598)**	(4,523)
Government grant income		**–**	432	**–**	432
Purchase of property and equipment	15	**(111)**	(181)	**(111)**	(181)
Purchase of subsidiary: net of cash acquired		**–**	(2,263)	**–**	(2,263)
Distribution from subsidiary from pre-acquisition reserves		**–**	–	**767**	
Dividend received from subsidiary of post-acquisition reserves		**–**	–	**191**	
Short term investment: fixed term deposit	16	**1,515**	(15)	**1,515**	(15)
Interest received		**357**	160	**357**	160
Net cash used in investing activities		**(3,837)**	(6,390)	**(3,837)**	(5,432)
Financing activities					
Payment of lease obligations	20	**(296)**	(245)	**(296)**	(245)
Dividends paid	32	**(814)**	(761)	**(814)**	(761)
Share options proceeds	25	**16**	11	**16**	11
Net cash used in financing activities		**(1,094)**	(995)	**(1,094)**	(995)
Net increase (decrease) in cash and cash equivalents		**(5,715)**	3,726	**(5,503)**	3,594
Cash and cash equivalents at beginning of the year		**17,583**	13,857	**17,186**	13,592
Cash and cash equivalents at end of the year		**11,868**	17,583	**11,683**	17,186

Notes to the Financial Statements

1. General information

Calnex Solutions plc ("the Company") is a public limited company, limited by shares, domiciled and incorporated in Scotland. The registered office is Oracle Campus, Linlithgow, West Lothian, EH49 7LR.

The Company (together with its subsidiary, the "Group") was under the control of the directors throughout the period covered in the financial statements. The list of the subsidiaries consolidated in the financial statements is shown in Note 27.

The principal activity of the Group is the design, production and marketing of test instrumentation and solutions for network synchronisation and network emulation, enabling its customers to validate the performance of critical infrastructure associated with telecoms networks, enterprise networks and data centres.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 20 May 2024. The directors have the power to amend and reissue the financial statements.

2. Basis of preparation

(a) Statement of compliance

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

(b) Basis of accounting

The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities including financial instruments, which are stated at their fair values.

The preparation of the financial statements in conformity with UK-adopted IAS requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. The estimates and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented.

(c) Functional and presentation currency

The financial statements are presented in pounds Sterling, which is the functional and presentation currency of the Group. Results in these financial statements have been prepared to the nearest thousand.

(d) Basis of consolidation

The consolidated financial statements incorporate those of Calnex Solutions plc, and all its subsidiaries. A subsidiary is an entity controlled by the Group, i.e. the Group is exposed to, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its current ability to direct the entity's relevant activities (power over the investee). All intra-Group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The total comprehensive income, assets and liabilities of the entities are amended, where necessary, to align the accounting policies.

The Group applies the acquisition method to account for all acquired businesses, whereby the identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (with a few exceptions as required by IFRS 3 Business Combinations).

The cost of a business combination is the fair value at the acquisition date of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the business combination. The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

The acquisition of assets that falls outside the scope of IFRS 3 are accounted for by bringing the assets and liabilities of the acquired entity into the financial statements at their nominal value from the date of acquisition. Comparative information is not restated.

Notes to the Financial Statements continued

2. Basis of preparation (continued)

(e) Going Concern

The financial information for the year to 31 March 2024 has been prepared on the basis that the Group and the Company will continue as a going concern.

The Board has approved financial forecasts for the current and succeeding financial years to 31 March 2026. Based on this review, along with regular oversight of the Company's risk management framework the Board has concluded that given the Company's cash reserves available of £11.9m, the Company will continue to trade as a going concern.

The Group's financial performance in FY24 was impacted by the ongoing downturn across the telecoms market, with caution across the sector leading to subdued spending levels. Although the year ended 31 March 2024 experienced a reduction in revenues compared to the prior year, the Group starts the new financial year with a healthy liquidity position, with cash as at 31 March 2024 of £11.9 million.

The Group is continuing to see a prolonged period of limited customer spend within the telecoms sector and as a result, The Company has taken action to diversify the product offering to position the business for a return to growth in FY25. Close customer relationships have been maintained, with customers confirming that they remain committed to the delivery of projects once spending budgets are released.

Measured cost-action was undertaken in FY24 and will continue into FY25, whilst the Company has continued focus on product innovation, maintaining R&D spend and adjusting engineering programme to focus on areas showing the most near-term potential across both the telecoms and the newer markets of cloud computing and defence.

The Group is confident that the action taken during FY24 to diversify the product offering positions the business for a return to growth in FY25, thereby protecting the liquidity position. Longer term, The Group continues to be supported by favourable underlying trends. The Board is confident that budgets will return in the telecoms market as the economic backdrop improves, in turn creating the need for test and measurement equipment to prove that new systems operate effectively and conform to rigorous international standards.

3. Significant accounting policies

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes and discounts and is recognised at the point in time when the relevant performance obligation is satisfied.

Where revenue contracts have multiple elements, all aspects of the transaction are considered to determine whether these elements can be separately identified. Where transaction elements can be separately identified and revenue can be allocated between them on a fair and reliable basis, revenue for each element is accounted for according to the relevant policy below. Where transaction elements cannot be separately identified, revenue is recognised over the contract period.

The Group recognises revenue from the following major sources:

Hardware & software revenue

Revenue from the sale of bundled hardware and software, is recognised when the Group transfers the risk and rewards to the customer, and the bundled product is delivered to the customer. Each unit sale comes with a standard warranty period during which the Group agrees to provide warranty cover, maintenance cover and software upgrade cover in the event of any software upgrades being released. This is recognised as a separately identifiable obligation from the provision of the hardware and is recognised over the life of the cover provided, being a year.

For the sale of stand-alone software, the licence period and therefore the revenue recognition, commences upon delivery.

Extended warranty programme

The Group enters into agreements with purchasers of its equipment to perform necessary repairs falling outside the Group's standard warranty period. As this service involves an indeterminate number of acts, the Group is required to 'stand ready' to perform whenever a request falling within the scope of the program is made by a customer. Revenue is recognised on a straight-line basis over the term of the contract.

3. Significant accounting policies (continued)

This method best depicts the transfer of services to the customer as:

i) The Group's historical experience demonstrates no statistically significant variation in the quantum of services provided in each year of a multi-year contract; and

ii) no reliable prediction can be made as to if and when any individual customer will require service.

Software support programme

The Group enters into agreements with purchasers of its equipment to provide software support and access to future software updates. Revenue is recognised on a straight-line basis over the term of the contract.

Grant income

The Group has obtained grant funding from the Scottish Government in prior years in the form of reimbursement for research and development costs eligible for reclaim under the grant agreement. Costs were incurred before they were reclaimed under the grant agreement and revenue only recognised after receipt of the funds from the government. Grant funds received are recognised over five years, in line with the amortisation policy on capitalised research and development costs.

(b) Retirement benefit costs

Payments to defined contribution schemes are charged to the Statement of Comprehensive Income as an expense as they fall due.

(c) Share-based payments

Equity-settled and cash settled share-based compensation benefits are provided to some employees. Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. There are no other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying the Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)
If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the relevant requirements of IAS 12 are satisfied.

(d) Taxation
The tax expense represents the sum of the current tax and deferred tax charge for the year. The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, as used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of financial assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

(e) Business Combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the Group to former owners of the acquirer. All acquisition costs are expensed as incurred to profit or loss. On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss.

The difference between the acquisition-date fair value of assets acquired and liabilities assumed and the fair value of the consideration transferred is recognised as goodwill. If the consideration transferred is less than the fair value of the identifiable net assets acquired, a bargain purchase is recognised as a gain directly in profit or loss by the Group on the acquisition-date.

Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(f) Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

3. Significant accounting policies (continued)
Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years. Amortisation is charged to administrative expenses in the Statement of Comprehensive Income.

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(g) Financial assets
Where there is no publicly quoted market value, other investments, including subsidiaries, are shown at cost less provisions for impairment.

(h) Plant and equipment
Plant and equipment are shown at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at varying rates calculated to write off cost less residual value over the useful lives. Depreciation is charged to administrative expenses in the Statement of Comprehensive Income. The principal rates employed are:

Plant and machinery	25-33% straight line

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate these values may not be recoverable. If there is an indication that impairment does exist, the carrying values are compared to the estimated recoverable amounts of the assets concerned.

The recoverable amount is the greater of an asset's value in use and its fair value less the cost of selling it. Value in use is calculated by discounting the future cash flows expected to be derived from the asset. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down through the income statement to its recoverable amount.

An item of property, plant and equipment is written off either on disposal or when there is no expected future economic benefit from its continued use. Any gain or loss (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the income statement in the year.

(i) Right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)

(j) Inventories

Inventories are valued at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods for resale, the average purchase price is used. For work in progress and finished goods, cost is taken as production cost which includes an appropriate proportion of overheads.

Inventories are assessed for indicators of impairment at each year end and where a provision is required the income statement is charged directly.

(k) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

The simplified approach to measuring expected credit losses has been applied, this uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

(l) Cash and cash equivalents

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of 95 days or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

(m) Short term investments

Cash at bank on fixed term deposit, and other liquid investments with maturities of greater than 95 days, but less than 12 months at the reporting date.

(n) Borrowings

Interest-bearing loans and bank overdrafts are initially recorded at the fair value of proceeds received and are subsequently stated at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(o) Trade and other payables

Trade payables are non-interest-bearing and are measured at amortised cost.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

(q) Financial liabilities

Financial liabilities are recognised on the Group's Statement of financial position when the Group becomes a party to the contractual provisions of that instrument.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The changes in fair value are recorded in the statement of comprehensive income.

3. Significant accounting policies (continued)

(r) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The lease term is the non-cancellable period of the lease plus extension periods that the group is reasonably certain to exercise and termination periods that the group is reasonably certain not to exercise. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are re-measured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is re-measured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(s) Foreign currency

In preparing the financial statements, transactions in currencies other than pounds sterling are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognised in the consolidated Statement of comprehensive income for the period.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the rates prevailing at the dates when the fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency (e.g. property, plant and equipment purchased in a foreign currency) are translated using the exchange rate prevailing at the date of the transaction. Exchange differences arising on the translation of net assets are affected through the Statement of Comprehensive Income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period and recognised in the Statement of Comprehensive Income.

(t) Dividends

Dividends are recognised when declared during the financial year. The declaration of dividends is at the discretion of the directors.

(u) Value Added Tax

Revenues, expenses and assets are recognised net of the amount of associated VAT, unless the VAT incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the tax authority.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)

(v) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(w) Critical judgements in applying the Groups accounting estimates

In the process of applying the Group's accounting policies, the directors have made the following estimates that have the most significant effect on the amounts recognised in the financial statements.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Useful lives

The Group uses forecast cash flow information and estimates of future growth to assess whether goodwill and other intangible fixed assets are impaired, and to determine the useful economic lives of its goodwill and intangible assets. If the results of operations in a future period are adverse to the estimates used a reduction in useful economic life may be required.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years. Amortisation is charged to administrative expenses in the Statement of Comprehensive Income.

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

3. Significant accounting policies (continued)

(x) New accounting standards

There have been no applicable new standards, amendments to standards and interpretations effective from 1 April 2023 that have been applied by the Group which have or are expected to result in a significant impact on its consolidated results or financial position.

4 Operating Segments

Operating segments are based on the internal reports that are reviewed and used by the Board (who are identified as the Chief Operating Decision Makers) in assessing performance and determining the allocation of resources. As the Group has a central cost structure and a central pool of assets and liabilities, the Board does not consider segmentation in their review of costs or the statement of financial position. The only operating segment information reviewed, and therefore disclosed, are the revenues derived from different geographies.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Americas	**5,042**	9,644
North Asia	**3,396**	6,475
Rest of World	**7,836**	11,330
	16,274	27,449

5 Revenue

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Sale of goods	**12,593**	24,579
Rendering of services	**3,681**	2,870
Total revenue	**16,274**	27,449
	16,274	27,449

67% (2023: 69%) of the Group revenue has been generated through the network of the Group's principal distribution partner. In the current year, one customer accounted for 15% of the Group's revenue. In the prior year there were no customers which exceeded 10% of the Group's revenue.

6 Other income

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Government grant income	**218**	201
R&D tax credit	**579**	390
Interest received	**–**	160
	797	751

Notes to the Financial Statements continued

7 Material operating profit items

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Operating profit for the year is stated after charging/(crediting):		
Equity settled share-based payments	**756**	574
Cash settled share based payments	**(10)**	–
Reversal of non-employee vendor contingent consideration	**(334)**	–
Unwinding of discount on contingent consideration for non employee vendors	**104**	–
Inventory recognised as an expense	**3,111**	5,744
Legal and professional fees associated with acquisition of subsidiary	**–**	200
Depreciation of tangible and ROU assets	**423**	371
Amortisation of intangible assets	**4,053**	3,690
Auditor's remuneration		
Fees payable to the Group's auditor and its associates for the audit of the Group's annual accounts	**47**	44
Total fees payable for audit services	**47**	44

No fees were payable to the Group's auditor and its associates for other services.

8 Employee benefits costs

Average monthly number of employees

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Development staff	**79**	70
Administrative staff	**76**	68
Management staff	**11**	11
	166	149

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Employee costs during the year (including directors remuneration) amounted to:		
Wages and salaries	**8,846**	8,560
Social security costs	**889**	875
Defined contribution pension	**423**	418
Share incentive scheme	**226**	233
Equity-settled share-based payment	**756**	531
Cash-settled share-based payment	**(10)**	43
	11,130	10,660
Total gross wages and salaries capitalised in the year, included in the analysis above	**4,451**	3,837

9 Key management personnel emoluments

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Wages and salaries	**575**	636
Social security costs	**77**	100
Defined contribution pension	**7**	7
Equity-settled share-based payment	**77**	29
	736	772
The number of directors who accrued benefits under the company pension plans:		
Defined contribution plans	**1**	1
Remuneration of the highest paid director in respect of qualifying services:		
Aggregate remuneration	**211**	237

Key management refers to the directors of the Group.

10 Finance costs

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Interest expense on lease liabilities	**20**	26
Unwinding of discount on contingent consideration	**104**	–
	124	26

11 Taxation

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Current taxation		
UK corporation tax on profits for the year	**–**	1,143
Foreign current tax expense	**192**	149
Adjustments relating to prior years	**(42)**	(4)
	150	1,288
Deferred taxation		
Origination and reversal of temporary differences	**(580)**	(46)
Adjustments relating to prior periods	**6**	–
Effect of changes in tax rates	**–**	55
	(574)	9
Total taxation (credit)/charge	**(424)**	1,297

Notes to the Financial Statements continued

11 Taxation continued

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
(Loss)/Profit before tax for the year	**(384)**	7,208
Tax thereon at 25% (2023: 19%)	**(96)**	1,369
Effects of:		
Expenses disallowable for tax purposes	**(321)**	40
Adjustments in respect of prior periods – current tax	**(42)**	(4)
Adjustments in respect of prior periods – deferred tax	**6**	–
Change in tax rate on opening balance	**–**	55
SME R&D credit	**(530)**	(161)
Timing differences not recognised in the computation	**460**	19
Impact of super deduction	**–**	(10)
Deferred tax (charged)/credited directly to equity	**(20)**	(160)
Overseas tax	**119**	149
Taxation (credit)/charge	**(424)**	1,297

The weighted average applicable tax rate for the year ended 31 March 2024 was 25% (2023: 19%). The effective rate of tax for the year, based on the taxation charge for the year as a percentage of the profit before tax is 111% (2023: 18.0%) The 87 percentage point difference between the applicable rate of tax and the effective rate is due to the following:

• Availability of enhanced 86% SME R&D deduction	138%
• Timing differences not recognised in the computation	(120%)
• Expenses disallowable for tax purposes	84%
• Overseas taxes	(31%)
• Prior period adjustments	11%
• Cumulative other	4%

12 Intangible assets

Included within intangible assets are the following significant items:

- Acquired intellectual property from business combinations, cost of patent applications and on-going patent maintenance fees.
- Capitalised development costs representing expenditure relating to technological advancements on the core product base of the Group. These costs meet the requirement of IAS 38 (Intangible Assets) and will be amortised over the future commercial life of the related product. Amortisation is charged to administrative expenses.

	Intellectual property £'000	Development Costs £'000	Group Total £'000
Cost			
At 1 April 2023	3,526	30,395	33,921
Additions	19	5,579	5,598
Disposals	–	(1,714)	(1,714)
At 31 March 2024	**3,545**	**34,260**	**37,805**
Amortisation			
At 1 April 2023	2,483	20,873	23,356
Charge for the year	273	3,780	4,053
Eliminated on disposal	–	(1,714)	(1,714)
At 31 March 2024	**2,756**	**22,939**	**25,695**
Net book value			
31 March 2023	1,043	9,522	10,565
31 March 2024	**789**	**11,321**	**12,110**

12 Intangible assets continued

	Intellectual property £'000	Development Costs £'000	Company Total £'000
Cost			
At 1 April 2023	2,218	30,395	32,613
Additions	19	5,579	5,598
Disposals	–	(1,714)	(1,714)
At 31 March 2024	**2,237**	**34,260**	**36,497**
Amortisation			
At 1 April 2023	2,215	20,873	23,088
Charge for the year	6	3,780	3,786
Eliminated on disposal	–	(1,714)	(1,714)
At 31 March 2024	**2,221**	**22,939**	**25,160**
Net book value			
31 March 2023	3	9,522	9,525
31 March 2024	16	11,321	11,337

During the year, a review of the carried development costs brought forward has resulted in a disposal of £1,714,991 (2023: £1,365,530), and elimination of amortisation of £1,714,991 (2023: £1,365,530) resulting in a net book value impact of £nil (2023: £nil). This reflects removal of aged spend on product features that are now considered to be superseded by current product developments.

Within Group intellectual property cost £1,308,000 relates to the fair value assessment of intellectual property on the NE-ONE product range resulting from the business combination of iTrinegy in April 2022. This intellectual property addition has also resulted in £267,970 (2023: £267,970) of amortisation being charged to administration expenses in the year. Details of the business combination are included in note 13.

13 Business combinations

On 12 April 2022, Calnex Solutions plc acquired 100 per cent of the issued share capital of iTrinegy Ltd, a leading developer of Software Defined Test Networks technology for the software application and digital transformation testing market. The core product, the NE-ONE hardware and software based Network Emulation platforms, provide organisations, primarily across the technology, financial, gaming and military/government sectors, with the ability to accurately recreate complex, real-world network test environments in which to analyse and verify the performance of applications, before deployment. The NE-ONE platform, provides users with insight which enables them to reduce deployment costs and risk, whilst also addressing the needs of the cloud-based and virtual development environments, a rapidly growing sub-sector of the application development market.

This acquisition was made on a cash free, debt free basis, for an initial cash consideration of £2.5 million, fully funded from Group free cash. An additional £0.5 million was also paid to the vendors in exchange for them leaving all available cash (£0.7m at acquisition date) within the acquired business.

Notes to the Financial Statements continued

13 Business combinations continued
The fair values of the identifiable net assets are set our below:

	Book value £'000	Fair value Adjustment £'000	Fair value £'000
Intangible assets	–	1,308	1,308
Deferred tax liability	–	(311)	(311)
Plant & equipment	8	–	8
Cash and cash equivalents	737	–	737
Trade and other receivables	397	–	397
Inventories	74	–	74
Trade and other payables	(1,010)	–	(1,010)
Total identifiable assets	**206**	**997**	**1,203**
Goodwill on acquisition			2,000
Total consideration			**3,203**
Satisfied by:			
Initial cash consideration			3,000
Contingent consideration			203
			3,203
Cashflow			
Initial cash consideration			3,000
Cash acquired			(737)
Net cashflow impact of acquisition			**2,263**

The fair value adjustment noted above has been derived from the valuation of the intellectual property associated with acquired technology, and customer relationships. These intangible assets have been assigned a useful life of between three and five years.

The book value of all other assets and liabilities recognised at acquisition date have been determined to approximate their fair value. Trade and other receivables acquired were mainly trade receivables, of which no recovery issues were identified post-acquisition.

The values identified in relation to the acquisition of iTrinegy were final as at 31 March 2023.

The directors have reviewed the £2.0m goodwill valuation and are comfortable it benchmarks consistently with similar acquisitions within the sector. Goodwill carried reflects the inherent value of an accelerated R&D development timeline to address the network emulation market with the NE-ONE product, coupled with significant cost and sales channel synergies the group will be able to leverage from its more mature organisational and sales structure. Goodwill also includes intangible assets not qualifying for separate recognition, such as workforce in place.

The goodwill is not expected to be deductible for tax purposes.

As part of the integration of the iTrinegy business, the Group has transferred all iTrinegy staff and trading over to Calnex Solutions plc, with the iTrinegy legal entities being 'hived up' into the existing Calnex entities. Details of the group structure changes in the year are detailed in note 27.

Contingent consideration of up to a further £1 million was potentially payable subject to the achievement of revenue growth from the NE-one product line in the year ended 31 March 2024 (the 'Earn-out payment'). Although NE-ONE revenues experienced healthy growth in the period, the vendors did not meet the Earn-Out Payment targets, the revenue growth trigger for the earn-out payment was not met, and no further contingent consideration measures remain in place.

14 Goodwill

The goodwill arising in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from the business combination. The Board consider the Group to consist of a single cash generating unit, reflective of not only the manner in which the Board (who operate as the Chief Operating Decision Makers) assess and review performance and resource allocation of the group, but also the centralised cost structure and pooled assets and liabilities which are critical to revenue generation across all platforms. The determination of a single cash generating unit within the group therefore reflects accurately the way the Group manages its operations and with which goodwill would naturally be associated.

	Group 31 March 2024 £'000
Cost	
As at 31 March 2023	**2,000**
As at 31 March 2024	**2,000**

The Group test goodwill for impairment annually, or more frequently if there are indications that the goodwill has been impaired. Goodwill is tested for impairment by comparing the carrying amount of the cash generating unit, including goodwill, with the recoverable amount. The recoverable amounts are determined based on value-in-use calculations which require assumptions. The calculations use cashflow projections based on financial budgets approved by the Board covering a two year period, together with management forecasts for a further three year period. These budgets and forecasts have regard to historical financial performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cashflows. Cashflows beyond this are extrapolated using estimated growth rates.

Key assumptions used in the value in use calculation:

- The terminal cash flows are extrapolated in perpetuity using a growth rate of 2%,(2023:2%) which has been based on management judgement reflecting sector and industry experience. This is not considered to be higher than the average long-term industry growth rate.
- The discount rate is based on the weighted average cost of capital (WACC) of 8.2% (2023:11.7%), which would be anticipated for a market participant investing in the Group. WACC was tested for materiality based on movement of up to 4%, with no resultant material impact on the calculation.

Management has performed sensitivity analysis on the key assumptions both with other variables held constant and with the other variables simultaneously changed. Management has concluded that there are no reasonable changes in the key assumptions that would cause the carrying amount of goodwill to exceed the value in use for the cash generating unit.

No evidence of impairment was found at the balance sheet date.

Notes to the Financial Statements continued

15 Plant and equipment

The Group annually reviews the carrying value of tangible fixed assets taking recognition of the expected working lives of the plant and equipment available to the Group and known requirements. Depreciation is charged to administrative expenses.

	Group	*Company*
	Plant and equipment Total £'000	**Plant and equipment Total £'000**
Cost		
At 1 April 2023	570	570
Additions	132	132
Disposals	(26)	(26)
At 31 March 2024	**676**	**676**
Depreciation		
At 1 April 2023	166	166
Charge for the year	177	177
Eliminated on disposal	(8)	(8)
At 31 March 2024	**335**	**335**
Net book value		
31 March 2023	404	404
31 March 2024	**341**	**341**

16 Inventories

	Group		*Company*	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Finished goods	**5,875**	3,055	**5,875**	3,055
Provision for obsolescence	**(502)**	(307)	**(502)**	(307)
	5,373	2,748	**5,373**	2,748
Cost of inventories recognised as an expense	**3,111**	5,744	**3,111**	5,685
Group inventories reflect the following movement in provision for obsolescence:				
At start of the financial year	**307**	429	**307**	429
Utilised	**–**	(122)	**–**	(122)
Provided	**195**	–	**195**	–
At end of the financial year	**502**	307	**502**	307

17 Trade and other receivables

	Group		Company	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Amounts due within one year				
Trade receivables	**2,922**	2,605	**2,922**	2,605
Other receivables	**61**	213	**61**	213
Amounts owed by group companies	**–**	–	**230**	325
Prepayments and accrued income	**357**	312	**357**	312
	3,340	3,130	**3,570**	3,455

Trade receivables are consistent with trading levels across the Group and are also affected by exchange rate fluctuations.

No interest is charged on the trade receivables. The Group has reviewed for estimated irrecoverable amounts in accordance with its accounting policy.

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers as appropriate to the level of credit extended. In addition, credit insurance would be sought for major areas of exposure, although this has not been required in the year under review.

The Group reviews trade receivables past due but not impaired on a regular basis and considers, based on experience, that the credit quality of these amounts at the balance sheet date has not deteriorated since the date of the transaction.

Included in the Group's trade receivables balance are debtors with a carrying amount of £143,109 (2023: £339,366), which are past due at the reporting date but for which the Group has not provided against. As there has not been a significant change in credit quality, the Group believes that all amounts remain recoverable.

Ageing of past due but not impaired trade receivables

	Group		Company	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Overdue by				
0-30 days	**56**	322	**56**	322
30-60 days	**13**	3	**13**	3
60+ days	**74**	14	**74**	14
	143	339	**143**	339

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Note 24 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. The calculated credit risk is £9,184 (2023: £9,214). Due to the immaterial nature of the balance, no provision has been recognised.

Notes to the Financial Statements continued

18 Cash and cash equivalents

Cash and cash equivalent amounts included in the Consolidated Statement of Cashflows comprise the following:

	Group		Company	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Cash at bank	**11,748**	12,439	**11,563**	12,042
Cash on short term deposit	**120**	5,144	**120**	5,144
Total cash and cash equivalents	**11,868**	17,583	**11,683**	17,186
Short term investment: fixed term deposit	**–**	1,515	**–**	1,515

Short term cash deposits of £nil (2023: £12,974) are callable on a notice of 65 days.

Short term cash deposits of £120,084 (2023: £5,130,587) are callable on a notice of 95 days.

Cash held on long-term deposits (being deposits with maturity of greater than 95 days) that cannot readily be converted into cash have been classified as a short term investment. A total of £nil (2023: £1,515,000) is currently held on fixed term deposit, with a maturity on this investment of less than twelve months at the reporting date.

The directors consider that the carrying value of cash and cash equivalents and short-term investments approximates their fair value. Details of the Group's credit risk management are included in note 24.

19 Trade and other payables

	Group		Company	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Amounts due within one year				
Trade payables	**913**	1,770	**897**	1,767
Other taxes and social security	**211**	197	**211**	197
Other payables	**95**	75	**95**	75
Accruals	**663**	1,275	**656**	1,264
Deferred income	**2,963**	2,671	**2,945**	2,503
	4,845	5,988	**4,804**	5,806
Amounts due after one year				
Deferred income	**1,510**	1,166	**1,510**	1,126
Other payables	**–**	230	**–**	230
	1,510	1,396	**1,510**	1,356
Total amounts due	**6,355**	7,384	**6,314**	7,162

Trade and other payables are consistent with trading levels across the Group but are also affected by exchange rate fluctuations.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure all payables are paid within the agreed credit terms.

The directors consider that the carrying amount of trade and other payables approximates their fair value.

Deferred income relates to fees received for ongoing services to be recognised over the life of the service rendered, and grant proceeds received but not yet released to the Statement of Comprehensive Income. In the year £3,571,718 (2023:£2,869,774) was released from deferred warranties, and £217,513 (2023: £200,852) was released from deferred grants.

20 Leases

Right of use assets

The Group leases land and buildings for its head office in Linlithgow, Scotland. The current lease was agreed on 1 December 2019 and will run for the 5 year period to 30 November 2024. On 4 March 2022 the Group agreed an additional premises lease for office space in Belfast. This lease has an initial 5 year term and will run until 4 March 2027.

The Group leases IT equipment with contract terms ranging between 1 to 2 years. The Group has recognised right-of use assets and lease liabilities for these leases.

The carrying value of right of use assets, and lease obligations recognised with respect to these leases are shown below:

	Building Lease £'000	IT equipment £'000	*Group* Total £'000	*Company* Total £'000
Cost				
At 1 April 2023	1,044	170	1,214	1,214
Additions	–	–	–	–
Disposals	–	–	–	–
At 31 March 2024	**1,044**	**170**	**1,214**	**1,214**
Depreciation				
At 1 April 2023	554	127	681	681
Charge for the year	218	28	246	246
Eliminated on disposal	–	–	–	–
At 31 March 2024	**772**	**155**	**927**	**927**
Net book value				
31 March 2023	**490**	**43**	**533**	**533**
31 March 2024	**272**	**15**	**287**	**287**

Right-of-use assets

	Group		*Company*	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Balance at 1 April	**533**	791	**533**	791
Additions to right of use assets	**–**	–	**–**	–
Depreciation charge for the year	**(246)**	(258)	**(246)**	(258)
Balance at 31 March	**287**	533	**287**	533

Lease liabilities

	Group		*Company*	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Balance at 1 April	**691**	857	**691**	857
Acquisition of new leases	**–**	53	**–**	53
Payment of lease liabilities	**(296)**	(245)	**(296)**	(245)
Interest expense on lease liabilities	**20**	26	**20**	26
Balance at 31 March	**415**	691	**415**	691
Disclosed as				
Current	**220**	260	**220**	260
Non-current	**195**	431	**195**	431
	415	691	**415**	691

Notes to the Financial Statements continued

20 Leases continued

During the year, the Group also leased additional land and buildings in Stevenage and four motor vehicles. These leases were low-value, so have been expensed as incurred. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Lease commitments for short-term and low value leases

	Group		*Company*	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Motor vehicles	**49**	17	**49**	17
Land and buildings	**72**	58	**72**	58
	121	75	**121**	75

Amounts recognised in the income statement

	Group		*Company*	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Depreciation charge – building lease	**218**	218	**218**	218
Depreciation charge – IT equipment	**28**	40	**28**	40
Interest on lease liabilities	**20**	26	**20**	26
Low value lease rental	**121**	75	**121**	75

Amounts recognised in statement of cashflows

	Group		*Company*	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Total cash outflow for leases	**(296)**	(245)	**(296)**	(245)

A maturity analysis of contractual cashflows relating to lease liabilities is included in note 24 (d).

21 Deferred tax

The 2021 budget proposal increased the corporation tax rate to 25% from 1 April 2023. This was substantively enacted in the Finance Act 2021 on 24 May 2021.

Deferred tax asset

	Group		Company	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Opening balance	**272**	304	**272**	304
Recognised in statement of comprehensive income	**974**	(192)	**974**	(192)
Recognised in equity	**–**	160	**–**	160
Closing balance	**1,246**	272	**1,246**	272
Deferred tax assets arise as follows:				
Unused tax losses	**1,143**	–	**1,143**	–
Share-based remuneration	**76**	250	**76**	250
Other timing differences	**27**	22	**27**	22
Total deferred tax asset	**1,246**	272	**1,246**	272

Deferred tax liability

	Group		Company	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Opening liability	**2,457**	2,017	**2,197**	2,017
Recognised in statement of comprehensive income	**399**	440	**645**	180
Recognised in equity	**21**	–	**21**	–
Closing liability	**2,877**	2,457	**2,863**	2,197
Deferred tax liabilities arise as follows:				
Deferred tax on acquisition	**193**	260	**–**	–
Timing differences on development costs	**2,606**	2,108	**2,605**	2,108
Accelerated capital allowances	**78**	89	**78**	89
Total deferred tax liability	**2,877**	2,457	**2,863**	2,197

22 Provisions

	Group		Company	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Non-current provisions				
Dilapidations	**15**	15	**15**	15

Provisions pertain to potential payments to be made in respect of dilapidations on leased assets.

No discount is recorded on recognition of the provisions or unwound due to the low value and estimable nature of the non-current element.

Notes to the Financial Statements continued

23 Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. When required, the Group uses derivative financial instruments in the form of forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, and not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Capital management

The Board's policy is to maintain a strong capital base so as to cover all liabilities and to maintain the business and to sustain its development. The Board defines capital as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(a) Categories of financial instruments

	Group		*Company*	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Financial assets (current and non-current) at amortised cost				
Trade and other receivables	**2,922**	2,605	**3,072**	2,930
Cash and cash equivalents	**11,868**	17,583	**11,683**	17,186
Short term investments	**–**	1,515	**2,173**	1,515
Financial liabilities (current and non-current) at amortised cost				
Lease liabilities	**416**	691	**416**	691
Trade and other payables	**1,671**	4,636	**1,648**	4,600

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. Under the fair value three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs for the asset or liability.

There have been no Level 3 fair value measurements in the current or prior financial year.

23 Financial instruments (continued)

Financial risk management objectives

The Group's senior management team manage the financial risks relating to the operations of each department. These risks include market risk, credit risk and liquidity risk.

Where appropriate, the Group seeks to minimise the effects of market risks by using financial instruments to mitigate these risk exposures as appropriate. The Group does not enter into or trade in financial instruments for speculative purposes.

(b) Market risks

Foreign currency risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

As at 31 March 2024	Sterling £'000	Euro £'000	US Dollar £'000	Total
Trade receivables	**415**	**82**	**2,425**	**2,922**
Lease liabilities	**(416)**	**–**	**–**	**(416)**
Trade payables	**(856)**	**–**	**(57)**	**(913)**
Cash and cash equivalents	**10,117**	**145**	**1,606**	**11,868**
Short term investments: fixed term deposit	**–**	**–**	**–**	**–**
	9,260	**227**	**3,974**	**13,461**

Based on this exposure, had Pound Sterling weakened by 5% the Group's profit before tax would have been £210,050 lower. The percentage change is based on management's assessment of reasonable possible fluctuations.

As at 31 March 2023	Sterling £'000	Euro £'000	US Dollar £'000	Total
Trade receivables	400	378	1,827	2,605
Lease liabilities	(691)	–	–	(691)
Trade payables	(1,706)	(2)	(62)	(1,770)
Cash and cash equivalents	13,309	517	3,757	17,583
Short term investments: fixed term deposit	1,515	–	–	1,515
	12,827	893	5,522	19,242

Based on this exposure had Pound Sterling weakened by 5% the Group's profit before tax would have been £320,750 lower. The percentage change is based on management's assessment of reasonable possible fluctuations.

Interest rate risk

The Group is not exposed to any significant interest rate risk as borrowings are obtained at fixed rates.

Other market price risk

The Group is not exposed to any other significant market price risks.

Notes to the Financial Statements continued

23 Financial instruments (continued)
(c) Credit risk management
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Group's principal financial assets, other than business assets, are trade and other receivables and cash and cash equivalents. These represent the Group's maximum exposure to credit risk in relation to financial assets.

	Group		Company	
	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Trade and other receivables	**2,921**	2,605	**3,072**	2,930
Cash and cash equivalents	**11,868**	17,583	**11,683**	17,186
Short term investments	**–**	1,515	**–**	1,515
	14,789	21,703	**14,755**	21,631

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The balance presented in the balance sheet is net of allowances for doubtful receivables and returns, estimated by the Group's management based on prior experience and their assessment in the current economic climate. No adjustment has been estimated for the allowance for credit loss.

The Group's main concentration of credit risk relates to where a credit risk management approach is employed, including strict retention of title, customer stock holding visibility and the use of credit insurance.

The Group applies the IFRS 9 Financial Instruments simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The expected credit loss for trade receivables as at 31 March 2024 and 31 March 2023 were determined as follows:

Days past due	**0**	**1-30**	**31-60**	**>60**	**Total**
2024					
Balance outstanding (£'000)	**2,779**	**56**	**12**	**74**	**2,921**
Historic loss rate	**0%**	**0%**	**0%**	**0%**	
Estimated credit loss provision	**0.25%**	**1%**	**1.5%**	**2%**	
Potential credit loss allowance (£'000)	**7**	**1**	**0**	**1**	**9**

Days past due	0	1-30	31-60	>60	Total
2023					
Balance outstanding (£'000)	2,267	322	2	14	2,605
Historic loss rate	0%	0%	0%	0%	
Estimated credit loss provision	0.25%	1%	1.5%	2%	
Potential credit loss allowance (£'000)	6	3	0	0	9

Due to the immaterial nature of the assessed credit risk, no provision has been recognised for 31 March 2024 or 31 March 2023.

23 Financial instruments (continued)
(c) Credit risk management (continued)

Cash

Cash is held with banks in the UK and US with high credit ratings and no financial loss due to the banks' failure to meet their contractual obligations is expected.

(d) Liquidity risk management
The Group manages liquidity risk through the monitoring of forecast cash flows and through the use of bank loans when required, thereby maintaining sufficient liquid assets to fund its contractual obligations and maintain the ongoing development of the Group.

The table below provides an analysis of the Group's financial liabilities to be settled on a gross basis by relevant maturity categories from the balance sheet date to the contractual settlement date. The table includes both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

31 March 2024	**1 year or less £'000**	**1 to 2 years £'000**	**2 to 5 years £'000**	**Over 5 years £'000**	**Total liabilities £'000**
Trade payables	**913**	**–**	**–**	**–**	**913**
Other payables	**970**	**–**	**–**	**–**	**970**
Lease liabilities	**220**	**133**	**64**	**–**	**417**
	2,103	**133**	**64**	**–**	**2,300**

31 March 2023	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total liabilities £'000
Trade payables	1,770	–	–	–	1,770
Other payables	2,834	230	–	–	3,064
Lease liabilities	293	269	143	–	705
	4,897	499	143	–	5,539

24 Retirement benefits
Contributions by Group companies are charged to the income statement as an expense as they fall due. The amount recognised as an expense in relation to defined contributions plans was £422,669 (2023: £417,521).

25 Share-based payments

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Charged to administration expenses:		
Equity settled share-based payments	**756**	531
Cash settled share-based payments	**(10)**	43
Total share-based payments	**746**	574

During the year 26,550 share options were granted (2023: 797,500). The fair value of share options granted has been estimated at the date of the grant using the Black-Scholes model. Expected volatility in the current year was determined by calculating the historical volatility of the Group's share price over the previous year, which the Board consider to be representative of future volatility.

Notes to the Financial Statements continued

25 Share-based payments continued

The following table gives the assumptions made in arriving at the share-based payment charge and the fair value:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Options issued	**26,550**	797,500
Weighted average share price (pence)	**113**	117
Weighted average exercise price (pence)	**113**	117
Expected volatility (%)	**51.8%**	63.4-67.1
Vesting period (years)	**3-5**	3-5
Option life (years)	**10**	10
Risk free rate (%)	**5.0**	0.75-4.25
Dividend yield (%)	**1.0**	1.0
Fair value at grant date (£'000)	**11**	399

Equity options in issue at 31 March 2023	5,199,000
Equity options issued in the year	26,550
Equity options realised in the year	(34,367)
Equity options forfeited in the year	–
Equity options in issue at 31 March 2024	5,191,183

As at 31 March 2024

Number of option awards in issue	**2,459,633**	**2,676,550**	**55,000**
Exercise price (pence)	**48**	**112-118**	**155-158**
Share price as at 31 March 2024 (pence)	**59**	**59**	**59**
Weighted average share price for year ended 31 March 2024 (pence)	**92**	**92**	**92**
Number of options available to exercise at 31 March 2024	**692,966**	**nil**	**nil**
Average period remaining of options in issue (months)	**114**	**–**	**–**

During the year no cash settled options were granted (2023: 38,000). The fair value has been measured at the reporting date using the Black-Scholes model. Due to the proximity of the reporting date to the issue of equity settled share options granted, the model assumptions on volatility, risk free rate, and dividend yield used for the cash settled options do not materially differ from those in the table above.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Options issued	**–**	38,000
Weighted average share price (pence)	**–**	115
Weighted average exercise price (pence)	**–**	115
Vesting period (years)	**–**	3–5
Option life (years)	**–**	10
Fair value at reporting date (£'000)	**–**	18

As at 31 March 2024

Number of awards in issue	**118,500**
Exercise price (pence)	**115-118**
Share price as at 31 March 2024 (pence)	**59**
Weighted average share price for year ended 31 March 2024 (pence)	**92**
Number of options available to exercise at 31 March 2024	**nil**

25 Share-based payments continued

During the year a management long term incentive plan ('LTIP') was created inclusive of market based vesting conditions. To determine fair value, a Black-Scholes model was utilised for the EPS and Revenue tranches, and a Monte Carlo valuation for the TSR tranche. Further details can be found on the LTIP vesting criteria within the Remuneration Committee report.

Key assumptions in deriving the fair value charge:

As at 31 March 2024	EPS Tranche	Revenue Tranche	TSR Tranche
Number of awards granted	465,713	232,857	232,856
Fair value (pence per share granted)	108	108	46
Fair value (% of share price at grant date)	97.1%	97.1%	41.3%
Share price at grant date (pence)	111	111	111
Exercise price (pence) – UK participants	1	1	1
Exercise price (pence) – US participants	0	0	0
Risk free rate (%)	–	–	4.39
Dividend yield (%)	0.84	0.84	0.84
Expected term (years)	3	3	3
Volatility (Simulating TSR performance)			43.8%

Due to the inclusion of performance-based measures beyond only the passage of time, these performance-based employee share options have been treated as contingently issuable shares in the calculation of both basic and diluted earnings per share (note 29). The performance measures will be assessed (based on audited data) by the Remuneration Committee at the end of the 3-year period.

As part of the iTrinegy acquisition in April 2022, the 'Earn out' contingent consideration had the potential for issuance of 322,579 ordinary shares if revenue targets for the year ended 31 March 2024 had been met. This consideration for the vendors who remained employees was treated as remuneration and expensed through the income statement in line with IFRS 2 Share based payment.

The revenue target for the year ended 31 March 2024 was not met, and as a result the contingent equity settled share based payment to the employee vendors was forfeited. As these options contained performance based measures beyond only the passage of time, they had been carried as contingently issuable shares. The forfeiture of these options does not therefore have any effect on the basic or diluted earnings per share calculations in note 29.

Share option reserve reconciliation	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Opening balance	873	502
Equity settled share-based payments	756	531
Share options realised or forfeited	(195)	–
Deferred taxation on share options: charge recognised in equity	(20)	(160)
Total share option reserve	1,414	873

Notes to the Financial Statements continued

26 Group companies

Subsidiary undertakings	Country of registration or incorporation	% of direct shares held Principal activity	2024	2023
Calnex Americas Corporation	USA	Sales and marketing Support services to Calnex Solutions plc	**100%**	100%
iTrinegy Ltd	UK	Development and marketing of software defined test network technology	**–**	100%

On 02 January 2024, iTrinegy Ltd, the only remaining entity following the post-acquisition hive up of the iTrinegy group, was dissolved. All trade and assets of iTrinegy Ltd were transferred to Calnex Solutions plc in the prior financial year.

27 Called up share capital

As at 31 March 2024, the Company had 87,558,302 (2023: 87,523,935) issued and fully paid Ordinary Shares held at a nominal value of 0.125p. During the year, exercise of share options resulted in 34,367 shares being issued.

	Group and Company	
	31 March 2024 £'000	31 March
Ordinary shares of 0.125p each	**109**	109
In issue at the start of the financial year	**109**	109
Share options exercised	**0**	–
In issue at end of the financial year	**109**	109

28 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary Shares in issue during the year.

Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the total of the weighted average number of Ordinary Shares in issue during the year and adjusting for the dilutive potential Ordinary Shares relating to share options and warrants.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Profit after tax attributable to shareholders	**40**	5,911
Weighted average number of ordinary shares used in calculating:		
Basic earnings per share	**87,530**	87,520
Diluted earnings per share	**92,749**	92,070
Earnings per share – basic (pence)	**0.05**	6.75
Earnings per share – diluted (pence)	**0.04**	6.42

29 Notes to the Statement of Cashflow

Reconciliation of changes in liabilities to cashflows arising from financing activities

	Lease liabilities £'000	Total £'000
Balance at 31 March 2023	691	691
Lease repayment	(296)	(296)
Interest payments	20	20
Total changed from financing cashflows	(276)	(276)
Acquisition of new lease	–	–
Total other changes	–	–
Balance at 31 March 2024	415	415

30 Share schemes

The company operates a number of share incentive plans on behalf of its employees, details of which can be found in the Remuneration Committee report. Included in these are the UK Share Incentive Plan and a cash settled phantom plan for Non-UK employees:

UK Employee Share Incentive Plan (UK SIP)

The UK SIP is an all-employee HMRC approved share plan open to employees based in the UK. Employees can elect to invest up to £150 each month (£1,800 per year), deducted from their gross salary, which is used to purchase shares at market value as "partnership" shares. The Company offers participants "matching" shares, which are subject to forfeiture for three years, on the basis of one free matching share for each partnership share purchased.

Non-UK Employee Incentive Plan

Under the UK SIP Plan, shares may only be awarded to UK based employees of the Group. As the Board also wanted to have the discretion to grant awards to contractors and overseas employees, it was necessary to set up a separate Non-UK Employee Incentive Plan under the rules of the Notional Plan (refer to the Remuneration Committee Report for more detail). This Plan acts as a non-tax advantaged shadow equity interest plan to the UK SIP, mirroring the UK SIP awards for overseas employees and contractors with equity ownership being replaced by cash settlement. The non-UK Employee Incentive plan is therefore available to employees in countries other than the UK, on a cash-settled basis. Employees can elect to save funds up to £150 each month (£1,800 per year), deducted from their pre-tax salary, for a 12-month period, and matched by the Group. In the cash settled model, these savings are then returned to the participant at the prevailing market share price at the end of the savings period, had the funds been used to purchase Calnex Solutions plc shares (returns being fully funded by the Group). Employees participating in this scheme during the period under review included those based in China, Hong Kong and India and the USA. The fair value assessment of this obligation at the year-end was £110,500 (2023: £180,000) and is included within other creditors.

Notes to the Financial Statements continued

31 Dividends
All dividends are determined and paid in Pound Sterling.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Declared and paid in the year		
Final dividend 2022: 0.56p per share	**–**	490
Interim dividend 2023: 0.31p per share	**–**	271
Final dividend 2023: 0.62p per share	**543**	–
Interim dividend 2024: 0.31p per share	**271**	–
Proposed for approval at the Annual General Meeting (not recognised as a liability at 31 March 2024)		
Final dividend 2024: 0.62p per share	**543**	

The directors are proposing a final dividend with respect to the financial year ended 31 March 2024 of 0.62p per share, which will represent £542,861 of a dividend payment. The final dividend will be proposed for approval at the Annual General Meeting in August 2024 and, if approved, will be paid on 30 August 2024 to all shareholders on the register as at close of business on 26 July 2024, the record date. The ex-dividend date will be 25 July 2024.

32 Alternative performance measures (APMs)
The performance of the Group is assessed using a variety of performance measures, including APMs which are presented to provide users with additional financial information that is regularly reviewed by the Board. These APMs are not defined under IFRS and therefore may not be directly comparable with similarly identified measures used by other companies.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Underlying EBITDA	**80**	7,234
Underlying EBITDA %	**0%**	29%
Capitalised R&D	**5,579**	4,523

Key performance measures:
- **Underlying EBITDA:** EBITDA after charging R&D amortisation

Reconciliation of statutory figures to alternative performance measures – Income Statement

	FY24 £'000	FY23 £'000
Revenue	**16,274**	27,449
Cost of sales	**(4,327)**	(6,977)
Gross Profit	**11,947**	20,472
Other income	**797**	751
Administrative expenses (excluding depreciation & amortisation)	**(8,884)**	(9,928)
EBITDA	**3,860**	11,295
Amortisation of development costs	**(3,780)**	(3,315)
Underlying EBITDA	**80**	7,980
Other depreciation & amortisation	**(697)**	(746)
Operating (Loss)/Profit	**(617)**	7,234
Interest received	**357**	–
Finance costs	**(124)**	(26)
(Loss)/Profit before tax	**(384)**	7,208
Tax	**424**	(1,297)
Profit for the year	**40**	5,911

Company Information

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