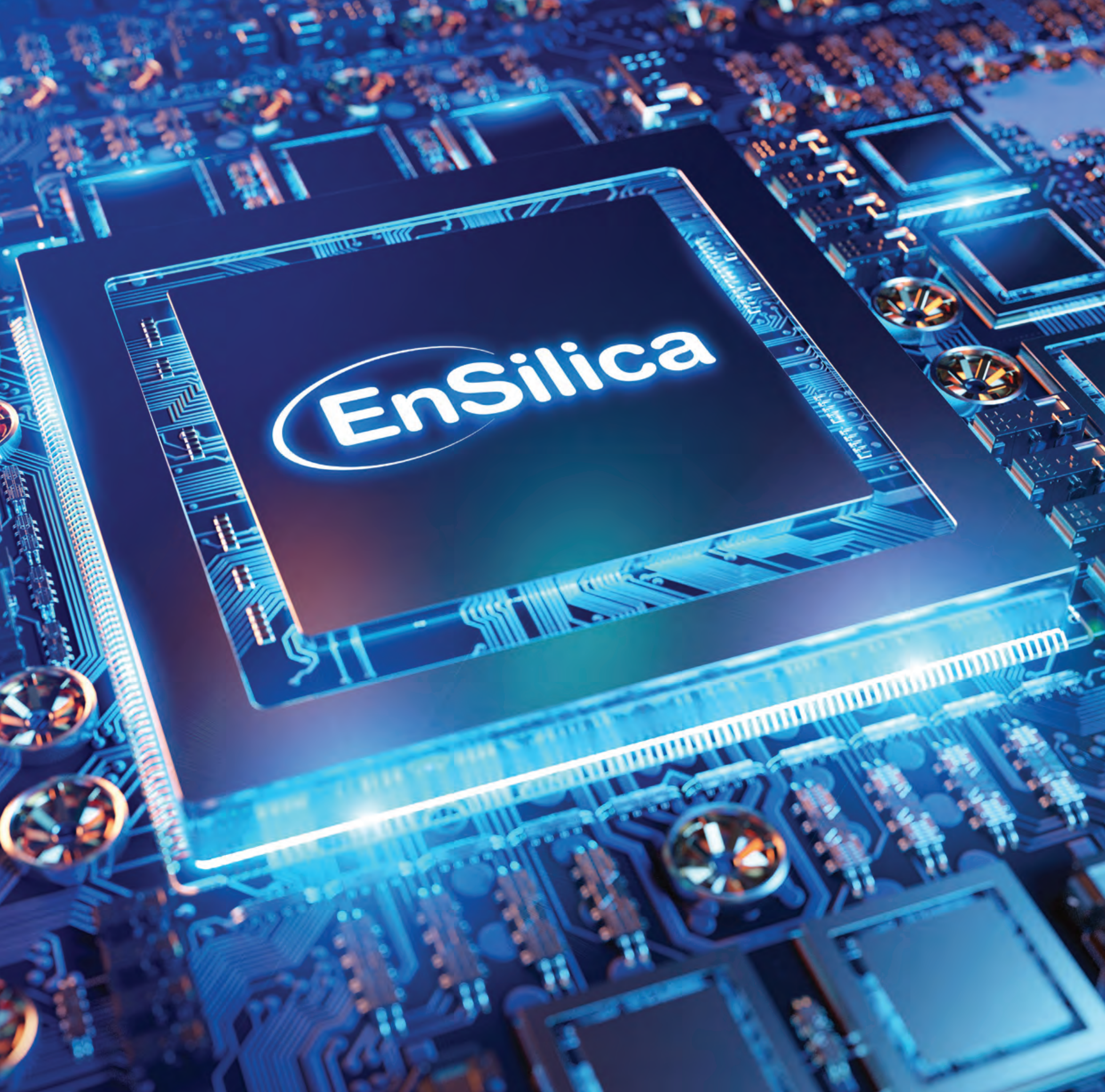


Annual Report and Consolidated Financial Statements

For the year ended 31 May 2023

About EnSilica plc

EnSilica is a leading fabless design house focused on custom ASIC design and supply for OEMs and system houses, as well as IC design services for companies with their own design teams. The company has world-class expertise in supplying custom RF, mmWave, mixed signal and digital ASICs to its international customers in the automotive, industrial, healthcare and communications markets.

The company also offers a broad portfolio of core IP covering cryptography, radar and communications systems. EnSilica has a track record in delivering high quality solutions to demanding industry standards. Our impressive record of success has been achieved working with customers ranging from start-ups to blue-chip companies and our project portfolio ranges from module design to multimillion gate System-on-Chip.

The company is headquartered near Oxford UK with design centres across the UK, Bangalore India and Porto Alegre Brazil.

MISSION	➢ Shaping better futures through innovative semiconductor solutions
STRONG EXISTING FOOTHOLD	➢ Our business supports a global client base ➢ We are delivering robust financial and operational growth ➢ Experienced management team with a strong track record of delivery
HIGH GROWTH MARKETS	➢ We are focused on the high-growth opportunities in Automotive, Industrial, Healthcare and Satellite Communications sectors
POSITIONED TO CAPITALISE	➢ We have a growing pipeline and order book of projects at an all-time high ➢ We have a proven business model to scale and to deliver returns

Registration no: 04220106
Registered Office: 100 Park Drive, Milton Park, Abingdon, Oxfordshire UK. OX14 4RY

Contents

ESA and UK Space Agency back EnSilica to develop satellite user terminal broadband chip

Highlights

REVENUE + 33.9%

EBITDA + 50%

OP. PROFIT + 18.6%

NET ASSETS + 31%

EPS + 1050%

FINANCIAL HIGHLIGHTS

- Revenue increased to £20.5 million (FY 2022: £15.3 million)
- Operating profit increased to £0.83 million (FY 2022: adjusted £0.70 million)
- Gross margin 39.9% (FY 2022: 33%)
- EBITDA £1.56 million (FY 2022: Adjusted £1.04 million)
- Diluted eps 2.30p an increase of 1050% (FY 2022: 0.2p)
- Cash and cash equivalents at 31 May 2023 of £3.1 million (FY 2022: £5.7 million)
- Net cash at 31 May 2023 of (£1.07 million) (FY 2022: £0.6 million)
- Net assets increased by 31% at 31 May 2023
- Further investment in IP of £4.13 million (FY 2022: £2.24 million)

OPERATIONAL HIGHLIGHTS

- Strong pipeline of new business across FY 2023
- Sales and marketing initiatives now generating increased market visibility and traction resulting in higher value opportunities
- Key contract wins and contract extensions include:
    - Major industrial factory automation design win worth $30 million
    - Automotive ASIC designed into new models increasing revenue forecast for this product to $40 million
    - €5m contract award to develop Satellite Broadband Chip funded by UK Space Agency with a lead customer having committed €2.5 million toward taking the chip to production, including an order for the first 50,000 chips
    - Award of e-mobility sensor ASIC contract estimated to be worth in excess of $7 million

OUTLOOK

- The Company has started FY 2024 well, supported by both existing contracts and new business momentum
- The business has built a strong pipeline with a sizeable order book that continues to underpin management's confidence in the business
- Looking ahead, the Board believes the Company is well placed to continue to capitalise on the significant growth opportunity that exists within the semiconductor industry

Strategic Report

In this section

Chair's Statement

I am delighted to report on our first full year as an AIM quoted company in what has been a successful year for the Company

Mark Hodgkins
Executive Chair

Dear Shareholders

As you will all be aware the last two years have been difficult times and economically challenging from a geopolitical risk point of view as well.

This background to our first full year as a public company has made the experience even more challenging than it would have been and so the team are proud that we have delivered a set of results that surpassed the expectations that were set at the time of the IPO. It was pleasing to have this recognised by being chosen as 'IPO of the Year' by Small Cap Network.

As I reported last year we went through a tremendous period of organisational and operational change in the business pre IPO and in the year since we have built steadily on the corporate infrastructure whilst delivering these results. Notwithstanding this considerable progress, equity markets have been nervous and therefore we believe we have not seen the full advantage of our shares being publicly quoted. We have continued nonetheless to deliver on our long term plans and we have begun our second year with the business in good condition with good demand for our services across a range of markets on which we focus.

Ian and the team have expanded our sales effort, have enlarged our engineering resource and adopted new processes and procedures, whilst delivering significant contract wins and improved margins and I would like to thank the whole team across our global footprint for their combined efforts during the year. They have been tremendous.

This post IPO positive momentum has resulted in an outcome for the financial year ending 31 May 2023 in which EnSilica delivered revenues for FY 2023 of £20.5m (2022: £15.3m), a 34% increase on the prior year, and an unadjusted EBITDA of £1.56m (2022 adjusted: £1.04m), and a much improved earnings per share of 2.30p compared to 2022 which was 0.2p, overall delivering resilient year on year growth.

This performance represents the consolidation of our underlying business strategy first adopted in 2016, with the start in 2022 of direct chip supply to our first automotive customer.

That said, our strategy develops and gets refined as we focus on niche markets within the broader target markets and the year under review saw the Company's sharper focus in satellite communications on the design and supply of beamformer chips, a first contract which was announced recently.

The award of a significant industrial contract, announced in July 2022, provides further validation of our operating model and financial drive. This prestigious customer win, combined with our substantial order book is directly attributable to our highly experienced team who have worked tirelessly to ensure we remain best in the business.

As I set out last year, we are committed to pursuing excellent Board performance and we have worked this year with advisors to assess and develop how we can work better as a Board with the foundation of development programmes to promote outstanding achievement in Board performance attainment. This will be an ongoing programme each year and we report in our governance report progress to date.

As a responsible business, we remain focused on corporate environmental, social, and governance ('ESG') values to build a strong, profitable, and sustainable business. We have undertaken to establish critical ESG priorities, opportunities and risks, and will be reporting across these headings going forward.

Despite the challenges presented by the broader macro-economic climate, we continue to service a sizeable order book and a strong level of enquiries for ASICs from a variety of sources across automotive, industrial, healthcare and satellite communications, capitalising on our longstanding reputation for innovation and excellence.

Chair's Statement continued

Our staff remain our most important asset and we continue to develop reward structures that benefit employee development and efficient and rewarding technical work environments. During the year the number of our staff increased to 168 (2022:117).

Finally, financial year 2024 has started well with a growing pipeline. Our supply revenues continue to grow as planned and the Board are confident that the Company is well placed to continue its growth trajectory.

Mark Hodgkins
Chair
9 October 2023

Chief Executive's Review

Our recent new design wins are a clear indication that our model is being fully deployed, securing both revenue and profit growth in the medium term

Ian Lankshear
Chief Executive Officer

Introduction

We are delighted to report our first full twelve months as a quoted company, in which time we have continued to strengthen our business, delivering a record period of growth.

Pleasingly, we have maintained excellent new business generation across the period, which has in turn further bolstered our financial position. To that end, we are pleased to report that both revenue and EBITDA were in line with expectations at £20.5 million and £1.56 million respectively.

This ongoing operational and financial progress further reinforces the strength of EnSilica's business model, which has enabled the Company to maintain excellent new business momentum alongside growing the Company's substantial sales pipeline.

Our increased profile owing to the Company's quoted status on the AIM market of the London Stock Exchange continues to support the growth of the business, helping us to accelerate our stated goal to be the premier application specific fabless chipmaker in Europe. Our enhanced visibility in the market, strengthened balance sheet, and financial transparency have broadened our engagement with top-tier customers, enabling increased new business activity. Proof of this was in July 2022 with the $30 million supply award from a market leading industrial OEM. Our investment in a European direct sales organisation and specialist sales representatives has also increased the quality and lifetime value of the opportunities being uncovered.

I would like to express my sincere thanks to all our highly talented and hardworking staff, who continue to be at the heart of everything we do, and to our loyal customers and investors, who have played a pivotal role in our success to date and whose continued support underpins our growth ambitions for the future.

EnSilica's Business Model

EnSilica operates a Fabless Semiconductor Model, providing an end-to-end solution for the development, manufacturing and supply of Integrated Circuits ("ICs") from initial scoping and design through to the delivery of products. This sits alongside our design consultancy, supporting customers with their own design teams to develop ICs.

EnSilica's specialist operation team manage the fabrication of ICs, working with the leading semiconductor wafer foundries, following which the processed wafers are sent for dicing, testing, and packaging by outsourced semiconductor assembly and test partners.

This model is well proven and used by fabless semiconductor companies such as Broadcom, Nvidia, and Nordic Semiconductor.

EnSilica's focus on ASIC design and supply embeds the Company further into the electronics value chain, which sees customers typically pay an upfront fee towards the costs of design, tooling, and test development of the ASIC, otherwise known as non-recurring engineering costs ("NRE"). Customers will subsequently purchase the EnSilica designed ASIC or, in some cases, pay royalties to EnSilica for the ASICs that a third party will manufacture on the customer's behalf.

EnSilica will often co-invest in the development of an ASIC alongside the customer, and, depending on the sector, the ASIC can take two to five years to reach full production. At the production stage, revenues can be high, last several years, and generate gross margins in the 35% to 60% range. The gross margin will depend on the market and the level of co-funding of the NRE required, as well as the amount of EnSilica's intellectual property present in the finished IC product. Therefore, part of EnSilica's expertise is in scrutinising the potential financial upside of investing in various IC development programmes, with the right projects in turn resulting in long-term component supply or royalty revenue for the Company.

Chief Executive's Review continued

In niche areas where the Company identifies market opportunities, the Company invests in its own IP as the basis of a customer-specific ASIC or what is known as an Applications Specific Standard Part ("ASSP"). These chips are sold to multiple customers hence generating even larger returns. Examples of this are the Company's Satellite Communications and Healthcare Vital signs sensor technologies.

The Company's recent new business wins are a clear indication that this model is being fully deployed, securing both revenue and profit growth in the medium term.

Growth strategy

To that end, our growth strategy remains unchanged from that outlined during our IPO, and we will continue to pursue the following business objectives:

- leverage EnSilica's strong positions and IPR within automotive, industrial, healthcare, and satellite connectivity applications for mixed signal ASICs;
- scale the Company's successful Fabless ASIC Model to fully exploit revenue opportunities from design and supply engagements;
- develop ASSPs to address key customer driven opportunities, with two significant standard platforms already at the device evaluation stage; and
- expand EnSilica's offering through consolidation and vertical integration.

Market Drivers

The market for microchips continues to grow at pace with estimates now suggesting that 1.1 trillion microchips were produced in 2021, equating to c.140 per person globally.

EnSilica remains focused on four principal markets where we believe there is significant growth opportunities: satellite communications, industrial, automotive, and healthcare.

Satellite Communication Sector

The **Satellite Communication Sector**, specifically internet broadband using Lower Earth Orbit (LEO) satellites, is a growing area. Elon Musk SpaceX's Starlink constellation of more than 4000 satellites has proven that high-speed resilient internet connection is possible and is considered a vital part of the communication infrastructure with a very wide range of use cases, including government, automotive, maritime, and aerospace connectivity, as well as connectivity for rural households.

A satellite internet system typically contains approximately 600 RF (radio frequency) and 20 beamformer chips per user terminal. As this market grows we expect to see it drive demand for low cost and low power RF and mixed signal chip design. Today's subscriber levels are relatively low at approximately 2 million subscribers, but even this is driving demand for up to 1.2 billion RF chips and 40 million beamforming chips.

EnSilica has key IPR and know-how and has announced a number of contracts in this sector, there are a wide range of opportunities in the growing number of new LEO constellation. Many of these will be providing services by 2025.

Industrial Sector

Substantial further growth is expected within the **Industrial Sector**, with the global industrial semiconductor market worth an estimated $60 billion in 2021, rising to $130 billion in 2030. The industrial market also has room for manufacturing optimisation through realising the benefits of AI and machine learning. The sector is also undergoing changes due to new cyber security standards being driven by an EU Directive known as NIS2. Both these factors are increasing the number of requests for quotations (RFQs). EnSilica has one of the largest European industrial OEMs as a supply customer, and hence is well positioned to service the next generation of industrial chips.

Automotive Sector

The **Automotive Sector** continues to be driven by innovation and an accelerated shift to electric powered vehicles, infotainment systems, advanced driver assist systems, autonomous driving systems, connectivity, safety, and security systems. A standard hybrid electric car contains, on average, c3,500 semiconductor chips. This growing trend is further evidenced with the automotive semiconductor market expected to be worth an estimated $82 billion in 2025, increasing to $130 billion by 2030, which further validates EnSilica's keen focus on this high value end market.

Healthcare Wearables Sector

The **Healthcare Wearables Sector** remains of considerable interest to the Company as advancements in AI have made it possible to detect medical conditions through a range of monitoring devices from devices worn on the wrist, sensors on a small patch, or even within earbuds or as a ring. Semiconductors in the healthcare market is expected to be worth $7.47 billion in 2023, rising to $12.82 billion by 2028, growing at a CAGR of 11.41% during this period.

Central to this growing trend is the growth in consumer health and wellness wearable devices shipped worldwide, which is expected to be nearly 440 million devices by 2024. These figures include both smartwatches and medical-grade wearables, which are often prescribed by healthcare professionals but are also increasingly becoming available off the shelf.

The Company has developed key IPR including a vital sign sensors IC offering accurate sensor interfaces with very low power consumption. This IC is being evaluated by a number of customers and the Directors believe this will lead to either a standard part sold to many customers as an ASSP or various customised versions of the IC optimised for specific customers.

Semiconductor supply chain and Geo-political changes

Looking more broadly at the semiconductor market, the much-publicised global chip shortage has undoubtedly increased the awareness of the multitude of benefits of using custom silicon compared to standard parts, including simplified and secure supply chains. This has strengthened our turnkey ASIC pipeline to an all-time high.

Our next stage of accelerated growth will be driven by the global demand for semiconductors and our expertise in mixed signal chips, enabling a greener, safer, smarter, and more connected world.

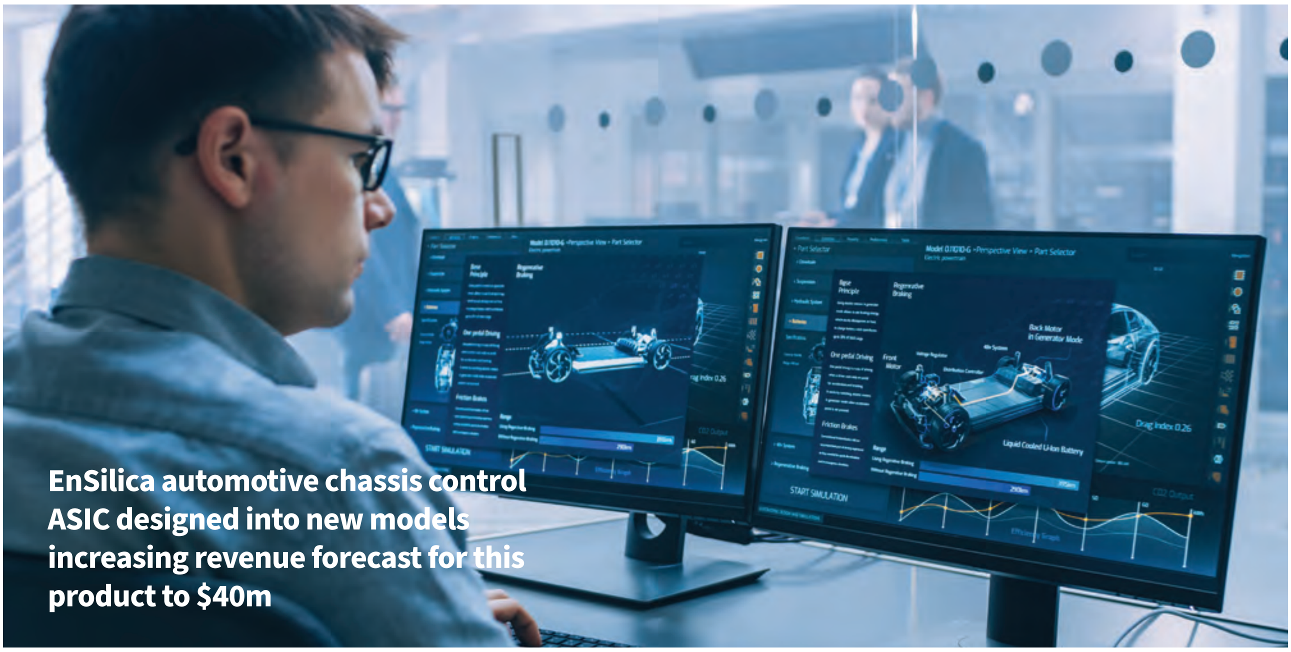
It took recent chip shortages to cement the "critical" status of the semiconductor sector, establishing it as a truly essential industry.

In addition, the COVID-19 pandemic highlighted the importance of access to a local thriving semiconductor ecosystem. With Asia accounting for 60% of global semiconductor sales, European and U.S authorities recognise the need to be less dependent on a handful of East Asian countries to guarantee supply. To that end, Europe and the U.S have passed multibillion "Chip Acts" to encourage local semiconductor design and production capabilities.

Our executive and non-executive team have been actively contributing to the UK government's plan to become more self-sufficient in relation to key elements of the semiconductor supply chain, and in August, the Company was proud to announce that Janet Collyer, a Senior Independent Director, had been appointed to the UK Government's Semiconductor Advisory Panel.

With the heightened Chinese/ US tension over Taiwan, there has been a drive to move the supply chains away from China and even towards longer term options outside of Taiwan. Investment has been announced in a number of wafer foundries including major ones in the USA, Germany, and Japan.

There has also been increased investment in packaging and test outsources assembly and test (OSAT) increasing their geographical diversity. Customers are demanding visibility of their full supply chain with second source and contingency planning. OEMs are seeing that ASICs are an ideal method of driving this resilient supply chain.



EnSilica automotive chassis control ASIC designed into new models increasing revenue forecast for this product to $40m

Chief Executive's Review continued

Customer Activity

The Company currently manages a sales pipeline that is at an all-time high. Business wins and sales opportunities have been across all our focus sectors.

Key contract awards since the start of FY 2023 include:

- Major industrial factory automation design win worth $30 million
- Automotive ASIC design into new models increasing revenue forecast for this product to $40 million over 6 years.
- €5 million contract award to develop Satellite Broadband Chip funded by UK Space Agency, a lead customer also committed €2.5 million toward taking the chip to production, including an order for the first 50,000 chips
- Award of sensor ASIC for e-mobility (electric vehicles (EVs), electric two wheelers, e-bikes and e-scooters applications estimated to be worth in excess of $7 million.
- $1.3 million ASIC contract extension and estimated royalty payment increase from $5 million to $15 million over a five-year period

In addition, the Company is also pursuing a number of significant supply ASICs opportunities with both new and existing customers which are all progressing well. The life-time values per opportunity has increased significantly compared to the previous year, this is due to the wider reach of the sales team and the newly-listed status of the Company capturing a new set of customers.

Our People

Our team have done an excellent job delivering some of the most complex semiconductor engineering projects in the industry. This includes developing innovative advanced node RF designs that very few teams outside the semiconductor giants could deliver.

The Company remains focused on attracting new talent, and in the UK we are actively working with the UK Electronics Skills Foundation ("UK ESF") to offer undergraduate scholarships. EnSilica employees have also been actively promoting Science, Technology, Engineering, and Mathematics subjects (STEMS) in schools, with a focus on encouraging more girls to pursue a career in engineering. In Brazil and India, our team is undertaking similar initiatives to attract the best talent into the Company and promote the excellent career opportunities that exist within the semiconductor sector.

Industry Recognition

In the prestigious UK TechWorks Award in November 2022, EnSilica was proud to take home three awards:

- The Company of the Year Award.
- The Young Engineer of the Year Award won by Omotade Iluromi.
- The TechNES Design Award for innovative design involving strong industry and academic collaboration. This was awarded for the satellite RF IC work with Swansea University.

Board

In April 2023, Matthew Wethey stepped down from his position as Chief Financial Officer and Executive Director of the Company. The Board is grateful to Matthew for his contribution during a period of significant operational change and wishes him every success in the future.

Following Matthew's departure, the Company announced the appointment of Chris Mann as Interim Chief Financial Officer (non-Board) from 11 April 2023 to support the business while the search for a permanent replacement is ongoing.

Outlook

Having successfully delivered our FY 2023 results in line with market expectations, I am pleased to report that the Company has started FY 2024 well, supported by existing contracts and ongoing new business momentum.

The business has built a strong pipeline and order book, which continues to underpin the confidence we have in the business.

Looking ahead, the Board believes that the Company is well placed with strong IP and market know-how to continue to capitalise on the significant growth opportunity that exists within the semiconductor industry, and in particular, within the high-growth market segments the business has identified.

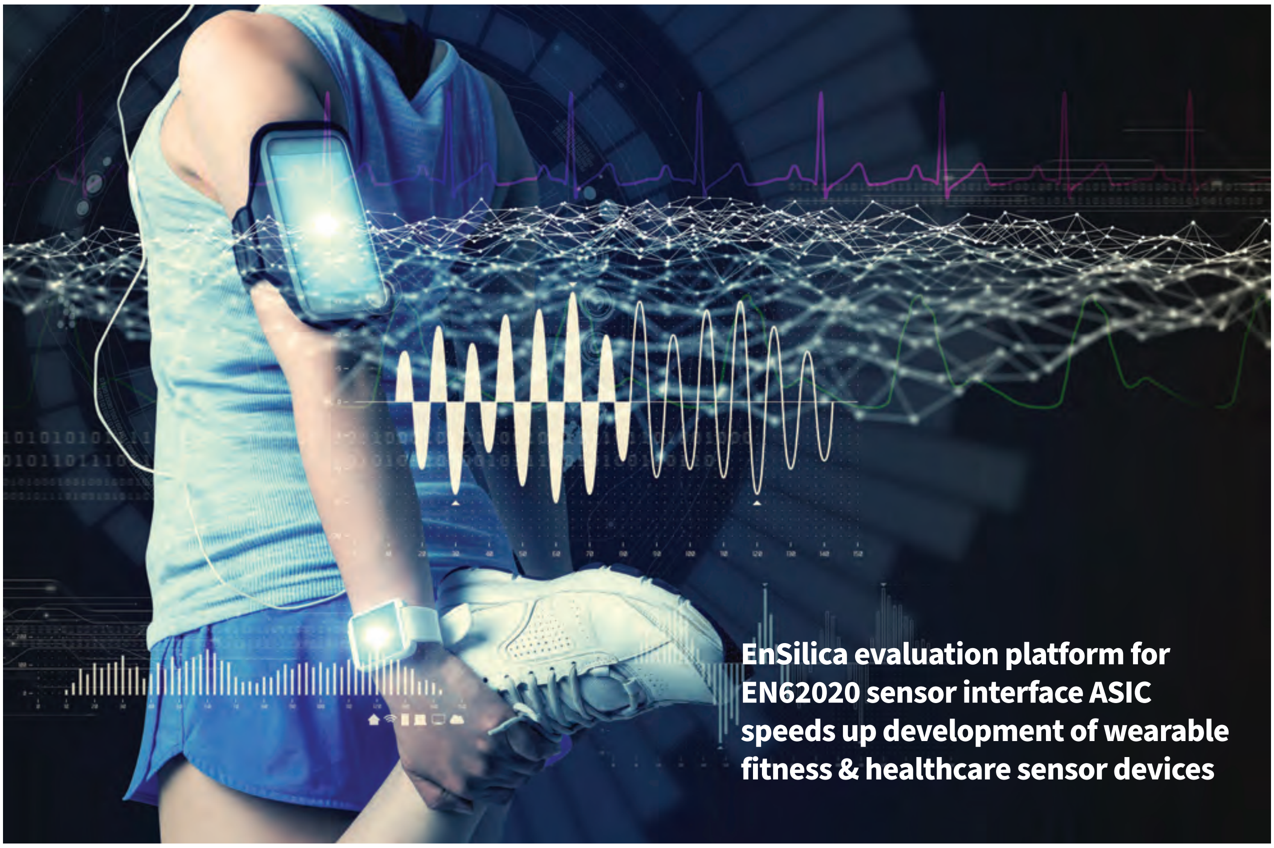
Chief Executive's Review continued

Cautionary statement

This report contains forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could, is confident, or other words of similar meaning. Undue reliance should not be placed on any such statements because they speak only as at the date of this document and, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and EnSilica plc's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. There are a number of factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. These risks and uncertainties include, among other factors, changing economic, financial, political, business or other market conditions. EnSilica plc is under no obligation to revise or update any forward-looking statement contained within these financial statements, regardless of whether those statements are affected as a result of new information, future events or otherwise, save as required by law and regulations.

This strategic report has been approved by the Board of Directors and signed on its behalf by:

Ian Lankshear
Chief Executive Officer
9 October 2023



Interim Chief Financial Officer's Review

Chris Mann

Interim Chief Financial Officer

Introduction

The Company's financial performance during the year under review has been achieved on the back of cautious financial planning.

At the time of the Company's IPO in May 2022, the economic outlook had recently become extremely uncertain due to the invasion of Ukraine. That economic background demanded an approach to budgeting that ensures that there is no reliance on providers of finance whether it be equity or debt in the event of growth.

This has allowed the Company, to demonstrate that with careful planning the "fabless" semi-conductor model, is one that can be executed from resources generated by the business itself.

Our cash generation was supported by a small equity raise in March of this year on the back of a strong run of contract wins at the turn of the year, as well as the receipt of £2.1 million as part of the HMRC research and development credit tax programme.

The Company remains in the investment phase of the fabless semi-conductor cycle having invested a further £4.13 million in anticipation of further growth in our revenues and penetration of our chosen markets. This investment will, in time, pay off with further supply revenues which have begun to flow in financial year 2024.

Financial Summary

A summary of the key financial results for the year and details relating to its financial position at the 31 May 2023 are set out in the table below.

	31 May 2023 £000	31 May 2022 £000	31 May 2021 £000
Revenue	20,476	15,293	8,607
Gross Profit	8,170	5,047	2,057
Gross margin (%)	39.9	33.0	23.9
Operating profit/(loss) excluding impairment of intangible assets and IPO costs	825	705	(169)
IPO costs	-	(609)	-
Impairment of intangible assets	-	-	(2,019)
Profit/(loss) before tax	47	165	(714)
Tax	1,745	683	658
Profit/(loss) for the year	1,792	848	(56)
EBITDA	1,555	1,036	59

	31 May 2023 £000	31 May 2022 £000	31 May 2021 £000
Cash and Cash equivalents	3,095	5,742	1,404
Liabilities arising from financing activities	(4,167)	(5,159)	(6,095)
Net Debt	(1,072)	853	(4,691)
Intangible assets	12,433	8,576	6,506

	31 May 2023 FTE	31 May 2022 FTE	31 May 2021 FTE
Administration	17	10	9
Marketing	6	5	4
Research, development and technical	146	102	83
Average number of employees	168	117	96

Interim Chief Financial Officer's Review continued

Notable from the table above

The Company has delivered a resilient set of results for the year ending 31 May 2023, building on the strong results of 2022. Revenue growth of 33.9% (2022: 77%) to £20.5 million, compared to £15.3 million for 2022. This was driven by strong growth across all business lines particularly satellite communications as well as emerging supply revenues in automotive. Our legacy consulting revenue stream also contributed to the growth in revenues. In 2022 revenue from two different customers amounted to £8.4 million 55% of total revenue. In 2023 our largest customer represented 28% of total revenues.

The Company continues to focus on developing the revenue derived from Supply/NRE revenue streams as compared to its legacy Consultancy revenues. In the year to 31 May 2023, Supply/NRE has reduced in percentage terms from 40.9% to 39.9% of total revenue in the year, although the overall amount has increased 30.8% year on year.

The Company maintains a level of consultancy work which provides a reliable income stream, though going forward management will focus on the higher returns of design and supply work and consultancy income will become less important to the business.

Supply revenue from prior NRE work, which typically involves 1-2 years' work prior to development is now beginning to flow through. The pipeline of NRE work, which supports future supply revenues remains strong. We now have three ASICs which have been released for production and we anticipate this increasing in line with the Company's plans. As noted above, we continue to invest in new contracts with new customers which will feed the supply revenues of the Company in future years.

The Company has delivered further improvement in its gross margin percentage by undertaking higher margin projects, increasing the utilisation of the increasing number of engineers and leveraging the IP library that is has grown strongly in recent years. As a result the Company was able to increase its gross margins by 6.5% from 33% in FY 2022 to 39.9% in the current year.

We take a critical review of the carrying value of our intangible fixed assets. The Board has overseen a rigorous review of the value which is supported by supply revenue streams.

As mentioned above the difficulties in the economy and investment markets has emphasised the ever present focus on cash management and it is pleasing to report that EBITDA for the year to May 2023 continues its improving trend and was £1.555 million unadjusted compared to 2022 £1.0 million adjusted. In addition to the unadjusted EBITDA of £1.555 million we recognised £2.1 million due from HMRC as an R&D tax credit.

The net debt of £1.07 million compares to £0.6 million of net cash at the end of May 2022.

The improving EBITDA and the R&D tax credit have allowed the repayment of £0.8 million loan capital in line with agreed amortisation. This while maintaining our investment in IP which amounted to £4.13 million.

The Company increased the average number of employees during the year by 51 heads, of these 44 were research, development and technical heads. The majority of these are based in the UK.

Financial items of note during the year other than those set out above

The Company had two bank loans totalling £4.167 million at the end of the current year and £4.966 million at the end of the previous year, these loans charged interest of £0.6 million (2022 £0.5 million).

The Company qualifies for support under the HMRC R&D Tax Credit scheme. In the current year the amount recoverable from HMRC is £2.1 million (2022: £1.67 million).

Going Concern

It is the Company's normal business practice to prepare short term, annual and long term plans which are reviewed and approved by the Board.

The assumptions around projected sales, staffing and purchases are based on management's expectations and are consistent with the Company's experience.

The plans take into consideration the possibility of the continuance of the Russia/Ukraine war, increasing interest rates, and the current economic environment, which is likely to create problems for global supply chains and negatively impact demand. The financial statements have been based on these considerations.

As at 31 May 2023 the Company's financing arrangements consisted of a loan of £2.7 million (2022: £3.1 million) from SME Alternate Financing and a Coronavirus Business Interruption Loan (CBIL) for £1.7 million (2022: £2.1 million) used to mitigate delays caused by Covid-19. The Company held a cash balance of £3.1 million (2022: £5.7 million) at that date.

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future (being a minimum period of 12 months from the date of signing the balance sheet), and accordingly continue to adopt the going concern basis in preparing the accounts.

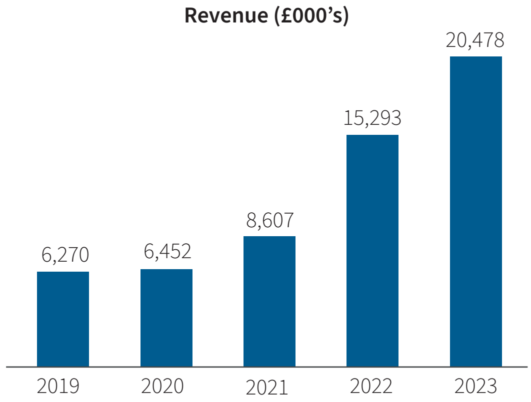
Financial Risk Management Objectives and Policies

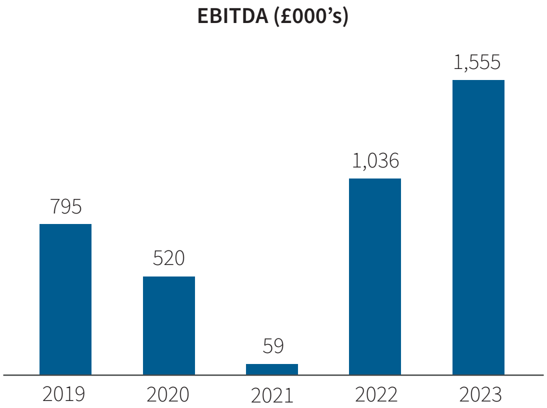
Details of the Company's financial risk management objectives and policies are disclosed in note 22 to the financial statements.

Key performance indicators and risks

We have a range of performance measures to monitor and manage the business, some of which are considered key performance indicators (KPIs).

Certain one-off items which are shown as exceptionals on the Income Statement, namely IPO costs and Impairments to Intangible Assets, have been adjusted for as disclosed in Note 4 in the Notes of the Financial Statements, in the KPIs below.





Chris Mann
Interim Chief Financial Officer
9 October 2023

Section 172 Report

Set out below is the Company's report in accordance with s.172 of the Companies Act 2006. The board of directors ("the Board") of EnSilica plc consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members, as a whole, in decisions taken during the year-ending 31 May 2023.

In doing so the board of directors have regard (amongst other matters) to:

A. The likely consequences of any decision in the long term:

Our decision to seek additional equity funding during the previous year continues to support our growth strategy and enable the development of a number of key contracts, which in themselves will promote further growth opportunities for the Company, whilst enhancing our technical development which will be an aid to all our stakeholders. This decision is likely to be supportive of growth for many years to come.

The Board continually reviews the decisions of the Board to evaluate how they are continuing to the growth and resilience of the business.

The Directors continue to strengthen our position in customers' supply chains by recruiting further experienced executives in sales, production, cyber-security and quality. These additions to our skill base will prepare us to be resilient in supporting our customers.

B. The interests of the Company's employees:

During the year the Directors completed a full review of the reward structure for all our employees so that they were not disadvantaged by economic impacts and in doing so the Directors believe that they reduced the risk to the Company of a dissatisfied and demotivated workforce. As part of this process the Directors ensured that we readdressed our annual employee survey and have made improvements to employee pay and conditions to address the feedback from that survey.

C. The need to foster the Company's business relationships with suppliers, customers and others:

We promote trust-based relationships with our customers. Our relationships with some customers have lasted for as the long as the Company has been in business and we work hard to ensure our customers return to us. We did this by demonstrating that we understand their business problems and demonstrate solutions for them through an interactive key account programme and we focus closely on quality to ensure that the customer has a high regard for the Company.

We manage our supplier base closely to promote levels of business that meet our quality standards and gives the supplier a chance to interact with the Company to be able to expand his business with us if it is mutually suitable.

D. The impact of the Company's operations on the community and the environment:

The Company continually reassesses the suitability of its environmental policies which recognise the protection of the environment and natural resources as one of the principal business responsibilities.

We continue to develop our focus and reporting on this aspect of our activities.

E. The desirability of the Company maintaining a reputation for high standards of business conduct:

The Board demonstrates its commitment to complying with all applicable regulations including the provision of training for all its decision making and encourages all employees to enthusiastically embrace compliance. The Board, in furtherance of this commitment undergoes regular external assessment to promote its own improvement.

F. The need to act fairly as between members of the Company:

The Company is quoted on the London AIM market and interacts regularly with its members. The Board is committed to enhance that dialogue with a developing programme of investor related communications and events.

G. Equal Opportunities

We offer equal opportunities regardless of gender, gender identity or reassignment, disability, religion or sexual orientation.

Ian Lankshear
Chief Executive Officer
9 October 2023

Principal Risks and Uncertainties Report

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
Outbreak of Russia/Ukraine war	**Potential to change** **UNCHANGED** Effect: Significant downward impact on profitability.	During the year under review the Russian government continued its aggression towards their neighbour, Ukraine. This conflict continues to have a serious impact upon the global economy, for inflation and other unspecified economic impacts including the impact of economic sanctions (see below). This continues to create uncertainty for the Company's servicing of its customers and although we have mitigation in place to limit its impact on profitability this situation could of itself seriously threaten the Company's profitability in future years.	In the short-term there are impacts of the war that are negative for the Company's supply chains which management to date have so far avoided. There can be no specific mitigation against the impacts of the war. The Company is not exposed to either Russian or Ukrainian companies and the Board of Directors will continue to monitor specific impacts that may arise.
Imposition of economic sanctions	**Potential to change** **UNCHANGED** Effect: Significant downward impact on profitability	As a consequence of the conflict between Russia and Ukraine the Company is exposed to risk as a consequence of the imposition of economic sanctions posed by a number of governments on Russia, its people and institutions. So far, the Company has not been impacted by any specific sanctions. It remains possible that further sanctions may be imposed in such a way as to present problems for the Company. It is likely that Global trade will continue to suffer and could yet lead to loss of profits for the Company.	The imposition of economic sanctions is an arguable and unknowable action for which no specific mitigation can be planned. We do not have any significant trading relationship with either Russia or any country currently on known embargo listings. The Directors keep this under constant review. The supply chain risk is under constant review, and we maintain a good and open relationship with our suppliers to ensure that any possible delay or pricing impacts can be managed appropriately.
Chinese/Taiwan confrontation	**Potential to change** **UNCHANGED** Effect: Significant downward impact on profitability	It is well known that a very significant portion of the capacity for the fabrication of silicon chips is based in Taiwan. It is also well-known that it has been the policy of the People's Republic of China to not recognise the sovereignty of Taiwan and has expressed an intention to one day unite the 2 countries. It is possible that China may choose to use force to achieve its geo-political aims and such an action could bring significant harm to the supply of silicon chips upon which the Company relies for a significant proportion of the chips it supplies to its customers. The impact therefore could be quite sudden and significantly damaging to the short-term trading prospects of the Company.	The Company has nurtured, and continues to nurture, relationships with foundries not located in Taiwan including foundries in Europe, USA and Singapore.

Principal Risks and Uncertainties Report continued

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
Impact of rising interest rates	**Potential to change** **UNCHANGED** Effect: Loss of market share, reduced sales volumes and profitability	Rising interest rates traditionally have had a negative impact upon investment decisions across a range of industries and it's possible that this current tightening of interest rates may lead to some delays in anticipated investments in the application specific integrated chips which is the Company's area of expertise.	The Company has aligned its strategy with its focus on the automotive, industrial, medical wearables and space communications which are all markets which are forecast to have rapid increases in demand for ASICs. It is the Company's belief that by focussing on these large growing markets the impact of delayed investment decisions will be mitigated because of the quantum of opportunities that will remain.
Customers consolidating their supply chain	**Potential to change** **UNCHANGED** Effect: Loss of market share, reduced sales volumes and profitability	While the Company's core customers rely on third parties such as the Company to design and supply custom ASICs, customers can integrate this stage of the manufacturing process internally through organic growth and vertical integration. Therefore the Company is exposed to the risk of customers reducing reliance on third party ASIC design and suppliers, which can have a negative effect on the Company's future revenue.	In the short-term the consolidation of a supply chain cannot impact revenues due to the nature of the supply contracts that we have with our customers. In the medium-term those consolidations will affect revenues and the Company mitigates against this risk by working towards a reduction in customer concentration over the medium-term. To date the impact of consolidating supply chains and in particular re-shoring has been marginally positive for the Company.
Failing to successfully implement our growth strategies	**Potential to change** **UNCHANGED** Effect: Loss of market share, reduced sales volumes and profitability	The future success of the Company is dependent upon the effective implementation of our growth strategy. This success may be adversely impacted by factors that the Company cannot currently foresee, such as unanticipated market forces, costs and expenses, technological developments, or the impact of the conflict between Russia and Ukraine and confrontation between China and Taiwan. Failure to implement its strategy or the eventuality that it takes longer than expected to achieve could adversely impact future financial results.	Management focus efforts to address the Company's strategic goals on a regular basis and has clear actions focussed on their achievement. Management regularly monitors their capacity as well as the progress towards achievement reviewing consistently the changes in the marketplace and their impact on our strategy. The Board monitors strategic achievement on a quarterly basis.

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
Cybersecurity	**Potential to change** **UNCHANGED** Effect: Exposure, hacking or Denial Of Service could impact adversely on profitability and cash generation.	Global cybersecurity threats to the Company could lead to unauthorised access to its information technology systems, products, customers, suppliers and third-party service providers. Cybersecurity incidents could potentially result in the disruption of our business operations and the misappropriation, destruction, or corruption of critical data and confidential or proprietary technological information. A number of our staff also work remotely.	The Company implements preventative security measures to prevent, detect, address to mitigate these threats. The Company has increased its spend on IT cybersecurity, has carried out an audit of threats and has upgraded all aspects of their IT security. The Company retains its Cyber Security Certification which is an industry leading accreditation. The Company has increased the staff focussed on Cybersecurity and the demands of our suppliers in the production chain ensures that we maintain our cyber security at a very high up to date level.
Attraction & retention of key employees	**Potential to change** **UNCHANGED** Effect: Will lead to increased capital expenditure to reduce reliance on labour resource which in turn over time should enhance margins.	Like many other companies the Company seeks to recruit skilled, trained team members and like those other companies the demand for those scarce resources is intense. The Company depends upon the continued service and performance of its key employees and whilst it has entered into contractual arrangements with them to secure their services, the demand for this type of labour resource ensures that it cannot be guaranteed that they can all be retained. The loss of key employees and the failure or difficulty in attracting new team members will impact the efficiencies of the Company's business and will lead to sub-optimal profitability.	Management have always sought to renew and improve the working environment of our labour force and this will continue. We seek to improve communication, to offer good compensation and to provide challenging tasks for our engineers to create an environment which we hope will prove to be attractive, not only for the current workforce, but for those we wish to attract.
Exposure to exchange rate fluctuations	**Potential to change** **UNCHANGED** Effect: Loss of market share, reduced sales volumes and profitability	The Company could be exposed to exchange rate fluctuations, principally the GBP, the US$ and the Euro. Changes in foreign currency exchange rates may affect the Company's pricing of products sold and materials purchased in foreign currencies.	The Company makes sales in foreign currencies and also makes purchases in those currencies. The Directors believe that the majority of exposure to foreign exchange rate fluctuations is mitigated by a natural hedge on sales and purchases. To the extent that there is no natural hedge, the Board take specified simple foreign exchange rate hedge forward contracts so that risk is clearly known at the point of initiation of the commercial transaction.

Principal Risks and Uncertainties Report continued

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
Customer concentration	**Potential to change** **DECREASED** Effect: The Company could be at risk of loss of significant revenues compared to expectations	Any deterioration of the Company's relationship with any one of their key customers, or the loss of orders from any one of them, would have a potentially material adverse impact on the Company's business and financial position.	It is inevitable at this stage of the Company's development as a manufacturer of ASICs that individual customers do from time to time become quite significant in terms of one year's revenue generation. However, over time, following the accretion of a number of contracts, the addition of new customers has less of a concentrative impact. Management believe that over time the threat from customer concentration will reduce. As the Company grows its supply revenues the reliance on a single customer reduces and this will continue to be the case in the future.
Economic recession	**Potential to change** **DECREASED** Effect: Significant downward impact on profitability	A year ago the world faced recessionary forces. There has been an impact upon the need for silicon chips particularly in consumer related markets.	The Company focuses on specific customers who have specific applications and the decisions taken are of a long-term nature, and whilst some investment decisions might be delayed, it is the Company's belief that demand will be sufficient to occupy the capacity that the Company has to achieve its strategic goal. Furthermore the Company is not exposed significantly to consumer related markets.

Chief Executive Officer
9 October 2023

SUMMARY

We are addressing an exciting market opportunity for ASICs; a high growth semiconductor market segment

We have an established and exciting position in each of our target market segments

We have the knowledge, capability and resource to meet the opportunity

The Board believes that the Company is well placed to continue to capitalise on this growth momentum

Corporate Governance

In this section

Corporate Governance Overview

The business of the Company is under the control of the Board of Directors who are responsible for running the Company for the benefit of its Shareholders in accordance with their fiduciary and statutory duties.

The Directors of EnSilica plc (**"Company"**) acknowledge the importance of good corporate governance and the requirement for companies admitted to trading on AIM to apply a recognised corporate governance code and explain compliance with that code.

The Directors have chosen to comply with the QCA Corporate Governance Code for Small and Mid-Size companies (**"QCA Code"**) which has become a widely recognised benchmark for corporate governance of smaller quoted companies, particularly AIM companies. In accordance with Rule 26 of the AIM Rules, companies details of how the Company complies with the QCA Code are provided on the Company's website: www.ensilica.com./investor-relations-analysis/corporate-governance/.

The Board meets at least ten times a year to review, formulate and approve the Company's strategy, budgets, corporate actions and oversee the Company's progress towards its goals.

The Board has established an Audit Committee and Remuneration Committee with formally delegated duties and responsibilities.

From time to time, additional Board Committees are set up by the Board to consider specific issues when the need arises.

Board & Committee Independence

The Board has four independent non-executive directors and two executive directors (including the Chair). The Company regards the non-executive directors as "independent non-executive directors" within the meaning of the UK Corporate Governance Code and free from any relationship that could materially interfere with the exercise of their independent judgement, notwithstanding that the non-executive directors each hold a small number of shares and options in the Company. Janet Collyer is the Senior Independent Director.

Board Effectiveness Review

In accordance with the QCA Code, the Board engaged Demyst Board Sciences ("Demyst") to conduct an in-depth and independent external review of the Board's performance during the year, and of the two Board committees. Demyst had no prior commercial relationships with the Company or any Board members. The results of the review were delivered in August 2023.

It was reported that the Board is composed of highly capable and talented individuals, with significant potential in terms of leading the Company forward. The Chair, and the Board as a whole, demonstrate commitment to their own development.

Although the Board was only established in 2022 and some members are relatively new to their roles, the development of Board processes and team dynamics is progressing positively. Demyst rated the quality of a key strategic decision taken at the observed Board meeting as Good / High. Given the special position of Ian Lankshear as founding CEO of EnSilica and a major shareholder, effective power balances were a major focus of the review. Demyst considered that the role of Mark Hodgkins as Executive Chair is an important and constructive counterbalance for Ian Lankshear.

Overall, Demyst considered the Board's performance to be ahead of expectations for a company of EnSilica's size and the Board's early stage of development. Various opportunities for improvement were recommended, including a process for realising the Board's wider potential.

The review entailed:

- Completion of initial scoping and risk appetite questionnaires by all directors;
- In-depth interviews with each director, senior managers, various internal and external stakeholders (including investors), key Board advisors and the auditor;
- Observation of a full Board meeting (no committee meetings were held on the date scheduled for Demyst's observation);
- Attending the Chair's performance review carried out by the Senior Independent Director; and
- Carrying out a development review with the CEO.

Demyst then reported on the following areas:

- Clarity and alignment: purpose, strategy, values and culture;
- Board capability, composition and succession;
- Balance of power, and diversity of thought and risk appetite;
- Board roles, induction arrangements, directors' contribution and development;
- Breadth and relevance of Board topics;
- Risk management arrangements and reward alignment;
- Quality of Board information;
- Overall quality of Board meeting;
- Relational dynamics;

Corporate Governance Overview continued

- Real risk-taking;
- Quality of debate;
- Quality of decision-making;
- Quality of stewardship, supervisory activities and the executive interface;
- Views of stakeholders;
- Non-executive director independence; and
- How to implement the opportunities identified through the review.

Key recommendations from the review included:

- Continuing to develop the skills and leadership qualities of the executive directors;
- Widening the strategy beyond its current financial centricity;
- Continuing to develop the Board's relational dynamics and decision-making;
- Improving the quality of Board and committee information, to become dashboard-led;
- Establishing robust succession and talent arrangements at and below Board level:
- Embedding innovation into EnSilica's DNA; and
- Further developing EnSilica's risk framework.

Due to timing of the delivery of the report, the Board has yet to discuss all recommendations or agree a detailed course of action for each of them. However, work has started on the continued development of the Executive Directors. The review conducted by Demyst is intended to have a three-year horizon and we will report annually on progress against the recommendations.

Demyst assessed the independence of the non-executive directors. It concluded that, because of the award of share options to them, and the prior relationships three non-executive directors had with the CEO, they could not be considered to be independent on a technical view. Nonetheless, Demyst reported that all the non-executive directors demonstrate independent thought and judgement, and satisfactorily hold the executive directors to account.

The Audit Committee

The Audit Committee comprises three independent non-executive directors. It is chaired by David Tilston, a chartered accountant, and its other members are Janet Collyer, Wasim Ahmed and Noel Hurley. The Chair, Chief Financial Officer, Chief Executive Officer and the Company's external auditors are invited to attend meetings of the Audit Committee as appropriate. The Audit Committee is expected to meet formally at least four times a year and otherwise as required.

The Audit Committee has responsibility for ensuring that the financial performance of the Company is properly reported on and reviewed and its role includes: monitoring the integrity of the financial statements of the Company (including annual and interim accounts and results announcements); reviewing internal control and risk management systems; reviewing the adequacy and security of the Company's whistleblowing arrangements, fraud detection procedures and controls for the prevention of bribery; reviewing any changes to accounting policies; reviewing and monitoring the extent of the non-audit services undertaken by external auditors; and advising on the appointment of, and relationship with, the Company's external auditors.

The Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors. It is chaired by Janet Collyer and its other members are David Tilston, Wasim Ahmed and Noel Hurley. The Chair, Chief Financial Officer, Chief Executive Officer, Head of Human Resources, and external advisers are invited to attend meetings of the Remuneration Committee as appropriate. The Remuneration Committee is expected to meet at least twice each year.

The Remuneration Committee has responsibility for determining (within the terms of the Company's remuneration policy and in consultation with the Chair of the Board and/or the Chief Executive Officer) the total individual remuneration package for the Company's Chair, each Executive Director, the Company Secretary and each member of the Senior Management Team (including bonuses, incentive payments and share options or other share awards).

The Remuneration Committee has access to independent advice from Remuneration Consultants and the Remuneration Committee reviews the appropriateness and relevance of the Company's and its Company's directors' and workforce remuneration and related policies; with the guidance provided by the independent remuneration consultants and commission reports or surveys, where it deems necessary and within agreed financial limits, and reviews the design of all share incentive plans prior to Board or shareholder approval, and annually determines whether awards are to be made under share incentive plans.

The remuneration of Non-Executive Directors is a matter for the Board or the shareholders (within the limits set out in the Articles of Association). No Director or Manager is allowed to partake in any decisions as to their own remuneration.

Attendance at meetings during 2023

Financial planning and monitoring:

	Scheduled Board	Ad-hoc Board	Audit Committee	Remuneration Committee
M Hodgkins	10/10	4/4	2/3	5/6
I Lankshear	10/10	3/4	2/3	4/6
M Wethey	9/10	4/4	3/3	4/6
J Collyer	10/10	3/4	3/3	6/6
D Tilston	10/10	3/4	3/3	6/6
N Hurley	10/10	3/4	3/3	5/6
W Ahmed	10/10	3/4	3/3	6/6

Internal Controls and Financial Management

The Board has responsibility for establishing and monitoring the maintenance of the Company's internal financial and non-financial controls. The Board is cognisant that whilst internal controls reduce risk, they cannot eliminate risk entirely.

The key procedures which the Directors have established to enable them to have confidence that the internal controls are working and minimising risk are set out below:

The Board sets Company-wide policies and procedures:

- The Board has approved a number of policies and procedures, which are intended to address key financial, operational, compliance and reputational risks of the Company. They are regularly reviewed both by the Senior Management Team and the Audit Committee to confirm that they are appropriate and effective in managing the risks of the Company.
- The Company's policies and procedures are brought to the attention of the Company's staff at induction.

Authorisation limits are in place across the Company:

- The Board has reviewed the delegated authority matrix following the re-organisation of the business post IPO to ensure transparent delegation of authority to appropriately qualified persons across the company.
- Company performance is measured against budgets and variations are reviewed by the Board on a monthly basis.
- There is appropriate segregation of duties across the Company and limits on an individual's ability to authorise transactions.

Financial planning and monitoring:

- The Company sets annual budgets which cover operating performance and balance sheet management, including working capital.

Share Dealing Policy

The Company has adopted a share dealing policy regulating trading and confidentiality of inside information for the Directors and other persons discharging managerial responsibilities (and closely associated people) which contain provisions appropriate for the Company.

The Company takes all reasonable steps to ensure compliance by the Directors and any relevant employees within the terms of that share dealing policy.

In accordance with the Market Abuse Regulation (as applied in the UK), details of inside information released by the Company is posted under "Regulatory News and Alerts" as soon as possible after release. All Regulatory News and Alerts remain available on the Company's website for a minimum of five years.

Identification of business risks

The Directors are responsible for identifying the significant business risks and their execution for this task is monitored by the Audit Committee as well as the main Board.

Quality and Integrity of Personnel

The Company has high recruitment standards and aims to recruit the highest calibre of employees that it is able to. Employees with integrity and strong workplace ethics are considered essential to the operation of the Company's business.

Going Concern

The Directors have prepared the financial statements on a going concern basis as explained in note 2.1 to the financial statements. As at 31 May 2023, the Company had cash deposits of £3.1 million. In particular, management have carried out an assessment of the economic impact of the supply chain changes post the Covid pandemic, the impacts of the ongoing Ukraine war that began in February 2022 and the impacts of the global economic environment. The details of the appropriateness of the use of the Going Concern basis is set out in the Chief Financial Officer's review.

Board of Directors

Mark Hodgkins

Executive Chair

Mark graduated at the University of Manchester and is a qualified Chartered Accountant. He is a former partner with both Grant Thornton and Ernst & Young. He joined EnSilica in 2016.

As well as his career within the accountancy profession, where he focused latterly on M&A, Mark has been Group Finance Director of a large private company managing a balance sheet of over £120m of gross assets, served as CEO of an engineering business and CFO of a publicly listed company.

Ian Lankshear

Chief Executive Officer

Ian co-founded EnSilica in 2001. Under his stewardship, the Company has enjoyed sustained growth based on market lead opportunities, innovation and export success.

Ian has a strong technical and commercial background covering semiconductors and adjacent markets. Ian's early career was in Radar systems development for Siemens Plessy Systems. He moved into semiconductor development in 1996 working for Hitachi and then for Nokia. Ian holds a First Class Honours degree in Electrical & Electronics Engineering.

Janet Collyer

Non-Executive Director

Janet is an experienced senior international group director with a proven strategic and ecosystems management track record in the key commercial and technology aspects of the semiconductor systems industry. As an engineer by trade, with an MA in Engineering from the University of Cambridge, Janet spent 30 years working at NASDAQ-listed Cadence Design Systems – eventually securing senior account positions and C-Suite level exposure. Janet is currently a non-executive director at the Aerospace Technology Institute, the Chair at Machine Discovery Ltd and Chair at Quantum Dice Ltd.

Janet is also a member of the recently formed UK Semiconductor Advisory Panel, a collaboration between industry and Government to deliver the National Semiconductor Strategy.

As well as her board roles, Janet advises organisations working to increase female representation in STEM and mentors women on the path to C-Suite roles.

David Tilston

Non-Executive Director

David is a Fellow of both the Institute of Chartered Accountants in England and Wales and the Association of Corporate Treasurers.

He has over 30 years' experience in finance functions within public companies, including at Group CFO level. He is currently Senior Independent Director and Audit Committee Chairman and is a member of the Remuneration and Nomination Committees at SDI Group plc, and is also Senior Independent Director and Audit Committee Chairman and a member of the Remuneration Committee at Ocean Harvest Technology Group plc, both companies being listed on AIM.

David is also Trustee and Treasurer at British Exploring Society, a youth development charity.

Board of Directors continued

Noel Hurley

Non-Executive Director

Noel is a senior executive in the semiconductor business.

He has held various commercial and managerial roles at ARM Ltd including Vice President responsible for Product Marketing, General Manager of the CPU group as well as forming and leading ARM's Business segments and Strategy and Incubation groups.

He was a co-founder of XMOS Semiconductors and has held multiple board positions in semiconductor and technology companies.

Wasim Ahmed

Non-Executive Director

Woz is a seasoned senior executive with an established track record in the semiconductor industry, having led global strategy, venturing, M&A, marketing, business development and corporate functions, in a career covering the spectrum from pre-seed start-ups to global listed firms.

Woz spent 15 years at Imagination Technologies, latterly as Chief Strategy Officer and Chief of Staff (de facto COO). He was also a senior executive at the UK's national innovation agency, Innovate UK, and previously held product and segment marketing management roles at Arc (now Synopsys) and Hitachi (now Renesas).

Woz is currently Chief Marketing and Product Officer at Unisantis Electronics, a semiconductor venture co-founded by the inventor of both flash memory and the Gate-All-Around (GAA) 3D transistor. He also mentors early-stage start-ups.

Audit Committee Report

The Committee has reviewed the appropriateness of the Company's financial reporting. This review has included the consideration of significant financial reporting judgements made by management and took into account reports from management and the external auditors.

Fair, Balanced, Understandable and Comprehensive Reporting

The Audit Committee has provided advice to the Board on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's financial position and performance, business model and strategy. Each Director was also asked to provide this confirmation.

According to the Committee's terms of reference, the Committee is responsible for assessing the scope, fee, objectivity and effectiveness of external audits and for making a recommendation to the Board regarding the appointment, reappointment or removal of the external auditors on an annual basis.

The Committee also regularly reviews the nature, extent, objectivity and cost of non-audit services provided by the external auditors. In doing this the Committee has not approved any non-audit expenditure.

The Company has a policy that the external auditors will not perform any other work for the Company and thus do not compromise their independence. To ensure compliance with this policy, the Audit Committee reviewed and approved the remuneration received by UHY Hacker Young LLP for the audit service.

The main areas of focus considered by the Committee during the year were as follows:

Area of Focus	Conclusion
Revenue recognition	The policies adopted and set out for Revenue Recognition in Note 2 on Accounting Policies are in line with the requirements of IFRS 15 and have been applied consistently. For Services and Consultancy when the outcome of a contract can be measured reliably, the Company recognises both income and costs by reference to the percentage of completion of the contract as this is considered the most appropriate measurement of performance of the obligations. The Committee have identified revenue recognition as a significant judgement. It was agreed that the Auditors would focus on this area. The Company has adopted the correct controls, policies and procedures to ensure inclusion of the revenues in compliance with IFRS 15.
Capitalisation of development costs	The Committee acknowledged that this aspect of accounting treatment is and will be a recurring focus by the Auditors due to its materiality. The accounting policies were reviewed and the Committee was satisfied that the processes and procedures in regard to this capitalisation process remained unaltered from previous years and were appropriate. The Committee paid particular attention to the judgements made in assessing the valuation of this asset.
Going Concern	The Committee acknowledged that given the impacts of the Russia/Ukraine war and the current economic environment of rising interest rates and slowing economic activity on the Company's Customer base and the Company's supply chain, both of which affects the working capital cycle, then the appropriateness of a review of the suitableness of applying the Going Concern assumption would become a focus for the Auditor. The Committee is satisfied that the focus on Going Concern by the executive directors has been sufficient and that the review has been thorough and concurred with the executive directors that the Going Concern assumption was applicable.
Treatment of IPO expenses	The Committee reviewed the decision made by the executive directors last year to split the costs incurred on an equity raise via IPO. The Committee agreed that the judgement, whilst costs incurred on an equity raise should be recognised against equity in share premium, costs that relate to a stock market listing should be recognised as an expense in the consolidated statement of comprehensive income, was appropriate.

David Tilston
Audit Committee Chair

9 October 2023

Remuneration Committee Report

This report is for the year ended 31 May 2023, the company's first full year as an AIM-quoted public company. It sets out the remuneration policy and the detailed remuneration for the Executive and Non-executive Directors of the Company. As an AIM-quoted company, the information is disclosed to fulfil the requirements of AIM Rule 19. EnSilica plc is not required to comply with the Large and Medium-sized Companies and Company's (Accounts and Reports) (Amendment) Regulations 2013. The information is unaudited except where stated.

Introduction

I am pleased to present the Committee's 2023 Director's Remuneration Report which also looks forward to 2024.

Remuneration Committee

The Remuneration Committee was formally established by the Board prior to Admission to AIM and I was appointed its Chair. David Tilston, Wasim Ahmed and Noel Hurley are the other members of the Committee. All Committee members are deemed independent by the Board. The Remuneration Committee meets at least twice each year.

Terms of reference

The Committee is responsible for reviewing and making recommendations in respect of the Executive Directors' remuneration and benefits packages, including share options and the terms of their appointment. The remuneration committee will also make recommendations to the Board concerning the allocation of share options to employees under the intended share option schemes. The remuneration and terms and conditions of appointment of the Non-Executive Directors of the Company are set by the Board.

The key roles of the Committee include:

- To review and update as necessary the Committee's Terms and References
- To take whatever appropriate external advice as appropriate to be able to conduct an annual benchmarking review of the executive remuneration and structure.
- To work with the executive directors to determine a bonus scheme that can ensure all employees are suitably incentivised to maximise their contribution.
- To support the executives in their review of the Company's remuneration and employment policies for the senior management and employees
- To consider the award of options to executives and staff are in line with market practice.

The Company has appointed h2glenfern to provide advice on Executive Director and senior executive remuneration and incentives to provide advice and support on remuneration on an ongoing basis. h2glenfern is a member of the UK Remuneration Consultants Group.

The Company's approach to Remuneration

It is the Remuneration Committee's intention that remuneration should reward achievement of objectives aligned with shareholders' interests over the medium to long term. Executive Director and senior executive remuneration consists of the following elements: basic salary, benefits, pension contribution, performance-related annual bonus, Long-Term Incentive Plan (LTIP).

The Company has adopted a remuneration policy which is designed to encourage the recruitment of high-quality applicants, retain existing talent, incentivise the senior management and the rest of the workforce to deliver against the Company's strategic goals, and share in the company's success. Wherever possible the Company seeks to develop and promote within its existing workforce, and the Company makes use of share options and other long-term incentives to motivate staff and ensure their interests are aligned with shareholders.

Salaries

Base salary is reviewed annually with changes effective 1 June with reference to each Executive Director's performance and contribution during the year, company performance, the scope of the Executive Directors' responsibilities and consideration of competitive pressures.

Benefits and Pension

The benefits provided to the Directors in 2023 comprised the provision of private medical insurance, car allowance, contribution to travel expenses and pension contributions.

Bonus

The Executive Directors are eligible to be considered for an annual discretionary bonus paid in cash, and based on the Company achieving and/or exceeding budget, as determined by the Remuneration Committee.

LTIP

The company operates a share option scheme for all employees. Awards to executive directors have been structured as market value option awards to date vesting after three years subject to meeting objective three year performance conditions set by the Committee.

Non-Executive Director Remuneration

The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors. All of the Non-Executive Directors were appointed on 1st April 2022 and are paid fees in cash.

Directors service contracts, NED letters of appointment

Key element	Executive Chair – M. Hodgkins	CEO – I. Lankshear
Effective date of contract	18th May 2022	18th May 2022
Notice period	6 months' notice given by either party	12 months' notice given by either party

Non-Executive Directors have notice periods of three months from either party. The current Non-Executive Directors' initial appointments commenced on 1st April 2022.

2023 Summary of Directors' total remuneration

The remuneration of Directors, showing the breakdown between remuneration elements is shown below:

	Base Salary £	Benefits & Car Allowance £	Pension £	Compensation for loss of office	Fixed Pay Total £	Bonus £	Remuneration Total 2023 £	Remuneration Total 2022 £
Executive								
M Hodgkins*	226,652	274	885	-	227,812	90,000**	317,812	20,000*
I Lankshear	201,389	1,285	44,918	-	247,592	90,000**	337,592	131,869
M Wethey	144,282	1,406	20,267	85,000	250,955	-	250,955	145,086
Non-Executive								
J Collyer	47,813	-	-	-	47,813	-	47,813	7,500
D Tilston	42,500	-	-	-	42,500	-	42,500	6,667
N Hurley	37,188	-	-	-	37,188	-	37,188	5,833
W Ahmed	37,188	-	-	-	37,188	-	37,188	5,833

* M Hodgkins also received fees of £67,194 in the year to 31 May 2022 in respect of consultancy services undertaken prior to employment by the Company.

** Bonus is paid two-thirds in December following the year end and one third the following December.

Remuneration Committee Report continued

Salaries

The salaries of the Executive Chair and Chief Executive Officer during year ended 31 May 2023 were as detailed in the table above.

Bonus

In the light of strong performance in 2023 including the achievement of the Company's targets, the Executive Chair, Mark Hodgkins, will be paid an annual bonus of £90,000 and the Chief Executive Officer, Ian Lankshear, will be paid a bonus of £90,000.

LTIP 2023

No LTIP awards were made to executives during year ended 31st May 2023.

Directors' Interests – Interests in share options

Details of options held by Directors who were in office at 31 May 2023 are set out below. Nil options were exercised by Directors during the year (2022: nil). Details of the Company's option schemes are set out in Note 24 to the Financial Statements.

	Date of Grant	Plan	Number	Exercise Price	Vesting Date	Expiry Date
M Hodgkins	23/05/2022	2022 LTIP	1,500,000	£0.50	31/05/2025	23/05/2032
I Lankshear	23/05/2022	2022 LTIP	3,000,000	£0.50	31/05/2025	23/05/2032
I Lankshear	23/05/2022	IL Option	4,000,000	£0.50	24/03/2023	01/12/2024
J Collyer	18/05/2022	NED Options	50,000	£0.50	18/05/2024 – 18/05/2026	23/05/2032
D Tilston	18/05/2022	NED Options	50,000	£0.50	18/05/2024 – 18/05/2026	23/05/2032
N Hurley	18/05/2022	NED Options	50,000	£0.50	18/05/2024 – 18/05/2026	23/05/2032
W Ahmed	18/05/2022	NED Options	50,000	£0.50	18/05/2024 – 18/05/2026	23/05/2032

Performance conditions attached to 2022 LTIP awards

2022 LTIP Options are subject to a performance target based on the fully diluted earnings per share ("EPS") reported in the Company's audited financial statements for the financial year ending 31 May 2025, whereupon the options will become exercisable:

(a) as to 25 per cent. if the fully diluted EPS reaches 2p per share;

(b) as to a further 50 per cent. if the fully diluted EPS reaches 5p per share;

(c) as to a final 25 per cent. if the fully diluted EPS reaches 6.5p per share; and

(d) on a sliding basis on fully diluted EPS between targets a) and b) and b) and c)

Options granted to Non-Executive Directors are not subject to performance criteria and are subject to a four year vesting period, where one third vest two years after grant and two thirds vest four years after grant. The options will lapse and not be exercisable if the relevant Non-Executive Director ceases to be an officer of the Company.

Non-Executive Director remuneration

The base fee payable to a non-executive director from June 2022 was £37,188 with additional fees of £5,313 paid to the Senior Independent Director and the Chairs of the Audit and Remuneration Committees.

Payments for loss of office

M Wethey: The director was paid his 6-month notice period in accordance with the terms of his contract of employment.

Directors' Interests – Interests in shares

The interests of directors, who were serving as at 31 May 2023, in the ordinary shares of the Company are set out below:

	Holding Balance at 31 May 2023	Percentage of Share Capital at 31 May 2023	Holding Balance at 31 May 2022	Percentage of Share Capital at 31 May 2022
Executive				
Mark Hodgkins	530,902	0.68%	530,902	0.71%
Ian Lankshear	16,040,358	20.53%	16,040,358	21.32%
Non-Executive				
Janet Collyer	30,000	0.04%	30,000	0.04%
David Tilston	50,000	0.06%	50,000	0.07%
Noel Hurley	20,000	0.02%	20,000	0.02%
Wasim Ahmed	12,000	0.01%	12,000	0.03%

Remuneration for the year to 31 May 2024

Director salaries:

	Base Salary £
Executive	
M Hodgkins	225,250
I Lankshear	225,250
Non-Executive	
J Collyer	47,813
D Tilston	42,500
N Hurley	37,188
W Ahmed	37,188

Annual bonus plan

Annual bonus will operate in a similar way to its operation in 2023 and will be based on EBITDA, operational and personal targets. The maximum amount payable for meeting demanding stretch targets is 100% of salary.

Long Term Incentives

The Company intends to make further market value option awards to its Executive Directors late in 2023. These awards will be subject to 3-year EPS targets.

Janet Collyer
Remuneration Committee Chair

9 October 2023

Directors' Report

Principal Activities

EnSilica is a leading fabless design house focused on custom ASIC design and supply for OEMs and system houses, as well as IC design services for companies with their own design teams.

The Company has world-class expertise in supplying custom RF, mmWave, mixed signal and digital ASICs to its international customers in the automotive, industrial, healthcare and communications markets.

The company also offers a broad portfolio of core IP covering cryptography, radar and communications systems. EnSilica has a track record in delivering high quality solutions to demanding industry standards.

Our impressive record of success has been achieved working with customers ranging from start-ups to blue-chip companies. Our project portfolio ranges from module design to multi-million gate System-on-Chip.

We measure our success by customer satisfaction and the quality of the solutions, services and designs we deliver. Our approach is to develop long-term relationships with our customers and encourage strong partnerships with our suppliers, while providing meaningful and challenging work for our staff in a friendly, professional working environment. The Company is headquartered near Oxford, UK, and has design centres across the UK and in Bangalore, India and Porto Alegre, Brazil.

The Directors have set out their update on strategy within the CEO and CFO reports, and that includes a review of the markets that the Company is addressing, as well as the actions being taken to meet the strategic goals of the Company.

The Directors of the Company

Mark Hodgkins	Executive Chair
Ian Lankshear	Chief Executive Officer
Janet Collyer	Senior Independent Director
Noel Hurley	Non-Executive Director
Wasim Ahmed	Non-Executive Director
David Tilston	Non-Executive Director
Matthew Wethey	Director (resigned 6.4.23)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

The Directors are required to prepare Financial Statements for each financial year. The Directors have elected to prepare the Company Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, for the year ended 31 May 2023.

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 Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the Financial Statements have been prepared in accordance with IFRS;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each Director at the date of approval of this Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's external auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Dividends

The Company's consideration with regard to the payment of dividends in the future is and will be affected by a range of factors, principally it will be the generation of distributable profits within the Company. The Board adopts a dividend policy for the Company which will be based upon the availability of sufficient distributable profits. The Directors will only commence the payment of dividends when it becomes commercially prudent to do so. The Directors do not approve a dividend for the year ended 31 May 2023.

Research and Development

It is the nature of the Company's business that it needs to continually develop its intellectual property to meet the demands of its customers by being able to remain at the forefront in its addressed markets. The detail and costs of these developments are as set out in the Chief Executive's Review and the Chief Financial Officer's Review.

Director's indemnity

The Company's Articles of Association provide, subject to the provisions of United Kingdom legislation, for an indemnity for Directors and Officers of the Company with regard to liabilities that they may incur in the discharge of their duties or in the exercise of their powers, including any liability relating to proceedings brought against them which relates to anything done, or omitted, or anything alleged to have been done or omitted by them as officers or employees of the Company or Company.

Directors' Liability Insurance is in place in respect of all the Company's Directors.

Donations

The Company made no charitable or political donations during the year.

Independent Auditor

The Auditor, UHY Hacker Young LLP, has indicated its willingness under section 489 of the Companies Act 2006 to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Annual General Meeting

The Company's Annual General Meeting will be held at Milton Park Innovation Centre, 99 Park Drive, Milton, Abingdon OX14 4RY on 28 November 2023 at 10 am.

Matters covered elsewhere

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium Sized Companies and Company's (Accounts and Reports) Regulations 2008 certain matters that are required to be disclosed in the Directors' Report have been omitted as they have been included in either the Chief Executive's Review, the Chief Financial Officer's Review and Strategic Report, or the Principal Risks and Uncertainties Report. These matters relate to the business review, principal risks and uncertainties, key performance indicators, future developments and research and development activity.

By order of the Board

Mark Hodgkins
Director
9 October 2023

ESG Engagement Report

EnSilica recognises that for it to be sustainable, success cannot be at the expense of the environment, its employees or wider society.

Governance has been the lead focus of its ESG strategy but with the climate emergency and the major societal upheaval caused by the Covid-19 pandemic, Environmental and Social sustainability actions are rightly being brought to the fore.

Environmental Sustainability

As is the case with all businesses the Company has an emphasis on environmental sustainability. We make it a responsibility of all employees to take advantage of our initiatives to reduce carbon footprint.

EnSilica plc is committed to minimising the environmental impacts from our global operations. Protecting our global environment is vital for future generations that will one day inherit our planet. EnSilica works with key business partners to ensure that our global operation is as sustainable as possible.

EnSilica will continuously improve our environmental performance and will work towards gaining full environmental management accreditation (ISO14001).

Our commitment:

- Reduce the consumption of resources and improve the efficient use of those resources we use.
- Measure our current direct carbon footprint and take measures to reduce our emissions including office commuting and business travel.
- Ensure environmental criteria are considered when sourcing new goods and services.
- Manage local waste that is generated and encourage recycling and reuse of waste materials.
- Manage all our operations to ensure that we prevent pollution in all areas.
- Ensure we comply with the highest environmental building standards.
- Comply with all domestic environment laws and regulations.

We will ensure this policy is implemented throughout all functional areas of EnSilica by:

- Ensuring all our employees understand the environmental impacts of their own jobs and tasks.
- Informing all our suppliers of the requirements to comply with our environmental policy when providing goods and services.
- Providing the management and resources necessary.
- Periodically reviewing environmental issues at all levels including Board level.
- Reviewing the policy and its effectiveness on an annual basis and ensuring it is kept in line with current environmental legislation and regulations.

Code of Professional Conduct

EnSilica's Code of professional conduct sets out the values and standards of behaviour expected from all employees and also deals with how employees and business partners can report any concerns that may arise.

We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

The Code promotes corporate social responsibility across the business. It sets out the responsibilities of employees in ensuring that they carry out their business activities in a manner aligned with the Company's values and business principles. All staff are required to ensure that they comply with all relevant laws and regulations. The Code sets out behaviours that are unacceptable and which could bring EnSilica plc's reputation into disrepute. It contains guidance on avoiding conflicts of interest, confidentiality, our approach to gifts and hospitality, bribery and corruption.

Upholding the Code is the responsibility of all EnSilica plc employees. All those working for, or on behalf of, EnSilica plc are required to confirm that they have read and understood the Code of Professional Conduct, and a copy is readily available to all employees.

Anti-Corruption and Anti-Bribery Policy

The Company has a robust anti-corruption and anti-bribery policy which applies to the Board, all employees of the Company and persons associated with the Company (such as consultants, contractors or agency staff). The Company's anti-corruption and anti-bribery policy requires such persons to observe and uphold a zero-tolerance position on bribery and corruption, as well as providing guidance on how to recognise and deal with bribery and corruption issues and their potential consequences, while preserving acceptable boundaries of corporate hospitality and entertainment.

The Company expects all employees and persons associated with the Company to conduct their day-to-day business activities in a fair, honest and ethical manner; to be aware of, and refer to, this policy in all of their business activities worldwide; and to conduct business on the Company's behalf in compliance with it. Management at all levels are responsible for ensuring that those reporting to them, internally and externally, are made aware of and understand this policy.

Dealings with customers

We work closely with customers and prospects to help us improve the value that we can add to their businesses through our products and services and in the manner that these products and services are delivered.

We are open and honest about our products and services, communicating with customers all appropriate information that they need in order to ensure that we consistently meet their expectations.

We seek regular feedback from our customers as to our performance against their expectations and against the benchmark performance of our competitors, so as to help us to continue to deliver continuous and sustained improvement. We ensure that any issues or problems are dealt with in a timely manner, openly, efficiently and with fairness.

Dealings with suppliers

We recognise that we cannot deliver our products and services without a functioning and sustainable supply chain. We work with our suppliers to improve the value of the products and services that they deliver to us and thereby to improve the value of the products and services that we offer to our customers.

We identify and select suppliers to work in partnership with EnSilica using fair and reasonable methods.

We identify and work only with suppliers who operate to ethical business standards. We are therefore seeking to engage with, to encourage and where necessary, to educate our suppliers to be ready to support us with the Environmental performance metrics and improvement programmes required by our customers.

Bribery Act

We implement and enforce effective systems to uphold our zero-tolerance approach to bribery and corruption. To ensure that we only work with third parties whose standards are consistent with our own, all third parties who act on behalf of EnSilica plc are obliged by written agreement to comply with the standards set out in the Code.

Human rights

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

Confidentiality

Our Code of Professional Conduct emphasises the need for confidentiality to be maintained in all of our business activities. Our policy and practices help to ensure that all staff understand what constitutes confidential information and restricts internal access based on a "need to know basis". Information relating to third parties is not disclosed without the third parties' written consent.

Modern slavery

EnSilica plc has developed and implemented an Anti-Slavery and Human Trafficking Policy to comply with the requirements of the UK's Modern Slavery Act 2015.

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

Health and Safety

EnSilica plc places health and safety at the core of all business activities in order to ensure a safe working environment for everyone involved in the business. As a cornerstone of its business operations, health and safety reporting is a standing item on Senior Management Team and Board meeting agendas.

Training sessions for all employees are undertaken on commencement, including DSE Training and Workstation Assessment.

All employees are encouraged to take an active role in ensuring that our working environment is a safe place to work and visit by:

- behaving in such a way as to avoid incidents and agreeing to adhere to the Company's policies and procedures;
- actively reporting all safety observations and incidents;
- being involved in safety audits and risk assessments; and
- undertaking regular awareness training sessions.

ESG Engagement Report continued

Our relationship with our employees

Our success depends on our people. EnSilica recognises the vital role that our employees play and that effective teamwork is critical for us to achieve our corporate goals. We ensure that our employment practices are fair and in full compliance with UK employment legislation. We strive to make EnSilica plc a 'great place to work' where our actions demonstrate this via values that the team deliver each and every day.

We maintain equality of opportunity practices, policies and procedures regardless of race, nationality, gender, gender identity or reassignment, age, marital status, sexual orientation, disability and religious or political beliefs.

We recognise the importance of a healthy age balance within the business and maintain succession plans for all business units, identifying and investing in future leaders.

An external leadership development coaching programme for all our future leaders commenced in September 2023. It includes a module on Diversity and Inclusion. We also continue to invest in apprentices and graduates and we offer internships at all of our company locations.

The full circle of feedback is supported by our annual employee survey which covers all aspects life within the EnSilica group and is presented and discussed at monthly staff meetings alongside business performance and future plans.

During the year we announced our Special Interest Groups initiative to share and advance specific areas of knowledge, learning or technology across the business. These include topics such as: Leadership, Post Quantum Cryptography, AI and Machine Learning Tools.

Participation is open to all and encouraged from all levels and locations within the business. This initiative is rapidly developing and enthusiastically supported.

Women in Engineering:

Our female engineers are keen to inspire women to follow a career path in electronics regularly volunteering to promote STEM subjects and career opportunities at events in support of local schools, colleges and universities.

The executive team actively supports and encourages such initiatives.

COMMUNITY

- Employee serving as a volunteer trustee at The Archway Foundation, supporting adults suffering from loneliness and mental health issues. Oxford
- Engineering volunteers supporting Didcot Girls School to promote STEM subjects and career opportunities in electronics for women. Oxford
- HR volunteers supporting Didcot Girls School giving individual interview practice and feedback. Oxford
- Employee volunteer at PUCRS (University of Port Alegre) and Technopuc Science Park promoting STEM and careers in electronics to young students and women in particular. Port Alegre
- Supporting Milton Park five-year school engagement programme to help develop local young people's employability skills. Oxford
- Chief Engineer serving as professional registration volunteer at the Institution of Engineering and Technology (IET)
- Sponsorship offered to four underprivileged college students in India.
- Four students offered work experience during the summer break.

LATEST ENVIRONMENTAL INITIATIVES

- Air conditioning units and lighting replaced for reduced energy consumption. Port Alegre
- Redundant IT equipment returned to original vendor for recycling. Oxford
- Redundant laptops refurbished and donated to disadvantaged school children. All locations
- Cycle to Work Scheme offered to all UK staff.

Independent Auditor's Report to the Members of EnSilica PLC

Opinion

We have audited the financial statements of EnSilica Plc (the 'Company') and its subsidiaries ('the Group') for the year ended 31 May 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Statement of Cash Flows 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 May 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK adopted International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statement is appropriate.

Our evaluation of the director's assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

Evaluation of Management Assessment

- Assessing the transparency and the completeness and accuracy of the matters covered in the going concern disclosure by evaluating management's cashflow projections for 12 months post approval of the financial statements along with the underlying assumptions.
- We obtained budgets and cashflow forecasts, reviewed the methodology behind these, ensured arithmetically correct and challenged the assumptions.
- We obtained post period end trading results and compared these to budget to ensure budgeting is reasonable and results are in line with expectations.
- Evaluated the key assumptions in the forecast, which were consistent with our knowledge of the business and considered whether these were supported by the evidence we obtained.
- Discussed plans for the Group going forward with management, ensuring these had been incorporated into the budgeting and would not have an impact on the going concern status of the Group.
- Considered the headroom in respect of the group's loan covenants to date and in the forecast period.

Independent Auditor's Report to the Members of EnSilica PLC
continued

- Compared the prior period forecast against current period actual performance to assess management's ability to forecast accurately.
- We also reviewed the disclosures relating to going concern basis of preparation and found that these provided an explanation of the directors' assessment that was consistent with the evidence we obtained.

Key observations:

The Group's forecasts include consideration of certain downside scenarios such as supply chain issues and inflationary pressures along with the ongoing impact of the Russia/Ukraine war. The Group was profitable in the year and generated a profit after tax of £1.742m (2022: loss £0.189m). The Group generated net cash from operating activities of £1.802m in the year (2022: £1.391m) and had a cash balance of £3.095m (2022: £5.742m).

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 entity'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. However, clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.

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

Our approach to the audit

We designed our audit by obtaining an understanding of the Group and its environment, and assessing the risk of material misstatement in the financial statements. When assessing the risk of material misstatement, we consider whether the directors made judgments or assumptions that are, by their nature, subjective. The scope of our audit was influenced by the level of materiality we determined.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account an understanding of their activities, the accounting processes and controls, and the industry in which they operate. Our planned audit testing was directed accordingly and was focused on areas where we assessed there to be the highest risk of material misstatement.

During the audit we reassessed and re-evaluated audit risks and tailored our approach accordingly.

The audit testing included substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls and the management of specific risk.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant deficiencies in internal control that we identify during the audit.

Key audit matters

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

Key audit matters	How our scope addressed these matters
Capitalisation and impairment of development expenditure The Group has capitalised assets of £12.433m (2022: £8.576m) development costs. IAS 38 allows costs incurred in the development phase to be capitalised if they meet the specific criteria. There are key judgements in determining whether the nature of the product engineering costs satisfy the criteria for capitalisation and the timing of when capitalisation should commence. Furthermore, in line with IAS 36, the intangible assets should be assessed for impairment indicators. The recoverable amount is assessed only when there is an indication that the asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and the value in use.	Our audit work included, but was not restricted to: • Reviewing the methodology for capitalising intangible assets in line with IAS 38 and the design and implementation of controls in this area. • Testing a sample of additions to capitalised costs to supporting documentation. • Reviewing and challenging the assumptions in the impairment review prepared by management for projects, including the viability of new technology and a review of post year-end sales activity. • Reviewing the sensitivity of projections prepared by management to assess whether or not there would be an impairment under various scenarios. • Reviewing the estimates used in the prior year impairment compared to actual performance in the year to evaluate any differences and potential areas to investigate. The Group's accounting policy on research and development expenditure is shown in section B of the accounting policies and related disclosures are included in note 9. The Audit Committee identified capitalisation of development costs as a significant issue in its report on page 29, where the Committee has also described the actions that it has taken to address this issue. **Key observations:** We are satisfied with the carrying value of capitalised development costs. Therefore, we are satisfied that the carrying value is materially correct.

Independent Auditor's Report to the Members of EnSilica PLC
continued

<table>
<tr><th>Key audit matters</th><th>How our scope addressed these matters</th></tr>
<tr><td> Revenue recognition
ISA (UK) 240 requires us to presume that there are risks of fraud in revenue recognition.
In respect of design services, in line with IFRS 15, the Group recognises both income and costs by reference to the percentage of completion of the contract when the outcome of a contract can be measured reliably. Significant judgment is required in estimating the total hours of work required for completion of contracts which impacts on the corresponding profit taken.
In terms of sales of goods, revenue is recognised when control over the goods has passed to the buyer, usually on dispatch of the goods when the amount of revenue can be measured reliably.
In this regard, we consider that there is a risk over the cut-off and occurrence assertions relating to revenue recognition. </td>
<td> Our audit work included, but was not restricted to:

Reviewing the revenue process and controls in place, this included assessing the design and implementation of those controls;
Gaining an understanding of the basis of percentage of completion on the contract through discussions with the project managers;
Reviewing a sample of contracts, including the time spent and amounts billed on the projects both in the year and subsequent to the year end and compared this to the total time budgeted to ensure the percentage of completion method has been appropriately applied.
Performing cut-off testing to assess whether sales are accounted for in the period in which services were provided in accordance with the accounting policy and IFRS 15.
Testing the occurrence of sales by tracing a sample of recorded sales to goods delivery notes and invoices in the year.
Using data analytics software to assess the correlation between the revenue entries and trade receivables and subsequent cash receipt to gain assurance over the occurrence assertion.

The Group's accounting policy on revenue recognition is shown in section B of the accounting policies and related disclosures are included in note 1. The Audit Committee identified revenue recognition as a significant issue in its report on page 29, where the Committee has also described the actions that it has taken to address this issue.
Key observations:
Following the review of the work in progress, accrued revenue and contract liabilities we are satisfied they are materially correct. </td></tr>
</table>

Our application of materiality

The scope and focus of our audit was influenced by our assessment and application of materiality. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements.

We define financial statement materiality as the magnitude by which misstatements, including omissions, could reasonably be expected to influence the economic decisions taken on the basis of the financial statements by reasonable users.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality Measure	Group	Parent
Overall materiality	We determined materiality for the financial statements to be:	
	2023: £0.409m (2022: £0.267m)	2023: £0.403m (2022: £0.214m)
How we determine it	Revenue is deemed to be a key performance indicator, therefore materiality was set at 2% of total revenue of the Group.	Revenue was also deemed to be the key performance indicator for the Company, therefore materiality was set at 2% of total revenue of the Parent Company.
Rationale for benchmarks applied	We believe the total revenue is the most appropriate benchmark due to the size and stage of development of the Company and Group.	
Performance materiality	On the basis of our risk assessment, together with our assessment of the Group and Company's control environment, our judgement is that performance materiality for the financial statements should be 60% of materiality for the Company and Group.	
	2023: £0.245m (2022: £0.160m)	2023: £0.242m (2022: £0.128m)
Reporting threshold	We agreed with the Audit Committee that we would report to them all misstatements over 5% of Group and company materiality identified during the audit as set out below, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.	
	2023: £20,000 (2022: £13,500)	2023: £20,000 (2022: £10,500)

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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is 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.

Independent Auditor's Report to the Members of EnSilica PLC
continued

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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and Parent Company and its 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 Statement of Directors' Responsibilities set out on page 34, 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 internal controls 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

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 our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Group and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, employment and health and safety regulation, anti-bribery, corruption and fraud and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inflated revenue and profit.

Audit procedures performed included: review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators and enquiries of management in so far as they related to the financial statements, and testing of journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 part 3 of Chapter 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.

James Astley (Senior Statutory Auditor)
for and on behalf of UHY Hacker Young
Chartered Accountants
Statutory Auditor
London, United Kingdom
9 October 2023

Quadrant House
4 Thomas More Square
London E1W 1YW

Financial Statements

In this section

Consolidated Statement of Comprehensive Income

For the year ended 31 May 2023

	Note	2023 £'000	2022 £'000
Revenue	3	20,476	15,293
Cost of sales		(12,306)	(10,246)
Gross profit		8,170	5,047
Other operating/(expense) income	5	8	(14)
Administrative expenses excluding non-recurring items		(7,352)	(4,328)
IPO costs		-	(699)
Total administration expenses		**(7,352)**	**(5,027)**
Operating profit		825	6
Interest income	7	7	25
Interest expense	8	(785)	(565)
Profit/(loss) before taxation		47	(534)
Taxation	9	1,745	683
Profit for the year		**1,792**	**149**
Other comprehensive (expense)/income for the year			
Currency translation differences		(50)	40
Total comprehensive income for the year		**1,742**	**189**
Profit for the year attributable to:			
Owners of the company		1,792	149
Non-controlling interests		-	-
		1,792	**149**
Total comprehensive (expense)/income for the year attributable to:			
Owners of the company		(50)	40
Non-controlling interests		-	-
		(50)	**40**
Basic earnings per share (pence)	10	2.36	0.20
Diluted earnings per share (pence)	10	2.30	0.20
Adjusted Basic earnings per share (pence)	10	2.47	1.13
Adjusted Diluted earnings per share (pence)	10	2.41	1.11

Consolidated Statement of Financial Position

As at 31 May 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	2,566	382
Intangible assets	12	12,433	8,576
Total non-current assets		**14,999**	**8,958**
Current assets			
Inventories	14	304	215
Trade and other receivables	15	7,025	3,257
Corporation tax recoverable		2,064	1,671
Cash and cash equivalents	16	3,095	5,742
Total current assets		**12,488**	**10,885**
Total assets		**27,487**	**19,843**
Current liabilities			
Borrowings	17	(883)	(800)
Lease liabilities	18	(171)	(88)
Trade and other payables	19	(4,723)	(2,391)
Total current liabilities		**(5,777)**	**(3,279)**
Non current liabilities			
Borrowings	17	(3,284)	(4,166)
Lease liabilities	18	(2,104)	(105)
Provisions	20	(199)	(140)
Deferred tax	21	(160)	-
Total non current liabilities		**(5,747)**	**(4,411)**
Total liabilities		**(11,524)**	**(7,690)**
Net assets		**15,963**	**12,153**
Equity			
Issued share capital	23	137	134
Share premium account		8,752	6,900
Currency differences reserve		(49)	1
Retained earnings		7,123	5,118
Equity attributable to owners of the Company		15,963	12,153
Non-controlling interests		-	-
Total equity		**15,963**	**12,153**

The financial statements were approved by the Board of Directors and authorised for issue on 9 October 2023 and signed on its behalf by:

Ian Lankshear
Chief Executive Officer

Mark Hodgkins
Chair

Company registration number: 04220106

Consolidated Statement of Changes in Equity

For the year ended 31 May 2023

	Share capital £'000	Share premium account £'000	Currency translation reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2021	**2**	**-**	**(39)**	**2,875**	**2,838**
Comprehensive income for the year to 31 May 2022					
Profit for the year	-	-	-	149	149
Other comprehensive income	-	-	40	-	40
Total comprehensive income for the year	**-**	**-**	**40**	**149**	**189**
Share based payment	-	-	-	120	120
Deferred tax in respect of share options	-	-	-	1,713	1,713
Corporation tax in respect of share options	-	-	-	378	378
Issue of share capital	132	7,407	-	-	7,539
Costs of share issue	-	(507)	-	-	(507)
Bonus share issue	-	-	-	(117)	(117)
At 31 May 2022	**134**	**6,900**	**1**	**5,118**	**12,153**
Comprehensive income for the year to 31 May 2023					
Profit for the year	-	-	-	1,792	1,792
Other comprehensive expense	-	-	(50)	-	(50)
Total comprehensive income for the year	**-**	**-**	**(50)**	**1,792**	**1,742**
Share based payment	-	-	-	213	213
Issue of share capital	3	2,015	-	-	2,018
Costs of share issue	-	(163)	-	-	(163)
At 31 May 2023	**137**	**8,752**	**(49)**	**7,123**	**15,963**

Non-controlling interests hold 0.002% of the issued share capital of the Indian subsidiary, EnSilica India Private Limited in accordance with local requirements and there is a non-controlling interest of £nil at 31 May 2023 (31 May 2022:£nil), further details are disclosed in note 27.

Consolidated Statement of Cash Flows

For the year ended 31 May 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Cash generated from operations	A	290	(1,915)
Tax received		1,512	3,306
Net cash generated from operating activities		**1,802**	**1,391**
Cash flows from investing activities			
Purchase of property, plant and equipment		(395)	(276)
Additions to intangible assets		(4,133)	(2,241)
Interest received		7	25
Net cash used in investing activities		**(4,521)**	**(2,492)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		1,855	6,915
Interest paid		(785)	(565)
Lease liability payments		(166)	(103)
Repayment of bank loans		(832)	(768)
Commitment fees		-	(80)
Net cash generated from financing activities		**72**	**5,399**
Net (decrease)/increase in cash and cash equivalents		**(2,647)**	**4,298**
Cash and cash equivalents at beginning of year		5,742	1,404
Foreign exchange gains/(losses)		-	40
Cash and cash equivalents at end of year	B	3,095	5,742

Notes to the Consolidated Statement of Cash Flows

For the year ended 31 May 2023

A. Cash generated from operations

	2023 £'000	2022 £'000
Profit for the year	**1,792**	**149**
Adjustments for:		
Depreciation	454	160
Amortisation of intangible assets	276	171
Share based payments	213	120
Net interest costs	778	540
Tax credit	(1,745)	(683)
	1,768	**456**
Working capital movements		
Increase in inventories	(89)	(185)
Increase in trade and other receivables	(3,770)	(304)
Increase/(decrease) in trade and other payables	2,322	(699)
Increase/(decrease) in provisions	59	(1,183)
Cash generated from/(used in) operations	**290**	**(1,915)**

B. Analysis of net debt

	At June 2021 £'000	Cash flow £'000	Non-cash changes £'000	At 31 May 2022 £'000
Loans	(5,799)	768	65	(4,966)
Lease liabilities	(296)	50	53	(193)
Liabilities arising from financing activities	(6,095)	818	118	(5,159)
Cash and cash equivalents	1,404	4,298	40	5,742
Net debt	**(4,691)**	**5,116**	**158**	**583**

	At June 2022 £'000	Cash flow £'000	Non-cash changes £'000	At 31 May 2023 £'000
Loans	(4,966)	832	(33)	(4,167)
Lease liabilities	(193)	363	(2,445)	(2,275)
Liabilities arising from financing activities	(5,159)	1,195	(2,478)	(6,442)
Cash and cash equivalents	5,742	(2,647)	-	3,095
Net debt	**583**	**(1,452)**	**(2,478)**	**(3,347)**

Parent Company Statement of Financial Position

As at 31 May 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	2,459	228
Intangible assets	12	12,433	8,576
Investments	13	89	68
Total non-current assets		**14,981**	**8,872**
Current assets			
Inventories	14	304	215
Trade and other receivables	15	6,985	2,909
Corporation tax recoverable		2,064	1,671
Cash and cash equivalents	16	2,903	5,655
Total current assets		**12,257**	**10,450**
Total assets		**27,238**	**19,322**
Current liabilities			
Borrowings	17	(883)	(800)
Lease liabilities	18	(146)	(50)
Trade and other payables	19	(5,643)	(2,860)
Total current liabilities		**(6,671)**	**(3,710)**
Non-current liabilities			
Borrowings	17	(3,284)	(4,166)
Lease liabilities	18	(2,104)	(78)
Deferred tax	19	(160)	-
Total non-current liabilities		**(5,548)**	**(4,244)**
Total liabilities		**(12,220)**	**(7,954)**
Net assets		**15,018**	**11,368**
Equity			
Issued share capital	23	137	134
Share premium account		8,752	6,900
Retained earnings		6,129	4,334
Total equity		**15,018**	**11,368**

The profit/(loss) for the financial year dealt with in the financial statements of the Parent Company was profit £1,582,000 (2022: loss £126,000).
The financial statements were approved by the Board of Directors and authorised for issue on 9 October 2023 and are signed on its behalf by:

Ian Lankshear
Chief Executive Officer

Mark Hodgkins
Chair

Company registration number: 04220106

Parent Company Statement of Changes in Equity

For the year ended 31 May 2023

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 31 May 2021	**2**	**-**	**2,366**	**2,368**
Comprehensive income for the year to 31 May 2022				
Loss for the year	-	-	(126)	(126)
Other comprehensive expense	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**(126)**	**(126)**
Share based payment	-	-	120	120
Deferred tax in respect of share options	-	-	1,713	1,713
Corporation tax in respect of share options	-	-	378	378
Issue of share capital	132	7,407	-	7,539
Costs of share issue	-	(507)	-	(507)
Bonus share issue	-	-	(117)	(117)
At 31 May 2022	**134**	**6,900**	**4,334**	**11,368**
Comprehensive income for the year to 31 May 2023				
Profit for the year	-	-	1,582	1,582
Other comprehensive expense	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**1,582**	**1,582**
Share based payment	-	-	213	213
Issue of share capital	3	2,015	-	2,018
Costs of share issue	-	(163)	-	(163)
At 31 May 2023	**137**	**8,752**	**6,129**	**15,018**

Parent Company Statement of Cash Flows

For the year ended 31 May 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Cash used in operations	A	2	(1,748)
Tax received		1,671	3,378
Net cash generated from/(used in) operating activities		**1,673**	**1,630**
Cash flows from investing activities			
Purchase of property, plant and equipment		(385)	(174)
Additions to intangible assets		(4,133)	(2,241)
Acquisition of subsidiary		(21)	(68)
Net cash used in investing activities		**(4,539)**	**(2,483)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		1,855	6,915
Interest paid		(782)	(556)
Lease liability payments		(127)	(75)
Repayment of bank loans		(832)	(768)
Commitment fees		-	(80)
Net cash generated from financing activities		**114**	**5,436**
Net (decrease)/increase in cash and cash equivalents		**(2,752)**	**4,583**
Cash and cash equivalents at beginning of year		5,655	1,072
Cash and cash equivalents at end of year	B	2,903	5,655

Notes to the Parent Company Statement of Cash Flows

For the year ended 31 May 2023

A. Cash generated from operations

The reconciliation of profit/(loss) for the year to cash generated from operations is set out below:

	2023 £'000	2022 £'000
Profit/(loss) for the year	**1,582**	**(126)**
Adjustments for:		
Depreciation	402	115
Amortisation of intangible assets	276	171
Share based payments	213	120
Net interest costs	782	556
Tax credit	(1,903)	(754)
	1,352	**82**
Working capital movements		
Increase in inventories	(89)	(185)
Increase in trade and other receivables	(4,077)	(176)
Increase/(decrease) in trade and other payables	2,816	(295)
Decrease in provisions	-	(1,174)
Cash used in operations	**2**	**(1,748)**

B. Analysis of net debt

	At 1 June 2021 £'000	Cash flow £'000	Non-cash changes £'000	At 31 May 2022 £'000
Loans	(5,799)	768	65	(4,966)
Lease liabilities	(203)	50	25	(128)
Liabilities arising from financing activities	(6,002)	818	90	(5,094)
Cash and cash equivalents	1,072	4,583	-	5,655
Net debt	(4,930)	5,401	90	561

	At 1 June 2022 £'000	Cash flow £'000	Non-cash changes £'000	At 31 May 2023 £'000
Loans	(4,966)	832	(33)	(4,167)
Lease liabilities	(128)	324	(2,446)	(2,250)
Liabilities arising from financing activities	(5,094)	1,156	(2,479)	(6,417)
Cash and cash equivalents	5,655	(2,752)	-	2,903
Net debt	**561**	**(1,596)**	**(2,479)**	**(3,514)**

Notes to the Consolidated Financial Statements

For the year ended 31 May 2023

1. General information

EnSilica plc is a public limited company incorporated in the United Kingdom, listed on the Alternative Investment Market ('AIM') of the London Stock Exchange. The Company is domiciled in the United Kingdom and its registered office is 100 Park Drive, Milton Park, Abingdon, OX14 4RY. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the 'Group').

The Company is a leading fabless design house focused on custom ASIC design and supply for OEMs and system houses, as well as IC design services for companies with their own design teams. The Company has world-class expertise in supplying custom RF, mmWave, mixed signal and digital ICs to its international customers in the automotive, industrial, healthcare and communications markets. The Company also offers a broad portfolio of core IP covering cryptography, radar and communications systems. EnSilica has a track record in delivering high quality solutions to demanding industry standards. The Company is headquartered near Oxford, UK and has design centres across the UK, India, Brazil and a sales office in Germany.

In July 2022 the Company launched a subsidiary in Munich, Germany that has the purpose of acting as the sales office to further enhance and capitalise on the Group's opportunities.

Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and the Companies Act 2006.

The financial information has been prepared under the historical cost convention unless otherwise specified within these accounting policies. The financial information and the notes to the financial information are presented in thousands of pounds sterling ('£'000'), the functional and presentation currency of the Group, except where otherwise indicated.

The principal accounting policies adopted in preparation of the financial information are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated.

Judgements made by the Directors in the application of the accounting policies that have a significant effect on the financial information and estimates with significant risk of material adjustment in the next year are discussed in note 2.

2. Accounting policies

Going concern

As part of its normal business practice, the Company regularly prepares both annual and longer-term plans which are based on the directors' expectations. The assumptions around project sales, staffing and purchases are based on management's expectations and are consistent with the Company's experience since June 2022. As at 31 May 2023 the Company's financing arrangements consisted of a loan of £2.7 million from SME Alternate Financing and a Coronavirus Business Interruption Loan (CBIL) for £1.7 million used to mitigate delays caused by Covid-19. The Company held a cash balance of £3.1 million at that date. The possible continuing and future impact of the Russia/Ukraine war on the Company has been considered in the preparation of the financial statements.

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future (being a minimum period of 12 months from the date of signing the balance sheet), and accordingly continue to adopt the going concern basis in preparing the accounts.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 May 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
    - The contractual arrangement(s) with the other vote holders of the investee
    - Rights arising from other contractual arrangements
    - The Group's voting rights and potential voting rights. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

2. Accounting policies – continued

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Revenue recognition

Revenue, in accordance with IFRS15 is recognised at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring control of goods or services to a customer. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

The following principles are applied to each area of revenue as set out below:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract

Recognise revenue when the Company satisfies performance obligations

Services

Design services are provided specifically for each customer and may be either consultancy services only in respect of IC design or design services as part of a design and supply model involving a contract for the initial non-recurring engineering costs of development (NRE). When the outcome of a contract can be measured reliably, the Company recognises both income and costs over a period of time by reference to the percentage of completion of the contract as this is considered the most appropriate measurement of performance of the obligations. If the outcome cannot be reliably measured, all costs are expensed, and revenue is only recognised to the extent that it is probable that costs are recoverable.

Sale of goods

Revenue from the sale of goods is recognised at a point in time when control over the goods has passed to the buyer, usually on dispatch of the goods when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity as the Company fulfils its performance obligation.

Licensing and similar income

Income in respect of a licensing arrangement for the use of IP is recognised on a straight line basis over the period of the agreement or where typically linked to the delivery of design services, recognised by reference to the underlying arrangement and delivery of services.

Invoicing of revenue is undertaken in accordance with the terms of the agreement with the customer. If amounts recognised in respect of revenue for completed performance obligations have not been invoiced at the financial position date, accrued income is recognised. When an invoice is due for payment at the statement of financial position date but the associated performance obligations have not been fulfilled the amounts due are recognised as trade receivables and a deferred income contract liability is recognised for the value of the performance obligations that have not been provided.

Employee benefits

The EnSilica Group operates a defined contribution pension scheme. Contributions are recognised in the Statement of Comprehensive Income in the year in which they become payable in accordance with the rules of the scheme.

Short term employee benefits including holiday pay are recognised as an expense in the period in which the service is rendered.

Notes to the Consolidated Financial Statements – continued

For the year ended 31 May 2023

2. Accounting policies – continued

Share based payment

The Company operates an equity-settled share-based compensation plan in which the Company receives services from employees as consideration for share options. The fair value is established at the point of grant using an appropriate pricing model and then the cost is recognised as an expense in administrative expenses in the statement of comprehensive income, together with a corresponding increase directly in equity over the period in which the services are fulfilled. This is the estimated period to vesting in respect of employees. The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

Taxation

The taxation expense or credit comprises current and deferred tax recognised in the profit for the financial period or in other comprehensive income or equity if it arises from amounts recognised in other comprehensive income or directly in equity. Current tax is provided at amounts expected to be paid (or recovered) in respect of the taxable profits for the period using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset and where the deferred tax balances relate to the same taxation authority.

Non-recurring items

The Company classifies certain one-off charges or credits that have a material impact on the Company's financial results as 'non-recurring items'. These are disclosed separately to provide further understanding of the financial performance of the Company.

Government grants

Grants are accounted under the accruals model, and grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure. Government grants relate to the receipt of Coronavirus Job Retention Scheme income, to innovation grants and to the interest free period on Coronavirus Business Interruption loans.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling on the date of the transaction. Monetary assets or liabilities denominated in foreign currencies at the Statement of Financial Position date are translated at the rate ruling on that date and all translation differences are charged or credited in the Statement of Comprehensive Income.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in a separate equity reserve.

Intangible assets - research and development expenditure

Intangible assets are represented by capitalised development costs including proprietary intellectual property developed by the business for both its own use and for licensing to third parties.

An internally generated intangible asset arising from development (or the development phase) of an internal project is recognised if, and only if, all of the following have been demonstrated:

- It is technically feasible to complete the development such that it will be available for use, sale or licence;

2. Accounting policies – continued

- There is an intention to complete the development;
- The method by which probable future economic benefits will be generated is known;
- The Company is able to sell or use the product;
- There are adequate technical, financial and other resources required to complete the development;
- There are reliable measures that can identify the expenditure directly attributable to the project during its development.

The amount recognised is the expenditure incurred from the date when the project first meets the recognition criteria listed above. Where the above criteria are not met, development expenditure is charged to the consolidated income statement in the period in which it is incurred. The capitalisation of development costs is subject to a degree of judgement in respect of the viability of new technology and know-how, supported by the results of testing and customer trials and by forecasts for the overall value and timing of sales which may be impacted by other future factors which could impact the assumptions made.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and impairment losses. An impairment review is undertaken annually, and amortisation commences once management consider that the asset is available for use, i.e., when it is judged to be in the location and condition necessary for it to be capable of operating in the manner intended by management and the cost amortised over the estimated useful life of the know-how based on expected customer product cycles and lives. This is typically 5 to 10 years, and the charge is reported within administrative expenses in the consolidated statement of comprehensive income. During the year under review the policy to charge amortisation was changed to match the level of revenue. This method allocated the charge in a more representative manner, with larger charges made in years where most revenue was recognised, but still over the same time period. The prior year charge would not have been materially affected by this change, and hence no adjustment was made to reflect this.

As part of the impairment review, consideration is also made regarding the validity of impairment provisions made in previous periods, and to whether the provision is still warranted in the period under review.

Research expenditure is recognised as an expense in the period in which it is incurred.

Financial assets

Financial assets, including trade and other receivable balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method. Cash and cash equivalents comprise cash held at bank which is available on demand.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. The Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), which is estimated using past experience of the Company's historical credit losses experienced over the three year period prior to the period end. Historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers, such as inflation rates. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

The Company recognises loss allowances for expected credit losses on financial assets measured at amortised cost to the extent that these are material. The Company has determined that there is no material impact of ECLs on the financial information.

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities, including trade and other payables and bank borrowings are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Notes to the Consolidated Financial Statements – continued

For the year ended 31 May 2023

2. Accounting policies – continued

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Borrowings are initially stated at the fair value of the consideration received after deduction of wholly attributable issue costs. Borrowings are subsequently stated at amortised cost using the effective interest method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset.

All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Leases

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

The incremental borrowing rate depends on the term, currency and start date of the lease and is determined based on a series of inputs including: the risk-free rate based on government bond rates; a country-specific risk adjustment; a credit risk adjustment based on bond yields; and an entity-specific adjustment when the risk profile of the entity that enters into the lease is different to that of the Company and the lease does not benefit from a guarantee from the Company.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date. The amount expected to be payable by the lessee under residual value guarantees.
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options.
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease. The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

2. Accounting policies – continued

The Company did not make any such adjustments during the years presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “Other expenses” in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Property, plant and equipment

Property, plant and equipment assets are stated at cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all property, plant and equipment assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life, as follows:

Asset class	Depreciation method rate
Leasehold improvements	Over the period of the lease
Computer Software	5 years straight line on cost
Office Equipment	4 years straight line on cost
Computer Equipment	3 years straight line on cost

Inventories

Inventories are valued at the lower of purchase cost and net realisable value, after due regard for any slow moving items. Net realisable value is based on selling price less anticipated costs to completion and selling costs. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its net realisable value. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

Share capital and reserves

Financial instruments issued by the company are treated as equity only to the extent that they do not meet the definition of a financial liability. The parent company’s ordinary shares are classified as equity instruments.

The cumulative currency differences reserve represents translation differences in respect of the net assets of overseas subsidiaries.

Retained earnings comprises opening retained earnings and total comprehensive income for the year, net of dividends paid.

Notes to the Consolidated Financial Statements – continued

For the year ended 31 May 2023

2. Accounting policies – continued

New or revised accounting standards and interpretations

At the date of authorisation of these financial statements, the company has not early adopted the following amendments to Standards and Interpretations that have been issued but are not yet effective:

Standard or Interpretation	Effective for accounting periods commencing on or after
Annual improvements to IFRS standards 2018-2020: Amendments to IAS 1: Classification of Liabilities as Current or Non-Current	01 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	01 January 2023
Amendments to IAS 8: Definition of Accounting Estimates	01 January 2023
Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction	01 January 2023

The application of these standards is not expected to have a material impact on the amounts reported in these financial statements.

Critical accounting estimates and judgements

The preparation of the financial information under IFRS requires the use of certain critical accounting assumptions and requires management to exercise its judgement and to make estimates in the process of applying the Company's accounting policies.

Management bases its estimates on historical experience and on various other assumptions that management believes to be reasonable in the circumstances. The key estimates and judgements used in the preparation of this financial information that could result in a material change in the carrying value of assets or liabilities within the next twelve months are as follows:

Intangible assets – capitalisation, impairment and amortisation of development expenditure

Judgement

The capitalisation of development costs is subject to a degree of judgement in respect of the timing when the commercial viability of new technology and know-how is reached, supported by the results of testing and customer trials, and by forecasts for the overall value and timing of sales which may be impacted by other future factors which could impact the assumptions made. In making their judgements, the Directors considered the carrying values that are shown in note 12.

Estimation

Amortisation commences once management consider that the asset is available for use, i.e. when it is judged to be in the location and condition necessary for it to be capable of operating in the manner intended by management and the cost is amortised over the estimated useful life of the know-how based on experience of and future expected customer product cycles and lives. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments and economic utilisation.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 12.

2. Accounting policies – continued

Revenue

Estimation

In accordance with the policy on revenue recognition, management are required to judge the percentage of completion of the contract in order to recognise both income and costs. The overall recognition of revenue will depend upon the nature of the project and whether it is billed on a time and materials basis, or, on a project milestone basis where invoices can only be raised on completion of specific, pre-agreed objectives. The company maintains complete and accurate records of employees' time and expenditure on each project which is regularly assessed to determine the percentage completion, and thereby whether it is appropriate to recognise any profits.

The level of management judgement is based on a strong track record of successful completion of projects and accurate forecasting of the time required together with the hindsight period available to support the balance sheet date assumptions made.

Adjusting items

The Company has chosen to present an adjusted measure of profit and earnings per share, which excludes certain items which are separately disclosed due to their size, nature or incidence, and are not considered to be part of the normal operating costs of the Company. These costs include IPO preparation costs. The Company believes adjusting for these items provides additional useful information to users of the financial statements to enable a better understanding of the Company's underlying financial performance. The classification of items as adjusting requires significant management judgement.

Treatment of costs incurred in relation to the IPO

The decision of how to split the costs incurred on an equity raise via IPO requires judgement given that, whilst costs incurred on an equity raise should be recognised against equity in share premium, costs that relate to a stock market listing should be recognised as an expense in the consolidated statement of comprehensive income.

3. Analysis of revenue

The Board continues to define all the Company's trading as operating in the integrated circuit design market and considers all revenue to relate to the same, one operating segment. Revenue is defined as per the accounting policies.

Revenue in respect of the supply of products is recognised at a point in time. Design and related services including income for the use of IP are recognised over the period when services are provided.

	2023 £'000	2022 £'000
Recognised at a point in time		
Supply of products	2,856	1,769
Recognised over time		
NRE	8,175	6,250
Consultancy design services	9,400	7,073
Licensing related income	45	201
	17,620	13,524
	20,476	15,293
By destination:		
UK	1,831	2,808
Rest of Europe	11,817	4,721
Rest of the World	6,828	7,764
Total revenue	**20,476**	**15,293**

The nature of the design services and projects is such that there will be significant customers as a proportion of revenue in any one year but that these may be different customers from year to year. Revenue in respect of two customers amounted to £5.7 million and £5.4 million representing 28% and 27% of the revenue for the year ended 31 May 2023 (2022: two different customers amounted to £3.6 million at 36% and 19% respectively).

Notes to the Consolidated Financial Statements – continued
For the year ended 31 May 2023

3. Analysis of revenue – continued

The Group's non-current assets comprising investments, tangible and intangible fixed assets and the net assets by geographical location are:

		31 May 2023		31 May 2022
	Non-current assets £'000	Net assets £'000	Non-current assets £'000	Net assets £'000
United Kingdom	14,892	14,967	8,804	11,301
India	34	1,199	67	817
Brazil	73	67	87	35
Germany	-	(270)	-	-
	14,999	**15,963**	**8,958**	**12,153**

4. Alternative performance measures

These items are included in normal operating costs of the business, but are significant cash and non-cash expenses that are separately disclosed because of their size, nature or incidence. It is the Company's view that excluding them from operating profit gives a better representation of the underlying performance of the business in the year.

The Company's primary results measure, which is considered by the directors of EnSilica plc to better represent the underlying and continuing performance of the Company, is Adjusted EBITDA as set out below. EBITDA is a commonly used measure in which earnings are stated before net finance income, amortisation and depreciation as a proxy for cash generated from trading.

	2023 £'000	2022 £'000
Operating profit before interest	825	6
Compensation for loss of office	85	-
IPO costs	-	699
Adjusted Operating profit before interest	910	705
Depreciation	454	160
Amortisation of intangible assets	276	171
Adjusted EBITDA	1,640	1,036
Profit for the year	1,792	149
Compensation for loss of office	85	-
IPO costs	-	699
Adjusted Profit for the year	**1,877**	**848**

Compensation for loss of office

Compensation for loss of office covers the non-recurring costs in relation to the termination of employment of a Director as described in the Remuneration Committee report.

IPO Costs

Attributable costs relating to the IPO performed during the prior year were recognised within the consolidated statement of comprehensive income as an exceptional cost. These costs were excluded from the adjusted results of the Company since the costs are one-off in nature and will not repeat in future years.

5. Operating profit

The operating profit is stated after charging:

	2023 £'000	2022 £'000
Depreciation of property, plant and equipment	164	106
Depreciation of right-of-use assets	290	54
Amortisation of intangible assets	276	171
Cost of inventory sold	1,863	1,717
Research and development costs	4,603	3,133
Share based payments	213	120
Foreign exchange (gains)/losses	50	(40)
Research and development expenditure credit	(8)	14
Total government grants received	**(8)**	**14**

Development expenditure was also capitalised in each year as shown in note 12.

Auditor's remuneration:		
Audit of the Company and Company financial statements - current year	80	53
- previous year	11	-
Non-audit services	20	83
Total Fees payable to the Company's auditor	**111**	**136**

6. Information regarding directors and employees

Employees

The aggregate remuneration of employees comprised:

	2023 £'000	2022 £'000
Wages and salaries	8,727	6,601
Social security costs	989	679
Other pension costs	1,042	777
Share based payments	213	46
Total	**10,971**	**8,103**

Average number of employees

The monthly average number of employees in the year was:

	2023	2022
Administration	16	10
Marketing	6	5
Research, development and technical	146	102
Total	**168**	**117**

Notes to the Consolidated Financial Statements – continued

For the year ended 31 May 2023

6. Information regarding directors and employees – continued

Directors' remuneration

	2023 £'000	2022 £'000
Directors' remuneration – aggregate emoluments	825	378
Company pension contributions in respect of 3 (2022:2) directors	66	12
Share based payments	146	-
	1,037	**390**
Remuneration of the highest paid director	231	140
Company pension contributions	20	5
Share based payments	-	-
	251	**145**

Key management is defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the Company, and was considered to be only the executive directors with compensation as disclosed above.

7. Interest income

	2023 £'000	2022 £'000
Bank interest receivable	7	25
	7	**25**

8. Interest expense

	2023 £'000	2022 £'000
Interest on bank and other borrowings	565	461
Lease liability financing charges	201	15
Interest on conversion of convertible loan note	-	47
Other interest	19	42
	785	**565**

9. Taxation on profit

	2023 £'000	2022 £'000
Current taxation		
UK corporation tax credit	2,064	1,293
Foreign tax charge	(159)	(71)
	1,905	1,222
Deferred taxation		
Origination and reversal of timing differences	160	(539)
Charge due to change in tax rate	-	-
	160	(539)
Tax credit on profit	**1,745**	**683**

9. Taxation on profit – continued

Factors affecting the tax credit for the year

The tax credit on the profit/(loss) for the year differs from applying the standard rate of corporation tax in the UK of 20% (2022: 19%). The differences are reconciled below:

	2023 £'000	2022 £'000
Profit/(loss) before taxation	47	(534)
Corporation tax at standard rate (2023:20%, 2022 19%)	9	(102)
Factors affecting charge for the year:		
Disallowable expenses	164	135
Allowances and enhanced deductions	(966)	-
Research and development allowances	(1,940)	(1,205)
Reduced rate on surrender of R&D losses for tax credit	762	360
RDEC expenditure credit	(62)	-
Foreign tax charges	85	-
Deferred tax	160	-
Share options	43	-
Charge due to change in tax rate	-	129
Tax credit on profit/(loss)	**(1,745)**	**(683)**

10. Earnings per share

	2023	2022
Profit used in calculating EPS (£'000)	**1,792**	**149**
Number of shares for basic EPS ('000s)	75,833	75,232
Basic earnings per share (pence)	**2.36**	**0.20**
Number of shares for diluted EPS ('000s)	77,874	76,106
Diluted earnings per share (pence)	**2.30**	**0.20**

Adjusted Earnings per share

	2023	2022
Adjusted Profit used in calculating EPS (£'000)	**1,877**	**848**
Number of shares for basic EPS ('000s)	75,833	75,232
Adjusted basic earnings per share (pence)	**2.47**	**1.13**
Number of shares for diluted EPS ('000s)	77,874	76,106
Adjusted diluted earnings per share (pence)	**2.41**	**1.11**

There are 424,440 of exercisable share options over ordinary shares respectively which are potentially dilutive to profit.

As part of the company's 2022 long term incentive plan, share options over 6,684,300 Ordinary shares and warrants over 450,000 Ordinary shares are potentially dilutive to profit.

Notes to the Consolidated Financial Statements – continued
For the year ended 31 May 2023

11. Property, plant and equipment

Group	Right-of-use property £'000	Leasehold improvements £'000	Office equipment £'000	Right-of-use equipment £'000	Computer equipment £'000	Total £'000
Cost						
At 1 June 2021	194	-	56	174	321	745
Additions	-	-	142	-	134	276
Exchange adjustments	19	-	-	-	-	19
At 31 May 2022	213	-	198	174	455	1,040
Depreciation						
At 1 June 2021	(112)	-	(46)	(100)	(225)	(483)
Charge for the year	(29)	-	(23)	(25)	(83)	(160)
Exchange adjustments	(15)	-	-	-	-	(15)
At 31 May 2022	(156)	-	(69)	(125)	(308)	(658)
Net book value						
At 31 May 2022	**57**	**-**	**129**	**49**	**147**	**382**
Cost						
At 1 June 2022	213	-	198	174	455	1,040
Additions	1,825	240	45	423	110	2,643
Exchange adjustments	-	-	(3)	-	(2)	(5)
At 31 May 2023	2,038	240	240	597	563	3,678
Depreciation						
As at June 2022	(156)	-	(69)	(125)	(308)	(658)
Charge for the year	(211)	(24)	(43)	(79)	(97)	(454)
Exchange adjustments	-	-	-	-	-	-
At 31 May 2023	(367)	(24)	(112)	(204)	(405)	(1,112)
Net book value						
At 31 May 2023	**1,671**	**216**	**128**	**393**	**158**	**2,566**

Company	Right-of-use property £'000	Leasehold improvements £'000	Office equipment £'000	Right-of-use equipment £'000	Computer equipment £'000	Total £'000
Cost						
At 1 June 2021	-	-	52	126	347	525
Additions	-	-	96	-	78	174
At 31 May 2022	-	-	148	126	425	699
Depreciation						
At 1 June 2021	-	-	(43)	(92)	(221)	(356)
Charge for the year	-	-	(19)	(26)	(70)	(115)
At 31 May 2022	-	-	(62)	(118)	(291)	(471)
Net book value						
At 31 May 2022	**-**	**-**	**86**	**8**	**134**	**228**

11. Property, plant and equipment – continued

Company	Right-of-use property £'000	Leasehold improvements £'000	Office equipment £'000	Right-of-use equipment £'000	Computer equipment £'000	Total £'000
Cost						
At 1 June 2022	-	-	148	126	425	699
Additions	1,825	241	41	423	103	2,633
At 31 May 2023	1,825	241	189	549	528	3,332
Depreciation						
At 1 June 2022	-	-	(62)	(118)	(291)	(471)
Charge for the year	(183)	(24)	(35)	(79)	(81)	(402)
At 31 May 2023	(183)	(24)	(97)	(197)	(372)	(873)
Net book value						
At 31 May 2023	**1,643**	**217**	**92**	**352**	**156**	**2,459**

12. Intangible assets

Group and Company	Development costs £'000	Software £'000	Intellectual property £'000	Total £'000
Cost				
At 1 June 2020	7,471	-	-	7,471
Additions	1,672	123	-	1,795
At 31 May 2021	9,143	123	-	9,266
Amortisation and impairment				
At 1 June 2020	(627)	-	-	(627)
Charge for the year	(110)	(4)	-	(114)
Impairment in the year	(2,019)		-	(2,019)
At 31 May 2021	(2,756)	(4)	-	(2,760)
Net book value				
At 31 May 2021	**6,387**	**119**	**-**	**6,506**
Cost				
At 1 June 2021	9,143	123	-	9,266
Additions	2,241	-	-	2,241
At 31 May 2022	11,384	123	-	11,507
Amortisation and impairment				
At 1 June 2021	(2,756)	(4)	-	(2,760)
Charge for the year	(148)	(23)	-	(171)
Impairment in the year	-	-	-	-
At 31 May 2022	(2,904)	(27)	-	(2,931)
Net book value				
At 31 May 2022	**8,480**	**96**	**-**	**8,576**

Notes to the Consolidated Financial Statements – continued
For the year ended 31 May 2023

12. Intangible assets – continued

Group and Company	Development costs £'000	Software £'000	Intellectual property £'000	Total £'000
Cost				
At 1 June 2022	11,384	123	-	11,507
Additions	4,094	-	39	4,133
At 31 May 2023	15,478	123	39	15,640
Amortisation and impairment				
At 1 June 2022	(2,904)	(27)	-	(2,931)
Charge for the year	(248)	(24)	(4)	(276)
Impairment in the year	-	-	-	-
At 31 May 2023	(3,152)	(51)	(4)	3,207
Net book value				
At 31 May 2023	**12,326**	**72**	**35**	**12,433**

Capitalised development expenditure relates to developed intellectual property in respect of circuit and chip design.

The recoverable amount of a cash generating unit (CGU) is assessed using a value in use model across each individual project that forms the intellectual property that has been capitalised. The value in use for each portion is dependent on the envisaged life cycle of the CGU using a discount factor of 11.50% (2022:10%), being the cost of capital for the CGU.

13. Investments in subsidiaries

Company	31 May 2023 £'000	31 May 2022 £'000
Investments in subsidiaries at 1 June	68	-
Investment in EnSilica Do Brasil Sociedade Unipessoal Limitada	-	68
Investment in EnSilica GMBH	21	-
EnSilica India Private Limited	-	-
Total	**89**	**68**

Name	Country of incorporation	Nature of business	Proportion of Ordinary shares directly held
EnSilica India Private Limited	India	Semiconductor design consultants	99.99%
Registered office: No.2064, 2nd floor, Siri Iris, 24th Main, 1st Sector, HSR layout, Bangalore, 560 102			
EnSilica ADAS Limited	UK	Semiconductor design consultants (dormant)	100.00%
Registered office: Building 3 115 Olympic Avenue, Milton Park, Abingdon, Oxfordshire, United Kingdom, OX14 4SA			
EnSilica Do Brasil Sociedade Unipessoal Limitada	Brazil	Semiconductor design consultants	100.00%
Registered office: 6681 Av Ipiranga, Sala 1009 Preio 99, Partenon, Porto Alegre, Rio Grande do Sul, Brasil			
EnSilica Germany GMBH	Germany	Semiconductor design sales office	100.00%
Registered Office: c/o Steuerberaterin Renate Schnürch, Nymphenburger Straße 1, 80335 Munich			

On 18 July 2022 the company invested 25,000 Euros in consideration for a 100% interest in the share capital of EnSilica GMBH, with a registered office situated at EnSilica Germany GmbH, c/o Steuerberaterin Renate Schnürch, Nymphenburger Straße 1, 80335 Munich.

14. Inventories

Group and Company	31 May 2023 £'000	31 May 2022 £'000
Raw materials and consumables	304	215

No impairment losses have been recorded in respect of inventory in the period.

15. Trade and other receivables

Group	31 May 2023 £'000	31 May 2022 £'000
Current		
Trade receivables	3,893	1,541
Other receivables	807	458
Prepayments	483	248
Accrued income	1,842	1,010
Total	**7,025**	**3,257**

Analysis of expected credit losses is included in note 22.

Company	31 May 2023 £'000	31 May 2022 £'000
Current		
Trade receivables	3,893	1,297
Other receivables	497	357
Receivable from subsidiary undertakings	271	245
Prepayments	483	245
Accrued income	1,842	1,010
Total	**6,985**	**2,909**

Analysis of expected credit losses is included in note 22.

16. Cash and cash equivalents

Group	31 May 2023 £'000	31 May 2022 £'000
Cash at bank and in hand	3,095	5,742

Company	31 May 2023 £'000	31 May 2022 £'000
Cash at bank and in hand	2,903	5,655

Notes to the Consolidated Financial Statements – continued

For the year ended 31 May 2023

17. Borrowings

Group and Company	31 May 2023 £'000	31 May 2022 £'000
Current		
Bank loans	883	800
Non-current		
Bank loans	3,284	4,166
Total	**4,167**	**4,966**

A bank loan of £1,657,000 (2022: £2,068,000) is secured by fixed and floating charges over the assets of the group and bears interest at rates of 8% over SONIA or 10% if higher. It is repayable in monthly instalments over the period to August 2026.

A loan of £2,662,000 (2022: £3,088,000) is unsecured and bears interest at a fixed rate of 13%. It is being repaid by quarterly instalments over the period to October 2027.

The loan liabilities are stated net of unamortised loan issue costs as at 31 May 2023 of £152,000 (2022: £189,000) which are being amortised over the period to the loan repayment dates.

18. Lease liabilities

The Company has entered into lease contracts in respect of property in the jurisdictions from which it operates, and the use of equipment which are typically for terms of 3 to 5 years. In respect of options to extend the initial period these are factored into the liabilities where the Company plans to use these for a longer period. For property leases, it is customary for lease contracts to be reset periodically to market rental rates. Leases of equipment comprise only fixed payments over the lease terms.

Right of use assets, additions and amortisation are included in note 11. Interest expenses relating to lease liabilities are included in note 8.

The amounts relating to leases were as follows:

Group	31 May 2023 £'000	31 May 2022 £'000
Short term lease expense	257	100
Cash outflow for capitalised leases	169	109
Total cash outflow from leases	**426**	**209**
Company		
Short term lease expense	233	90
Cash outflow for capitalised leases	130	72
Total cash outflow from leases	**363**	**162**

The maturity of lease liabilities were as follows:

Group	31 May 2023 £'000	31 May 2022 £'000
Within 1 year	171	88
1-2 years	193	105
2-5 years	1,911	-
Total	**2,275**	**193**
Company		
Within 1 year	146	40
1-2 years	193	47
2-5 years	1,911	41
Total	**2,250**	**128**

19. Trade and other payables

Group	31 May 2023 £'000	31 May 2022 £'000
Current		
Trade payables	2,388	919
Taxation and social security	281	227
Other payables	161	75
Accruals	1,293	1,156
Contract liabilities	600	14
Total	**4,723**	**2,391**

Company	31 May 2023 £'000	31 May 2022 £'000
Current		
Trade payables	3,324	1,620
Taxation and social security	236	200
Other payables	-	8
Accruals	1,483	1,018
Contract liabilities	600	14
Total	**5,643**	**2,860**

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

In the year ended 31 May 2023 £14,000 of revenue was recognised in respect of contract liabilities at 31 May 2022 (year ended 31 May 2022: £859,000 in respect of liabilities at 31 May 2021).

20. Provisions

	31 May 2023 £'000	31 May 2022 £'000
At 31 May 2022	140	95
Foreign exchange revaluation	(6)	
Gratuity redeemed	(3)	(7)
Provided in year	68	52
Overseas employee provisions	199	140

The provision relates to the liability under the Government of India Gratuity Act in respect of payments to employees on cessation of service in respect of death or disability or otherwise after more than 5 years' service.

Notes to the Consolidated Financial Statements – continued

For the year ended 31 May 2023

21. Deferred tax liabilities

	Intangible assets £'000	Accelerated capital allowances £'000	Tax losses £'000	Other £'000	Total £'000
At 31 May 2021	1,596	64	(173)	(313)	1,174
Charge/(credit) for the year	524	15	-	-	539
Debited to equity in the year		-	-	(1,713)	(1,713)
At 31 May 2022	2,120	79	(173)	(2,026)	-
Charge/(credit) for the year	952	-	-	(792)	160
At 31 May 2023	**3,072**	**79**	**(173)**	**(2,818)**	**160**

Deferred tax has been recognised at an average rate of 25% (2022: 25%).

22. Financial Instruments

Financial risk management

The determination of financial risk management policies and the treasury function is managed by the CFO. Policies are set to reduce risk as far as possible without unduly affecting the operating effectiveness of the Company.

The Company's activities expose it to a variety of financial risks, the most significant being credit risk, liquidity risk and interest rate risk together with a degree of foreign currency risk as discussed below.

Categories of financial instruments

The Group has the below categories of financial instruments:

Recognised at amortised cost	31 May 2023 £'000	31 May 2022 £'000
Cash and bank balances	3,095	5,742
Trade receivables - net	3,893	1,541
Accrued income	1,842	1,010
Other receivables	807	457
Total financial assets	**9,637**	**8,750**
Trade payables	2,388	919
Other payables	1,454	1,231
Bank loans	4,167	4,966
Total financial liabilities	**8,009**	**7,116**

There were no assets or liabilities at 31 May 2023 or 2022 that were recognised and measured at fair value in the financial information.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss for the Company. Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and cash equivalents, trade accounts receivable and accrued income.

The Company places its cash and cash equivalents with major financial institutions, which management assesses to be of high-credit quality in order to limit the exposure of each cash deposit to a minimal level.

22. Financial Instruments – continued

Trade receivables

Trade accounts receivable are derived primarily from design income and have 0-45 day payment terms, most commonly 30 days. The largest customer accounts for 31% of the balance at 31 May 2023 (2022: 25%) of the trade receivable balance as a result of the invoices relating to design projects with a significant element being in advance of the design services being carried out. Credit risk with respect to accounts receivable is otherwise dispersed across a number of customers. Collateral is not required for accounts receivable. The credit worthiness of customers with balances in trade receivables not yet due has been assessed as high.

The ageing of trade receivables according to their original due date is detailed below:

	31 May 2023 £'000	31 May 2022 £'000
Not yet due	3,452	1,179
1-30 days past due date	454	229
Over 30 days past due date	(13)	133
Total	**3,893**	**1,541**

The expected credit loss on balances is considered immaterial.

Other receivables and accrued income are considered to bear similar risks to trade receivables. Hence any expected credit loss on other financial assets is considered to be immaterial.

Liquidity risk

The Company funds its business through bank and other loans and from cash generated from operations including the payment terms with customers to fund larger design projects. Details of the Company's borrowings are discussed in note 17. The Company monitors and manages cash within its banking facilities to mitigate any liquidity risk it may face. The following table shows the Company's contractual maturities of financial liabilities based on undiscounted cash flows including interest charges and the earliest date on which the Company is obliged to make repayment:

At 31 May 2022	Less than one year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	2,151	-	-	-	2,151
Bank loans	1,383	1,390	3,722	396	6,891
Lease liabilities	98	71	54	-	223
Total	**3,632**	**1,461**	**3,776**	**396**	**9,265**

At 31 May 2023	Less than one year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	2,388	-	-	-	2,388
Bank loans	1,390	1,390	3,327	-	6,107
Lease liabilities	389	398	1,197	1,408	3,392
Total	**4,167**	**1,788**	**4,524**	**1,408**	**11,887**

Interest rate risk

The bank loan of £1.657 million is subject to interest at rates of 8% over SONIA if this exceeds 10%. A 1% increase in interest rates would therefore have a £16,570 impact per annum on finance costs at current base rates.

The other bank loan bears interest at a fixed rate of 13%. A 1% increase in interest rates would therefore have had no impact on finance costs at current base rates.

Notes to the Consolidated Financial Statements – continued

For the year ended 31 May 2023

22. Financial Instruments – continued

Currency risk

The Company operates from the UK with sterling being its functional currency and has a degree of exposure to foreign currency risk, with this predominantly being income and expenses in US dollars together with Indian rupees in respect of both income and operational activity in the Indian subsidiary. The impact of a 10% fluctuation in all foreign exchange rates moving in the same direction against GBP has been assessed to be an overall impact of approximately £99,000 as mitigated by some matching of income and expenses together with the relatively short payment terms for accounts receivable (including the USD balance at 31 May 2023).

The net underlying foreign currency balances, comprising overseas assets and liabilities, cash, receivables and payables in the UK, in the Company statement of financial position by underlying currency at the year-end were:

	USD £'000	Euro £'000	INR £'000	Total £'000
At 31 May 2021	1,644	892	605	3,141
At 31 May 2022	1,453	352	388	2,193
At 31 May 2023	**2,612**	**1,482**	**352**	**4,446**

Capital management

The Company's capital comprises share capital and retained earnings. The Company's objectives when maintaining capital are:

To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Company consists of shareholders equity as set out in the consolidated statement of changes in equity. The longer term funding requirements for development have been financed from term bank debt. All working capital requirements are financed from existing cash resources.

The Company sets the amount of capital it requires in proportion to risk in conjunction with the retained earnings. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

23. Share capital

Allotted, called up and fully paid	At 31 May 2023 £'000	At 31 May 2022 £'000
1,700,000 A ordinary shares of £0.001 each	-	-
273,000 B ordinary shares of £0.001 each	-	-
78,115,158 (2022:75,231,809) ordinary shares of £0.001 each	78	75
59,190 (2022: 59,190) Deferred shares of £1.00 each	59	59
	137	**134**

On 14 March 2023, the Company announced a retail offer to existing shareholders to raise £2.0 million before expenses via a placing of 2,857,143 new Ordinary shares. The new Ordinary shares are credited as being fully paid, rank *pari passu* and carry rights to dividends, distribution of capital upon winding up and the right to receive notice of, attend, speak and vote at a general meeting.

Subsequently, on 15 March 2023, the Company announced a supplementary retail offer to raise up to £0.5 million before expenses via a placing at 70 pence per new Ordinary share. The results of the offer led to the issuance of 26,206 new Ordinary shares, raising £18,344.20 before expenses. The new Ordinary shares are credited as being fully paid, rank *pari passu* and carry rights to dividends, distribution of capital upon winding up and the right to receive notice of, attend, speak and vote at a general meeting.

24. Share based payment

In the previous year, options were granted in May 2022 to directors and employees under the new 2022 LTIP scheme over 6,461,500 ordinary shares at an exercise price of £0.50 per share. These are subject to performance conditions in respect of earnings per share for the year ending 31 May 2025. The share based payment charges for these options was calculated at a fair value of 18 pence each using a Black Scholes share pricing model with 50% volatility, 2% risk free rate and 3.5 year vesting period assumptions.

Options were also granted in May 2022 over 200,000 ordinary shares to non-executive directors at an exercise price of £0.50 subject only to a 4 year vesting period. A fair value of 19 pence per share has been calculated using a Black Scholes share pricing model with 50% volatility, 2% risk free rate and 4 year vesting period assumptions.

In the current year options were granted in December 2022 to employees under the new 2022 LTIP scheme over 395,800 ordinary shares at an exercise price of £0.895 subject to a 2.5 year vesting period. These are subject to performance conditions in respect of earnings per share for the year ending 31 May 2025 where the percentage of the amount of option that will vest depends on the following sliding scale:

Earnings per share	Options to vest
Less than 2p	0%
2p	25%
Greater than 2p but less than 5p	25 to 75% pro rate
Between 5-6.5p	75 to 100% pro rate
Greater than 6.5p	100%

The options have an expiry on the tenth anniversary of the date of the grant.

The share based payment charges for these options have been calculated at a fair value of 29 pence each using a Black Scholes share pricing model with 50% volatility, 4% risk free rate and vesting period assumptions of between 2.5 and 3 years.

A separate scheme operates in respect of the non-executive directors that are not subject to a performance period and will vest 33.33% on the second anniversary of the date of the grant and 66.67% on the fourth anniversary of the date of the grant, with a similar 10 year lifespan from date of grant.

At 31 May 2023 none of the share options had vested, and none remained exercisable at the year-end date.

A share based payment charge of £213,000 (2022: £46,000) has been recognised in the statement of comprehensive income.

	Average Exercise Price	D options Number	2022 LTIP scheme Number	Non-executive options Number
Share options outstanding at 31 May 2021	£0.001	811,000	-	-
Exercised in May 2022	£0.001	(718,000)	-	-
Remaining options aligned to new ordinary share structure	£0.001	331,440	-	-
Share options granted during the year	£0.50	-	6,461,500	200,000
Share options outstanding at 31 May 2022	£0.47	424,440	6,461,500	200,000
Options lapsing in the year	£0.50	-	(373,000)	
Share options granted during the year	£0.895	-	395,800	-
Share options outstanding at 31 May 2023	**£0.49**	**424,440**	**6,484,300**	**200,000**

The weighted average exercise price for all options is £0.49 at 31 May 2023 (£0.47 per share at 31 May 2022) and the average remaining vesting period was estimated at 2 years at 31 May 2023 (2022: 3 years).

There are also arrangements in place under which employees have an option to buy existing shares from certain shareholders at £0.50 per share. These will not impact the company nor dilute shareholdings and are considered outside the scope of share based payment accounting.

Notes to the Consolidated Financial Statements – continued

For the year ended 31 May 2023

24. Share based payment – continued

During the previous year, warrants were issued to the listing advisers over 450,000 ordinary shares at an exercise price of £0.50, exercisable in the 3 years following the date of admission to AIM. The share based payment of £74,000 in respect of the services was calculated at a fair value of 17 pence per share using a Black Scholes model with 50% volatility, 2% risk free rate and immediate vesting period assumption, and relates to expenses that have been charged to the share premium account with no impact on the income statement.

The weighted average exercise price for the warrants is £0.50 at 31 May 2023.

Exercise price	Ordinary shares
Exercisable at 01 June 2022 brought forward	450,000
Warrants issued over Ordinary shares in year	Nil
Exercisable at 31 May 2023	450,000

25. Share premium

Group and Company	31 May 2023 £'000	31 May 2022 £'000
At 1 June	6,900	-
Conversion of loan notes into ordinary shares	-	1,419
Issue of new shares	2,015	5,988
Expenses relating to share issue	(163)	(507)
Total	**8,752**	**6,900**

The net proceeds of the Fundraising are to be used primarily to develop further the Company's depth and strength of offering. As well as providing the Company with funds it will enhance both transparency and the international profile of the Company with customers, allow the Company to access equity capital to fund growth and support potential M&A opportunities, and enable the Company to attract, recruit and retain key employees.

Share issue costs relate to commissions charged and other directly attributable costs of the fundraise exercise.

26. Post balance sheet events

There have been no events since the year end that warrant specific mention in the Company's financial statements at 31 May 2023.

27. Related party transactions

During the year the company undertook transactions with the following related parties:

		2023		2022	
Name	Services	Transactions during the year £'000	Balance owing/(owed) at 31 May 2023 £'000	Transactions during the year £'000	Balance owing/(owed) at 31 May 2022 £'000
EnSilica India Private Limited	Semiconductor design services	1,282	Nil	1,428	Nil
EnSilica Do Brasil Sociedade Unipessoal Limitada	Semiconductor design services	1,187	Nil	614	Nil
EnSilica GMBH	Semiconductor sales services	271	(271)	-	-
Non-Executive Directors services prior to Company appointment:					
Hexameter Services Limited	Consultancy services – D Tilston	Nil	Nil	14	Nil
Janet Collyer	Consultancy services	Nil	Nil	14	Nil

Details of Directors' remuneration for services during the year is separately disclosed as part of the remuneration committee report.

28. Non-controlling interests

A non-controlling interest exists for the Company's subsidiary EnSilica India Private Limited, where 1 shareholder holds 1 share in the Company, representing 0.002% of the issued share capital.

The summarised results of the company are shown below:

	2023 £'000	2022 £'000
Current assets	1,460	1,236
Non-current assets	34	67
Current liabilities	(95)	(319)
Non-current liabilities	(199)	(167)
	1,200	**817**
Equity attributable to owners of the Company	1,200	817
Non-controlling interests		-
Revenue	1,536	2,251
Expenses	1,108	(1,940)
Profit for the year	428	311
Profit attributable to the owners of the Company	428	311
Profit attributable to the non-controlling interests	-	-
Profit for the year	**428**	**311**

29. Reserves

Retained earnings

Retained earnings includes all current and prior year retained profits and losses attributable to the owners of the parent company.

Currency translation reserve

The currency translation reserve includes all translation differences that arise from the conversion of the financial statements of the Company's foreign subsidiary entities into pound sterling (£).

Share premium account

The share premium account includes the amount by which a share has been issued in excess of its nominal value. The account has also been used to offset costs in relation the raising of funds via a share issue (note 25).

Glossary of Terms

5G	The fifth generation technology standard for broadband cellular networks, which cellular phone companies began to deploy worldwide in 2019.
Analog	A type of signal in an electronic circuit that takes on a continuous range of values rather than only a few discrete values
ADAS	Advanced driver-assistance systems
AGM	Annual General Meeting of the Company's shareholders
AI	Artificial Intelligence
ASIC	An application-specific integrated circuit is an integrated chip, custom-designed for a specific application
ASSP	Applications Specific Standard Part
Beamforming	Beamforming or spatial filtering is the technique used in antenna for directional signal transmission or reception. This is achieved by combining elements in an array of elements in such a way that signals at particular angles experience constructive interference whilst others experience destructive interference. Beamforming is used in Radar, 5G antenna and satellites, it allows the focusing of one or more beams to improve the sensitivity of the system.
CAGR	Compound Annual Growth Rate, a method of assessing the average growth of a value over time.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Chip	Electronic integrated circuit
CMOS	complementary metal-oxide semiconductor
Digital	A type of signal used to transit information that has only discrete levels of some parameter ("usual voltage").
DSE	Display Screen Equipment
EBIT	Earnings before interest and taxes (also known as operating profit)
EBITDA	Earnings before depreciation, amortisation, interest and taxes
ESG	Environmental, Social and Governance
Fabless	A company that design and delivers semiconductors by outsourcing the fabrication ("manufacturing") process.
Foundry	A manufacturing plant where silicon wafers are produced.
Group	The Company and its subsidiaries
IC	Integrated Circuit. An electronic device with numerous components on a single chip.
IFRS	International Financial Reporting Standards
IP	Intellectual Property
IPO	Initial Public Offering
Ka or Ka-band	A portion of the microwave part of the electromagnetic spectrum defined as frequencies in the range 26.5 to 40 gigahertz (GHz).
KPIs	Key performance indicators, a range of indicators to assess performance, to ensure performance is aligned to strategy and to ensure continued alignment with shareholder interests.
LTIP	Long Term Incentive Plan
Mixed Signal	A combination of analog and digital signals being generated, controlled or modified on the same chip.
mmWave	Millimetre wave; the band of radio frequencies in the electromagnetic spectrum from 30 to 300 gigahertz (GHz) often used for Satellite, 5G and Radar systems. These are also microwave frequency bands.
NRE	Non-Recurring engineering cost
OEM	Original equipment manufacturer; such as car manufacturers or complex products which include sub-systems from other suppliers.
OSAT	Outsourced semiconductor assembly and test
QCA	The Quoted Companies Alliance
R&D	Research and development
RF	Radio frequency
SIG	Special Interest Group
Semiconductor	A base material halfway between a conductor and an insulator, which can be physically altered by mixing in certain atoms. Semiconductors form the basis for present-day electronics.
SoC	System-on-Chip. An integrated circuit with all the necessary electronic circuits and parts for a given system.
Tape-Out	A major milestone in every ASIC project lifecycle representing the transition between the design phase and the manufacturing phase. It means the design phase is completed and you are ready to send out the design files to the Fab for mask generation and production.
Wafer	A slice of silicon from a 4, 5, 6 or 8 inch diameter silicon bar and used as the foundation on which to build semiconductor products

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Ian Lankshear *Chief Executive Officer*
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