

24 January 2006

Filtronic plc
International Financial Reporting Standards

In prior years Filtronic plc prepared its consolidated financial statements according to UK Generally Accepted Accounting Practice (UK GAAP). From 1 June 2005 Filtronic plc is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Consequently Filtronic plc's first results to be reported in accordance with IFRS will be the interim results for the six months ended 30 November 2005, which will be announced on Monday 30 January 2006.

The comparative financial information for the six months ended 30 November 2004 and the year ended 31 May 2005 have been restated in accordance with IFRS as reported below.

Consolidated Income Statement

6 months ended 30 November 2004				
		Continuing operations	Discontinued operation	Total
	note	£000	£000	£000
Revenue		103,168	26,973	130,141
		=====	=====	=====
Operating (loss)/profit		(1,329)	4,311	2,982
Gain on disposal of property		2,372	–	2,372
Finance income	3	431	–	431
Finance costs	4	(2,281)	–	(2,281)
		-----	-----	-----
(Loss)/profit before taxation		(807)	4,311	3,504
Taxation		(1,668)	–	(1,668)
		-----	-----	-----
(Loss)/profit after taxation		(2,475)	4,311	1,836
		-----	-----	-----
(Loss)/profit for the period		(2,475)	4,311	1,836
		=====	=====	=====
(Loss)/earnings per share				
Basic	5	(3.31)p	5.77p	2.46p
Diluted	5	(3.31)p	5.76p	2.45p

The (loss)/profit for the period is attributable to the equity shareholders of the parent.

Consolidated Income Statement

Year ended 31 May 2005				
		Continuing operations	Discontinued operation	Total
	note	£000	£000	£000
Revenue		212,891	49,974	262,865
		=====	=====	=====
Operating profit		5,650	5,554	11,204
Gain on disposal of property		2,356	–	2,356
Finance income	3	607	–	607
Finance costs	4	(4,624)	–	(4,624)
		-----	-----	-----
Profit before taxation		3,989	5,554	9,543
Taxation		(241)	–	(241)
		-----	-----	-----
Profit after taxation		3,748	5,554	9,302
		-----	-----	-----
Profit for the period		3,748	5,554	9,302
		=====	=====	=====
Earnings per share				
Basic	5	5.01p	7.43p	12.44p
Diluted	5	5.00p	7.41p	12.41p

The profit for the period is attributable to the equity shareholders of the parent.

Consolidated Balance Sheet

	30 November 2004 £000	31 May 2005 £000
Non-current assets		
Goodwill	32,024	31,400
Property, plant and equipment	81,601	79,793
Deferred tax	-	2,309
	-----	-----
	113,625	113,502
	-----	-----
Current assets		
Inventories	30,862	34,802
Trade and other receivables	58,731	67,924
Income tax receivable	686	-
Cash and cash equivalents	6,322	6,563
	-----	-----
	96,601	109,289
	-----	-----
	-----	-----
Total assets	210,226	222,791
	-----	-----
Current liabilities		
Bank overdraft	2,369	5,958
Bank loan	8,000	11,000
Trade and other payables	40,224	49,844
Income tax payable	1,954	1,880
	-----	-----
	52,547	68,682
	-----	-----
Non-current liabilities		
Bank loan	40,000	33,000
Defined benefit pension	15,804	16,149
Deferred income	12,295	10,730
Deferred tax	608	661
	-----	-----
	68,707	60,540
	-----	-----
	-----	-----
Total liabilities	121,254	129,222
	-----	-----
Net assets	88,972	93,569
	=====	=====
Equity		
Share capital	7,484	7,484
Share premium	139,172	139,172
Translation reserve	554	1,302
Other reserve	1,937	5,584
Accumulated losses	(60,175)	(59,973)
	-----	-----
Total equity	88,972	93,569
	=====	=====

Consolidated Statement of Recognised Income and Expense

	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Profit for the period	1,836	9,302
Actuarial loss on defined benefit pension scheme	(3,584)	(6,784)
Currency translation movement arising on consolidation	471	1,314
	-----	-----
Total recognised income and expense for the period	(1,277)	3,832
	=====	=====

Consolidated Cash Flow Statement

	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Cash flows from operating activities		
Profit for the period	1,836	9,302
Taxation	1,668	241
Finance costs	2,281	4,624
Finance income	(431)	(607)
Gain on disposal of property	(2,372)	(2,356)
	-----	-----
Operating profit	2,982	11,204
Defined benefit pension charge/(credit)	1,476	(422)
Defined benefit pension contributions paid	(855)	(2,029)
Share-based payment	129	291
Depreciation	7,235	14,572
Gain on disposal of plant and equipment	(136)	(235)
Licence fee released	(1,167)	(2,335)
Government grants released	(296)	(693)
Government grants received	1,000	1,000
Government grants repaid	(150)	(150)
Movement in inventories	5,466	2,107
Movement in trade and other receivables	(4,915)	(13,249)
Movement in trade and other payables	1,034	10,384
	-----	-----
Cash flow from operations	11,803	20,445
Taxation paid	(1,662)	(1,846)
	-----	-----
Net cash from operating activities	10,141	18,599
	-----	-----

Consolidated Cash Flow Statement

	6 months ended 30 November 2004 note £000	Year ended 31 May 2005 £000
Net cash from operating activities	10,141	18,599
Cash flows from investing activities		
Proceeds from sale of property	6,358	6,349
Proceeds from sale of plant and equipment	1,004	1,555
Interest received	45	85
Acquisition of property, plant and equipment	(7,255)	(12,963)
Net cash from investing activities	152	(4,974)
Cash flows from financing activities		
Bank loan repaid	(2,000)	(6,000)
Interest paid	(2,063)	(4,189)
Dividends paid	(1,344)	(2,018)
Net cash from financing activities	(5,407)	(12,207)
Increase in cash and cash equivalents	4,886	1,418
Currency exchange movement	366	486
Opening cash and cash equivalents	(1,299)	(1,299)
Closing cash and cash equivalents	7 3,953	605

Notes to the Interim Financial Information

1. Business segment analysis

	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Revenue		
Wireless Infrastructure	86,631	177,733
Electronic Defence	15,216	31,590
Compound Semiconductors	3,610	8,572
Inter segment	(2,289)	(5,004)
	-----	-----
Continuing operations	103,168	212,891
Handset Products - discontinued operation	26,973	49,974
	-----	-----
	130,141	262,865
	=====	=====
Operating profit/(loss)		
Wireless Infrastructure	7,062	17,524
Electronic Defence	1,197	3,070
Compound Semiconductors	(6,289)	(11,701)
Central Services	(2,678)	(5,694)
Unallocated pension (charge)/credit	(621)	2,451
	-----	-----
Continuing operations	(1,329)	5,650
Handset Products - discontinued operation	4,311	5,554
	-----	-----
Operating profit	2,982	11,204
Gain on disposal of property	2,372	2,356
Finance income	431	607
Finance costs	(2,281)	(4,624)
	-----	-----
Profit before taxation	3,504	9,543
Taxation	(1,668)	(241)
	-----	-----
Profit after taxation	1,836	9,302
	=====	=====

The business segments were redefined with effect from 1 June 2005. The business segment results for the comparative periods have been re-analysed to be consistent with the current period.

2. Geographical origin segment analysis

	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Revenue		
United Kingdom	54,614	106,447
Finland	16,223	31,214
United States of America	27,030	65,880
China	23,647	57,147
Australia	2,405	4,300
Inter segment	(20,751)	(52,097)
	-----	-----
Continuing operations	103,168	212,891
	-----	-----
Finland	13,374	23,220
China	14,990	29,841
Inter segment	(1,391)	(3,087)
	-----	-----
Discontinued operation	26,973	49,974
	-----	-----
	130,141	262,865
	=====	=====
Operating (loss)/profit		
United Kingdom	(10,077)	(20,798)
Finland	2,227	3,041
United States of America	1,080	9,538
China	6,750	16,198
Australia	(1,309)	(2,329)
	-----	-----
Continuing operations	(1,329)	5,650
	-----	-----
Finland	(137)	(2,923)
China	4,448	8,477
	-----	-----
Discontinued operation	4,311	5,554
	-----	-----
Operating profit	2,982	11,204
Gain on disposal of property	2,372	2,356
Finance income	431	607
Finance costs	(2,281)	(4,624)
	-----	-----
Profit before taxation	3,504	9,543
Taxation	(1,668)	(241)
	-----	-----
Profit after taxation	1,836	9,302
	=====	=====

3. Finance income

	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Interest income	45	85
Currency exchange gains	386	522
	-----	-----
	431	607
	=====	=====

4. Finance costs

	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Interest expense	(2,063)	(4,189)
Net pension finance cost	(218)	(435)
	-----	-----
	(2,281)	(4,624)
	=====	=====

5. (Loss)/earnings per share

	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
(Loss)/profit for the period		
- continuing operations	(2,475)	3,748
- discontinued operation	4,311	5,554
	-----	-----
Profit for the period	1,836	9,302
	=====	=====
	000	000
Weighted average number of shares	74,753	74,797
Dilution effect of share options	33	84
Dilution effect of contingently issuable shares	89	45
	-----	-----
Diluted weighted average number of shares	74,875	74,926
	=====	=====
Basic (loss)/earnings per share		
- continuing operations	(3.31)p	5.01p
- discontinued operation	5.77p	7.43p
	-----	-----
Basic earnings per share	2.46p	12.44p
	=====	=====
Diluted (loss)/earnings per share		
- continuing operations	(3.31)p	5.00p
- discontinued operation	5.76p	7.41p
	-----	-----
Diluted earnings per share	2.45p	12.41p
	=====	=====

6. Dividends

The dividends recognised in equity and paid during the period were as follows:

		6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Final dividend year ended 31 May 2004	Per share 1.80p	1,344	1,344
Interim dividend year ended 31 May 2005	0.90p	-	674
		-----	-----
		1,344	2,018
		=====	=====

7. Cash and cash equivalents and net debt

	30 November 2004 £000	31 May 2005 £000
Cash and cash equivalents	6,322	6,563
Bank overdraft	(2,369)	(5,958)
	-----	-----
Cash and cash equivalents in the cash flow statement	3,953	605
	-----	-----
Bank loan - current	(8,000)	(11,000)
- non-current	(40,000)	(33,000)
	-----	-----
Debt	(48,000)	(44,000)
	-----	-----
	-----	-----
Net debt	(44,047)	(43,395)
	=====	=====

8. Reconciliation of movements in equity

	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Opening equity	91,464	91,464
Total recognised income and expense for the period	(1,277)	3,832
Share-based payments	129	291
Dividends	(1,344)	(2,018)
	-----	-----
Closing equity	88,972	93,569
	=====	=====

9 Basis of preparation

These comparative interim financial statements have been prepared on the basis of International Financial Reporting Standards (IFRS) as adopted for use in the European Union that are effective at 31 May 2006, which is the group's first annual reporting date under IFRS. IFRS are subject to ongoing amendment by the International Accounting Standards Board and subsequent endorsement by the European Union, and therefore are subject to change.

The consolidated financial statements for the year ended 31 May 2006 will be the group's first full IFRS financial statements. The date of transition to IFRS is 1 June 2004. The financial information for the comparative periods has been restated on the basis of IFRS. Reconciliations from UK GAAP to IFRS of the profit for the period and total equity for the comparative periods are set out in note 10. Explanations of the differences between the UK GAAP and the IFRS financial statements are provided in note 11. The group has elected to take certain IFRS first-time adoption options and these are described in note 12.

The accounting policies adopted when reporting under UK GAAP have been revised where necessary to comply with IFRS. The accounting policies adopted by the group under IFRS are laid out in note 13. The accounting policies have been applied consistently to all the periods presented in these comparative interim financial statements.

10 Reconciliations from UK GAAP to IFRS

The reconciliations from UK GAAP to IFRS of the profit for the period and total equity for the comparative periods are as follows:

Profit for the period

	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Profit for the period per UK GAAP	1,652	5,312
Goodwill amortisation	1,109	2,222
Share-based payments	(86)	(248)
Defined benefit pension operating (charge)/credit	(621)	2,451
Defined benefit pension net finance cost	(218)	(435)
	-----	-----
Profit for the period per IFRS	1,836	9,302
	=====	=====

Total equity

	1 June 2004 £000	30 November 2004 £000	31 May 2005 £000
Total equity per UK GAAP	101,113	102,590	105,778
Proposed dividends	1,344	674	1,347
SSAP 24 pension accrual	388	388	388
Defined benefit pension liability	(11,381)	(15,804)	(16,149)
Goodwill amortisation	-	1,109	2,222
Goodwill currency translation movement	-	15	(17)
	-----	-----	-----
Total equity per IFRS	91,464	88,972	93,569
	=====	=====	=====

11 Differences between the UK GAAP and the IFRS financial statements

Explanations of the differences between the UK GAAP and the IFRS financial statements are as follows:

Presentation of financial statements

The formats of the income statement, balance sheet and particularly the cash flow statement are different under IFRS as compared to those used for UK GAAP.

Segment reporting

The reportable business segments were redefined to comply with the requirements of IAS 14 Segment Reporting. Each reportable business segment is subject to risks and returns that are different from the other business segments.

Goodwill

Goodwill is not amortised under IFRS. Instead goodwill is subject to annual impairment testing, which indicated there was no impairment.

Share-based payment

Under IFRS, the fair value of share options at the date of grant is expensed in the income statement over the vesting periods of the options.

Defined benefit pension

IAS 19 Employee Benefits requires the separate recognition of the operating and financing costs of the defined benefit pension scheme in the income statement. Service costs are spread systematically over the working lives of the employees. Financing costs are recognised in the periods in which they arise. There was a past service credit in the year ended 31 May 2005 as a result of a reduction in the benefits payable under the scheme. The defined benefit pension liability is the present value of the defined benefit obligation less the fair value of the pension scheme assets. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Previously under UK GAAP the defined benefit pension scheme was accounted for in accordance with SSAP 24. The SSAP 24 charge to the income statement for the comparative periods presented was the same as the employers pension contributions for the period.

The defined benefit pension costs and pension liability under IAS 19 are the same as disclosed under FRS 17 in the UK GAAP financial statements for the year ended 31 May 2005.

Dividends

Under IFRS, interim dividends are recognised in the period they are declared, and final dividends are recognised in the period they are approved by shareholders. Dividends are recognised directly in equity, and not in the income statement.

Translation reserve

Under IFRS, currency translation movements arising from the consolidation of overseas subsidiaries are accumulated in the translation reserve, which is a separate component of equity.

Revaluation reserve

The UK GAAP revaluation reserve of £106,000 has been reclassified to accumulated losses under IFRS. The amount was the balance on the revaluation reserve at the transition date in respect of assets that are measured on the basis of deemed cost under IFRS.

12 IFRS First-time adoption options

The group has elected to take certain IFRS first-time adoption options as follows:

Business combinations

All prior business combination accounting has been frozen at the transition date. This includes goodwill on the balance sheet and goodwill deducted from equity.

Share-based payments

Only share options granted since 7 November 2002 have been fair valued and expensed in the income statement over the vesting periods.

Employee benefits

All cumulative actuarial gains and losses in respect of the defined benefit pension scheme have been recognised at the transition date.

Foreign exchange

The translation reserve arising from the consolidation of foreign subsidiaries was set to zero at the transition date.

13 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements have been prepared under the historical cost convention, except for the defined benefit pension liability which is measured at fair value.

The accounting policies have been applied consistently throughout the group.

Basis of consolidation

The financial statements consolidate the income statements, balance sheets and cash flow statements of the company and all of its subsidiaries.

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the group. Subsidiaries are not consolidated from the date that control ceases.

Intra group transactions and balances are eliminated on consolidation.

Segment reporting

The business segments are the primary segments and the geographical origin segments are the secondary segments. Each reportable segment is subject to risks and returns that are different from the other segments.

Foreign currency translation

The functional currency of each subsidiary is the currency of the primary economic environment in which the subsidiary operates. The financial statements are presented in sterling which is the functional and presentational currency of the company.

Transactions denominated in foreign currencies are translated into the functional currency of each subsidiary at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

Foreign exchange gains and losses arising on the settlement of such transactions and translation of monetary assets and liabilities are recognised in the income statement.

On consolidation, the financial statements of subsidiaries with a functional currency other than sterling are translated into sterling as follows:

- The assets and liabilities in their balance sheets plus any goodwill are translated at the rate of exchange ruling at the balance sheet date.
- The income statements and cash flow statements are translated at the average rate of exchange for the period.

Currency translation movements arising on the translation of the net investments in foreign subsidiaries are recognised in the translation reserve, which is a separate component of equity.

Revenue

Revenue is recognised for goods and services provided to customers during the period. Revenue excludes any related value added or sales tax.

Research and development

All research costs are expensed as incurred.

Development costs chargeable to the customer are recognised as an expense in the same period as the associated customer revenue.

Development costs incurred on projects requiring product qualification tests to satisfy customer specifications are generally expensed as incurred, reflecting the technical risks associated with meeting the resultant product qualification test.

Development costs incurred on projects are capitalised where firstly the technical feasibility can be tested against relevant milestones, secondly the probable revenue stream foreseen over the life of the resulting product can support the development and thirdly sufficient resources are available to complete the development. These capitalised costs are amortised on a straight line basis over the expected life of the associated product.

Once a new product is qualified, further development costs are expensed as they arise because they are incurred in response to continual customer demand to enhance the product functionality and to reduce product selling prices.

Government grants

Government grants related to operating expenditure are recognised in the income statement in the same period as the expenditure.

Government grants related to capital expenditure are credited to deferred income in the balance sheet on receipt. The deferred government grant income is recognised in the income statement over the expected life of the related assets.

Operating leases

Operating lease rentals are charged to the income statement on a straight line basis over the lease term.

Share-based payments

The group operates share option schemes, under which share options are granted to certain employees. The granting of the share options is a share-based payment.

The fair value of the share options at the date of grant is calculated using an option pricing model, taking into account the terms and conditions applicable to the option grant. The fair value of the number of share options expected to vest is expensed in the income statement on a straight line basis over the expected vesting period. Each reporting period these vesting expectations are revised as appropriate.

A credit is made to equity, equal to the share-based payment expense in the period.

Goodwill

Goodwill represents the excess of the cost of acquisitions over the fair value of the net identifiable assets of the subsidiary acquired at the date of acquisition. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units. Goodwill is tested for impairment annually and when there is an indication of impairment. If impaired, the goodwill carrying value is written down to its recoverable amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and less any accumulated impairment losses.

Depreciation is provided on a straight line basis over the estimated useful lives of the assets as follows:

Freehold land	Not depreciated
Freehold buildings	50 years
Plant and equipment	3 to 10 years

Property, plant and equipment are tested for impairment when there is an indication of impairment. If impaired, the carrying values of the assets are written down to their recoverable amounts.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises weighted average cost of materials and components together with attributable direct labour and overheads. Net realisable value is the estimated selling price less estimated costs of completion and sale.

Trade receivables

Trade receivables are stated net of any provision for doubtful debts.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Net debt

Net debt is cash and cash equivalents less bank overdrafts, bank revolving credits and bank loans.

Dividends

Interim dividends are recognised in equity in the period they are declared. Final dividends are recognised in equity in the period they are approved by shareholders.

Share capital

Ordinary shares issued are classified as share capital in equity.

Pension schemes

Defined contribution pension schemes are operated for overseas employees. Contributions are recognised as an expense in the income statement as incurred.

A defined benefit pension scheme is operated for United Kingdom employees. The defined benefit pension liability is the present value of the defined benefit obligation less the fair value of the pension scheme assets. The defined benefit obligation is calculated by independent actuaries using the projected unit measure. The discount rate used to calculate the present value of the defined benefit obligation is the yield on AA credit rated corporate bonds that have maturity dates approximating the terms of the benefit obligations.

Service costs are spread systematically over the working lives of the employees, and are recognised within operating costs in the income statement. Financing costs are recognised in the periods in which they arise within finance costs in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of recognised income and expense.

Deferred taxation

Deferred tax is provided using the balance sheet liability method. Provision is made for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. No provision is made for differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.