

For release

07:00 am

2 August 2004

**FILTRONIC PLC  
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MAY 2004**

**Results in line with Trading Update; Production Contracts with all major OEMs; Confident Outlook**

Filtronic plc ("Filtronic"), a leading global designer and manufacturer of customised microwave electronic subsystems for the wireless telecommunications and defence industries, announces its Preliminary Results for the year ended 31 May 2004. Worldwide sites are in the UK (North of England, Yorkshire, Midlands, Scotland), USA, Finland, China and Australia.

Both major businesses, Wireless Infrastructure and Handset Products, produced the majority of sales and all of the operating profits, as in the previous financial year. Filtronic is one of the world's leading independent suppliers of transmit receive modules for base stations and the world's leading manufacturer of mobile handset antennas.

Professor J. David Rhodes CBE FRS FREng Chairman said: "The impact of the weak US dollar against budgeted exchange rates reduced sales and operating profit in the core wireless infrastructure business. We have accelerated manufacturing of our wireless infrastructure transmit/receive modules to China. The reorganisation of our business segments at the Interim stage, with a broad range of new products, including power amplifiers, better positions Filtronic."

**Financial Highlights**

- Group sales of £237.2m (2003: £241.3m)
- Operating profit of £3.7m (2003: £6.7m)
- Net interest and financing costs were £8.6m (2003: £2.9m) – Primarily due to early repayment of 10% Senior Notes
- Pre-tax loss of £409,000 (2003: £3.8m)
- Loss per share of 4.04p (2003: basic EPS of 1.46p)
- Final dividend maintained at 1.80p (2003: 1.80p), payable 1 November 2004, for 2.7p total (2002: 2.7p)
- Net gearing unchanged at 51%

**Operational Highlights**

- *Wireless Infrastructure:* Production contracts secured with all major OEMs
  - Transmit/receive modules to benefit from lower cost Chinese manufacturing
  - Growth to mainly occur in China for transmit/receive modules towards end December, start of 2005
  - UK to focus on new product introductions for transmit/receivers and power amplifiers
- *Handset Products:* Supply of internal antennas with higher levels of mechanical integration
  - Second half operating margins approximately 15% to remain at this level
  - Growth expected, new products to consolidate market leadership
- *Integrated Products:* Increasing compound semiconductor sales reduces losses, expected to continue
  - Past investment in Newton Aycliffe creating strong upside potential
  - Major market opportunity for Integrated Power Amplifiers for 3G base stations
  - Own supply of low cost, higher efficiency GaAs transistors offers significant advantages
- Capital expenditure of £18m in 2005, approximately 50% more than in 2003/4
- Strategic alliance with BAE Systems: producing sales; forward growth potential for radar surveillance
- New Chief Executive Officer Professor John Roulston joins 6 September 2004

**Outlook**

Professor J. David Rhodes said: "We are now delivering production quantities of wireless infrastructure products to all major OEMs. Filtronic is well placed for growth in 2004/2005 financial year as it continues to gain market share in transmit/receive modules for base stations, introduces new compound semiconductor based products across a broad range of markets, and commences the supply of integrated power amplifiers for 3G WCDMA Networks."

**Enquiries:** Professor J. David Rhodes, Chairman, Filtronic plc Tel: 020 7786 9600 (Mon/ Thurs)  
Professor Chris Snowden, Director, Filtronic plc Tel: 07887651822  
Peter Binns, Paul McManus, Binns & Co PR Ltd Tel: 020 7786 9600; 07980 541 893

## Chairman's Statement

### Financial results

Sales for the year ended 31 May 2004 were £237.2m (2003 £241.3m), and operating profit was £3.7m (2003 £6.7m). An exceptional profit on disposal of a business was £4.5m. Net interest and financing costs were £8.6m (2003 £2.9m). This change was primarily due to the early repayment of the 10% Senior Notes. This resulted in a loss before tax of £0.4m (2003 £3.8m profit), and a loss after tax of £3.0m (2003 £1.1m profit). Basic and diluted loss per share was 4.04p (2003 1.46p basic earnings, 1.45p diluted earnings).

### Dividend

The Board is proposing to maintain the final dividend of 1.80p (2003 1.80p) payable on 1 November 2004 to shareholders on register at 13 August 2004.

### Foreign currency and trading factors

Two consecutive years in which sterling has appreciated at greater than 10% against the US dollar inevitably creates pressure for our UK based operations. The Board has accelerated the transition of manufacturing to China such that transmit/receive modules in Wireless Infrastructure are now manufactured there in quantities exceeding UK output. Future expansion in this market will benefit from the lower cost of Chinese manufacturing and will provide a natural hedge against the strength of sterling.

Since our Handset Products group operates in dollar/euro economies, the percentage margins earned are independent of the strength of sterling. Absolute value of sales and the profit delivered suffered when translated into sterling.

Most of the operations of the Integrated Products group are located in the UK while the majority of its output operates in a market priced in dollars. This has resulted in pressure on margins in this business segment.

The global nature of the business implies exposure to currency movement. This has contributed a loss in the year as the euro, like the dollar, moved against sterling for a sustained interval. The Board will conduct a review of procedures and policy with the intention of introducing improvements in the finance and accounting areas during the year.

### Operations

As advised in the interim statement, the Board implemented a management and reporting reorganisation of the business segments. This was done so that Filtronic is better positioned to address the challenges of moving from the development stage into production with a broad range of new products, including power amplifiers. Accordingly, the segmental analysis of the operating results is as follows:

Year ended 31 May	Sales		Operating profit	
	2004 £m	2003 £m	2004 £m	2003 £m
Wireless Infrastructure (WI)	140.9	151.7	10.4	20.9
Handset Products (HP)	57.4	51.2	10.4	10.8
Integrated Products* (IP)	37.8	37.5	(13.3)	(19.3)
Central Services (CS)	3.6	1.8	(3.8)	(5.7)
Inter segment	<u>(2.5)</u>	<u>(0.9)</u>	<u>-</u>	<u>-</u>
	<u>237.2</u>	<u>241.3</u>	<u>3.7</u>	<u>6.7</u>

\*Includes the Filtronic Solid State Electronic Warfare business, which was sold on 31 December 2003.

### **Wireless Infrastructure**

This business includes the traditional transmit/receive modules and new integrated power amplifiers for mobile base stations. The company is now delivering production quantities of WI products to all major original equipment manufacturers (OEMs). Additional investments were made during the second half of the year in both aspects of the business. In the transmit/receive module business, the decision to expand in China to meet the increasing demands of our existing customers and the production ramp for a new major OEM customer required additional funding. A decision was made to continue to procure materials in the UK in order to provide cover against any delays in ramping up the Chinese production. Following successful ramp-up in China, the UK operation will now focus on new product introduction for transmit/receive modules and integrated power amplifiers.

It became apparent earlier in this calendar year that the company's market opportunity in power amplifiers was for the supply of higher value integrated power amplifiers rather than power amplifier modules. Consequently, additional resources were deployed in the UK to establish a production facility for this complex integrated product and this involved an additional £2m of investment. In the full year, the cost, including this £2m has totalled £5m and following the year-end the first production contract has been secured.

### **Handset Products**

The supply of internal antennas with higher levels of mechanical integration has dominated this year's performance. Since the proportion of our added value has decreased, the margins have fallen in line.

Taking into account the retranslation of the first half with respect to the end of year exchange rates, the effective operating margins in the second half were approximately 15% and are likely to remain at this level with the current level of product integration.

### **Integrated Products**

Increasing sales in compound semiconductor devices have enabled the whole group to reduce losses. This trend is expected to continue. Fully automated assembly systems are now operational for incorporating high power transistors into modules for the integrated power amplifiers in WI. Operational improvements within the defence component of the business have allowed profitable operation for the year in the US and UK.

### **Central R&D**

In addition to creating sales for DSP (Digital Signal Processing) subsystems for both commercial and defence applications, a considerable advance has been made on the development of digital predistortion techniques for 3G integrated power amplifiers.

### **Finance**

As advised in the interim statement, the outstanding 10% Senior Notes were re-financed with a £50m term loan. The trading conditions prevailing in the latter part of the financial year and the appreciation of sterling against the dollar have led to certain breaches of the financial covenants associated with the term loan. The group's lending banks have confirmed their continuing support, including the waiving of the covenant breaches, whilst reserving their rights. Future covenant tests will be set to a suitable level based on prevailing trading conditions. The group's overdraft facility has been renewed at £9m until July 2005.

### **Capital investment**

The growth in demand from both our existing and new customers for wireless infrastructure transmit/receive modules caused us to commit further capital expenditure for test equipment and

facilitisation, mainly in China. This investment, together with new generic manufacturing equipment and processes to service the integrated handset antenna product line with new foil technology and automated test equipment for production of integrated power amplifiers for 3G WCDMA networks will result in capital expenditure of £18m, approximately 50% more than in the 2003/4 financial year.

## **Outlook**

In WI, production contracts have now been secured with all major OEMs. Growth will mainly occur in China for our transmit/receive modules towards the end of this calendar year and the beginning of 2005. A similar time frame also exists for the production in the UK for the first integrated power amplifiers, where production requirements are larger than initially anticipated. Start-up costs will lead to a loss of approximately £6m before a positive contribution is achieved by the year-end.

In HP, the addition of our new foil technology and the utilisation of our impact extrusion expertise should consolidate our world leading position.

IP will grow primarily due to the increase in sales of compound semiconductors and in particular, the growth in RF switch products for mobile handsets. Further growth will also be achieved in supplying the high yield large power transistors mounted in the high efficiency module units for the integrated power amplifiers. Past investment at the compound semiconductor foundry in Newton Aycliffe has equipped the Integrated Products segment with the capacity to react rapidly to increasing market demand creating strong upside potential.

By far the largest market opportunity for the company is the supply of integrated power amplifiers for 3G base stations. Uniquely in this market, Filtronic controls its own supply of GaAs transistors, which are lower cost per watt of power compared to silicon LDMOS, the technology used by our competitors. Using feed-forward linearisation, GaAs units are more efficient than LDMOS units and with the state-of-the-art digital predistortion both techniques result in lower cost and higher efficiency. Whilst GaAs units are more difficult to linearise digitally, full UMTS specifications have been met by Filtronic for both constant and pulse power conditions. The company believes that LDMOS amplifiers, linearised through digital predistortion will have difficulty in meeting this critical specification under practical pulsed-power conditions. Hence, it is likely that our technology offers a significant advantage over competing solutions particularly for multicarrier and HSDPA (high speed data packet access) applications.

The strategic alliance with BAE SYSTEMS is producing sales, at development level, with growth potential as BAE SYSTEMS moves to production with its Seaspray 7000 series of active array radars for the surveillance market. Potential exists for expansion of the agreement as a result of the proposed merger of Gallileo Avionica, part of Finmeccanica, and the Avionics Group of BAE SYSTEMS. The experience of the alliance indicates increased scope for business in the sub-system arena coupled with benefits of high reliability manufacturing at low cost. Increased emphasis and budget allocation for European homeland security projects offers additional scope for supply of infrastructure elements, including airborne active antennas for satellite communications.

## **Company directors**

Last year a decision was made to split the roles of Chairman and CEO. Earlier this year, the position of CEO was offered to Professor John Roulston. Professor Roulston resigned from the Board of BAE Systems Avionics Limited in June and by agreement with his previous employer will take up his position at Filtronic on 6 September 2004.

Professor Christopher Snowden has accepted the prestigious position as Vice-Chancellor at the University of Surrey but will stay as a director with the company until April 2005, after which he will remain as a technical consultant in the area of compound semiconductors.

John Samuel resigned as Finance Director at the beginning of June. Christopher Schofield resigned as Company Secretary and executive director to concentrate on the Law practice, Schofield Sweeney, which

he co-founded. Dr Maura Moynihan, a qualified solicitor specialising in intellectual property and a PhD graduate in biochemistry, joined Filtronic two years ago with the remit to become Company Secretary to which position she has now been appointed.

**Professor J David Rhodes CBE FRS FREng**  
**Chairman**  
**2 August 2004**

**Consolidated Profit and Loss Account**  
for the year ended 31 May 2004

	note	2004 £000	2003 £000
<b>Sales</b>	2, 3	<u>237,203</u>	<u>241,268</u>
<b>Operating profit</b>	2, 3	<u>3,707</u>	<u>6,715</u>
Exceptional profit on disposal of business	5	<u>4,546</u>	<u>-</u>
Net interest payable and similar charges	6	<u>(5,550)</u>	<u>(7,995)</u>
Net financing currency exchange (loss)/gain	7	<u>(614)</u>	<u>4,236</u>
Exceptional net (loss)/gain on repayment of debt	8	<u>(2,498)</u>	<u>881</u>
		<u>(8,662)</u>	<u>(2,878)</u>
<b>(Loss)/profit on ordinary activities before taxation</b>		<u>(409)</u>	<u>3,837</u>
Taxation on (loss)/profit on ordinary activities	9	<u>(2,598)</u>	<u>(2,753)</u>
<b>(Loss)/profit on ordinary activities after taxation</b>		<u>(3,007)</u>	<u>1,084</u>
Dividends	10	<u>(2,015)</u>	<u>(2,006)</u>
<b>Deficit for the year</b>		<u>(5,022)</u>	<u>(922)</u>
<b>(Loss)/earnings per share</b>			
Basic	11	<b>(4.04)p</b>	1.46p
Diluted	11	<b>(4.04)p</b>	1.45p
<b>Dividend per share</b>	10	<b>2.70p</b>	2.70p

All the results relate to continuing operations.

**Consolidated Balance Sheet**  
for the year ended 31 May 2004

	<b>2004</b> <b>£000</b>	2003 £000
<b>Fixed assets</b>		
Intangible assets	<b>30,902</b>	35,769
Tangible assets	<u><b>86,300</b></u>	<u>96,272</u>
	<u><b>117,202</b></u>	<u>132,041</u>
<b>Current assets</b>		
Stocks	<b>36,618</b>	34,344
Debtors	<b>54,480</b>	50,908
Cash at bank and in hand	<u><b>2,070</b></u>	<u>6,522</u>
	<b>93,168</b>	91,774
<b>Creditors: amounts falling due within one year</b>	<b>51,767</b>	38,821
<b>Net current assets</b>	<u><b>41,401</b></u>	<u>52,953</u>
<b>Total assets less current liabilities</b>	<b>158,603</b>	184,994
<b>Creditors: amounts falling due after one year</b>	<b>44,000</b>	61,942
<b>Provision for deferred tax</b>	<b>582</b>	750
<b>Deferred income</b>	<b>12,908</b>	13,143
<b>Net assets</b>	<u><b>101,113</b></u>	<u>109,159</u>
<b>Capital and reserves</b>		
Called up share capital	<b>7,465</b>	7,430
Share premium account	<b>137,641</b>	135,851
Shares to be issued	<b>2,255</b>	4,321
Revaluation reserve	<b>106</b>	106
Other reserve	<b>2,020</b>	828
Profit and loss account	<b>(48,374)</b>	(39,377)
<b>Equity shareholders' funds</b>	<u><b>101,113</b></u>	<u>109,159</u>

**Consolidated Cash Flow Statement**  
for the year ended 31 May 2004

	note	2004 £000	2003 £000
<b>Net cash flow from operating activities</b>	A	<u>16,864</u>	<u>38,528</u>
<b>Returns on investment and servicing of finance</b>			
Interest received		95	231
Interest paid		(4,852)	(7,638)
Bank loan arrangement fee paid		(500)	-
Premium paid on repayment of debt		(1,517)	-
<b>Net cash flow from returns on investment and servicing of finance</b>		<u>(6,774)</u>	<u>(7,407)</u>
<b>Tax paid</b>		<u>(2,706)</u>	<u>(4,128)</u>
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(11,369)	(8,198)
Sale of tangible fixed assets		305	1,378
Government grants received		1,297	1,319
<b>Net cash flow from capital expenditure</b>		<u>(9,767)</u>	<u>(5,501)</u>
<b>Disposals (note 5)</b>			
Cash consideration received		6,544	-
Disposal costs paid		(442)	-
<b>Net cash flow from disposals</b>		<u>6,102</u>	<u>-</u>
<b>Equity dividends paid</b>		<u>(2,008)</u>	<u>(2,002)</u>
<b>Net cash flow before financing</b>		<u>1,711</u>	<u>19,490</u>
<b>Financing</b>			
Issue of shares		275	-
Loans taken out		60,000	-
Loans repaid		(66,947)	(22,107)
<b>Net cash flow from financing</b>		<u>(6,672)</u>	<u>(22,107)</u>
<b>Decrease in cash</b>	B	<u>(4,961)</u>	<u>(2,617)</u>

**Notes to the Consolidated Cash Flow Statement**  
for the year ended 31 May 2004

**A Reconciliation of operating profit to net cash flow from operating activities**

	<b>2004</b>	2003
	<b>£000</b>	£000
<b>Operating profit</b>	<b>3,707</b>	6,715
Goodwill amortisation	<b>2,171</b>	2,348
Share compensation	<b>232</b>	146
Depreciation	<b>17,065</b>	19,322
Profit on disposal of tangible fixed assets	<b>(44)</b>	(518)
Licence fee released	<b>(789)</b>	(66)
Government grants released	<b>(743)</b>	(525)
Movement in stocks	<b>(4,701)</b>	8,734
Movement in debtors	<b>(6,644)</b>	3,876
Movement in creditors	<b>6,610</b>	(1,504)
<b>Net cash flow from operating activities</b>	<b>16,864</b>	38,528

**B Reconciliation of net cash flow to movement in net debt**

	<b>2004</b>	2003
	<b>£000</b>	£000
<b>Decrease in cash</b>	<b>(4,961)</b>	(2,617)
Cash flow from debt	<b>6,947</b>	22,107
<b>Change in net debt from cash flows</b>	<b>1,986</b>	19,490
Non-cash movement	<b>(1,274)</b>	293
Currency exchange movement	<b>3,409</b>	9,483
<b>Movement in net debt</b>	<b>4,121</b>	29,266
Opening net debt	<b>(55,420)</b>	(84,686)
<b>Closing net debt</b>	<b>(51,299)</b>	(55,420)

**C Analysis of movement in net debt**

	At			Currency	At
	1 June	Cash	Non-cash	exchange	31 May
	2003	flow	movement	movement	2004
	£000	£000	£000	£000	£000
Cash at bank and in hand	6,522	(1,592)	-	(2,860)	<b>2,070</b>
Bank overdraft	-	(3,369)	-	-	<b>(3,369)</b>
<b>Net cash/(overdraft)</b>	<b>6,522</b>	<b>(4,961)</b>	<b>-</b>	<b>(2,860)</b>	<b>(1,299)</b>
Loans due within one year	-	(6,000)	-	-	<b>(6,000)</b>
Loans due after one year	(61,942)	12,947	(1,274)	6,269	<b>(44,000)</b>
<b>Loans</b>	<b>(61,942)</b>	<b>6,947</b>	<b>(1,274)</b>	<b>6,269</b>	<b>(50,000)</b>
<b>Net debt</b>	<b>(55,420)</b>	<b>1,986</b>	<b>(1,274)</b>	<b>3,409</b>	<b>(51,299)</b>

**Consolidated Statement of Total Recognised Gains and Losses**  
for the year ended 31 May 2004

	<b>2004</b> <b>£000</b>	2003 £000
<b>(Loss)/profit on ordinary activities after taxation</b>	<b>(3,007)</b>	1,084
Currency exchange movement arising on consolidation	<b>(7,780)</b>	(590)
Currency exchange movement on loan	<b>4,249</b>	5,329
<b>Total recognised gains and losses for the year</b>	<b><u>(6,538)</u></b>	<b><u>5,823</u></b>

**Consolidated Reconciliation of Shareholders' Funds**  
for the year ended 31 May 2004

	<b>2004</b> <b>£000</b>	2003 £000
<b>(Loss)/profit on ordinary activities after taxation</b>	<b>(3,007)</b>	1,084
Dividends	<b><u>(2,015)</u></b>	<u>(2,006)</u>
<b>Deficit for the year</b>	<b>(5,022)</b>	(922)
Currency exchange movement arising on consolidation	<b>(7,780)</b>	(590)
Currency exchange movement on loan	<b>4,249</b>	5,329
Issue of shares	<b>2,573</b>	2,507
Shares to be issued – shares issued	<b>(2,298)</b>	(2,507)
Shares to be issued – share compensation	<b><u>232</u></b>	<u>146</u>
<b>Movement in shareholders' funds</b>	<b>(8,046)</b>	3,963
Opening shareholders' funds	<b>109,159</b>	105,196
<b>Closing shareholders' funds</b>	<b><u>101,113</u></b>	<b><u>109,159</u></b>

## **Notes**

### **1 Basis of preparation**

The financial information set out here in does not constitute the company's statutory accounts for the years ended 31 May 2004 or 31 May 2003. Statutory accounts for 2003 have been delivered to the registrar of companies, and those for 2004 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

#### **Financial position and market conditions**

The group has experienced increases in demand from both existing and new customers in the group's Wireless Infrastructure business, including greater than expected demand for the power amplifier products, as further referred to in the Chairman's Statement.

Global markets, particularly the technology and telecoms sector, continue to experience a high degree of volatility. It remains difficult to predict total volumes and timing with certainty. Securing lower costs of production, through greater output from the group's Chinese facility and other cost reduction programmes, remain critical. The group's increasing exposure to currency movements represents further uncertainty.

The increased demand has resulted in the requirement for additional capital expenditure and working capital investment, which was previously unplanned, but has now been included in the group's working capital forecasts.

The early stages of this investment, together with the poorer than expected operating results in the second half of the year ended 31 May 2004, arising from increased costs related to establishing manufacturing in China and the effects of currency translation, resulted in the group breaching certain financial covenants relating to its term loan.

The group's lending banks have confirmed their continuing support, including the waiving of the covenant breaches referred to above, whilst reserving their rights. Future covenant tests will be set to a suitable level based on prevailing trading conditions. The group's overdraft facility has been renewed at £9,000,000 until July 2005.

The Board has built all of these circumstances into their working capital forecasts and has modelled various business scenarios. Whilst recognising the uncertainties referred to above, the Board has concluded, based on these scenarios, that the group's funding remains adequate and therefore that it is appropriate for the financial statements, from which this financial information is extracted, to be prepared on a going concern basis.

**Notes**

**2 Geographical origin segment analysis**

	<b>2004</b>	2003
	<b>£000</b>	£000
<b>Sales</b>		
United Kingdom	<b>92,486</b>	102,807
Finland	<b>61,221</b>	64,954
United States of America	<b>49,310</b>	56,967
Australia	<b>4,953</b>	5,490
China	<b>47,927</b>	21,791
Inter segment	<b>(18,694)</b>	(10,741)
	<b><u>237,203</u></b>	<u>241,268</u>
<b>Operating profit</b>		
United Kingdom	<b>(15,896)</b>	(4,768)
Finland	<b>2,136</b>	5,960
United States of America	<b>2,853</b>	716
Australia	<b>(1,340)</b>	(2,004)
China	<b>15,954</b>	6,811
	<b><u>3,707</u></b>	<u>6,715</u>

The operating profit in the United States of America is after charging £nil (2003 £1,812,000) of exceptional closure costs (note 4).

**3 Business segment analysis**

	<b>2004</b>	2003
	<b>£000</b>	£000
<b>Sales</b>		
Wireless Infrastructure	<b>140,933</b>	151,715
Handset Products	<b>57,352</b>	51,242
Integrated Products	<b>37,783</b>	37,443
Central Services	<b>3,621</b>	1,771
Inter segment	<b>(2,486)</b>	(903)
	<b><u>237,203</u></b>	<u>241,268</u>
<b>Operating profit</b>		
Wireless Infrastructure	<b>10,401</b>	20,962
Handset Products	<b>10,420</b>	10,834
Integrated Products	<b>(13,351)</b>	(19,344)
Central Services	<b>(3,763)</b>	(5,737)
	<b><u>3,707</u></b>	<u>6,715</u>

The operating loss of Integrated Products is after charging £nil (2003 £1,812,000) of exceptional closure costs (note 4).

The Board has decided to reorganise the business into four segments. This is to ensure that the company is best positioned to address the challenges of moving from the development stage into production with a broad range of new products.

The 2003 comparative figures have been re-analysed to be consistent with the current year.

**Notes**

**4 Exceptional closure costs**

	<b>2004 £000</b>	2003 £000
Exceptional closure costs	<u>-</u>	<u>1,812</u>

The exceptional closure costs relate to the closure of the compound semiconductor fabrication facility at Filtronic Solid State, Santa Clara, California.

**5 Exceptional profit on disposal of business**

On 31 December 2003 the electronic warfare business of Filtronic Solid State was sold. The disposal is analysed as follows:

	£000
<b>Consideration</b>	
Cash	6,544
Disposal costs	<u>(442)</u>
	<u>6,102</u>
 <b>Net assets disposed</b>	
Tangible fixed assets	811
Stocks	502
Debtors	636
Creditors	<u>(393)</u>
	1,556
<b>Exceptional profit on disposal of business</b>	<u>4,546</u>
	<u>6,102</u>

The electronic warfare business of Filtronic Solid State was located in the United States of America and formed part of the Integrated Products business segment. For the seven months up to its disposal on 31 December 2003 the disposed business had sales of £3,653,000 resulting in an operating loss of £34,000.

**6 Net interest payable and similar charges**

	<b>2004 £000</b>	2003 £000
<b>Interest receivable</b>		
Interest on bank deposits	<u>95</u>	<u>231</u>
 <b>Interest payable and similar charges</b>		
Interest on bank borrowings	(1,233)	(51)
Interest on other loans	(3,619)	(7,587)
Bank loan arrangement fee	(500)	-
Debt issues costs - amortisation	<u>(293)</u>	<u>(588)</u>
	<u>(5,645)</u>	<u>(8,226)</u>
 <b>Net interest payable and similar charges</b>	<u>(5,550)</u>	<u>(7,995)</u>

**Notes**

<b>7</b>	<b>Net financing currency exchange (loss)/gain</b>	<b>2004</b>	<b>2003</b>
		<b>£000</b>	<b>£000</b>
	Currency exchange (loss)/gain on cash balances	<b>(2,634)</b>	138
	Currency exchange gain on loan	<b>2,020</b>	4,098
		<b>(614)</b>	<b>4,236</b>
<b>8</b>	<b>Exceptional net (loss)/gain on repayment of debt</b>	<b>2004</b>	<b>2003</b>
		<b>£000</b>	<b>£000</b>
	(Loss)/profit on repayment of debt	<b>(1,517)</b>	1,443
	Debt issue costs – loss on repayment of debt	<b>(981)</b>	(562)
		<b>(2,498)</b>	<b>881</b>
<b>9</b>	<b>Taxation on (loss)/profit on ordinary activities</b>	<b>2004</b>	<b>2003</b>
		<b>£000</b>	<b>£000</b>
	<b>Current tax</b>		
	United Kingdom	<b>27</b>	37
	Overseas	<b>2,684</b>	2,425
		<b>2,711</b>	<b>2,462</b>
	<b>Deferred tax</b>		
	Overseas origination and reversal of timing differences	<b>(113)</b>	291
		<b>2,598</b>	<b>2,753</b>

The United Kingdom current tax charge arises from taxes paid overseas on income paid to the United Kingdom which cannot be fully relieved against United Kingdom taxes. The overseas tax charge for the year arises primarily from the group's operations in China and Finland, where taxable profits cannot be relieved by losses available in other jurisdictions.

<b>10</b>	<b>Dividends</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
		<b>per</b>	<b>per</b>	<b>£000</b>	<b>£000</b>
		<b>share</b>	<b>share</b>	<b>671</b>	669
	Interim dividend – paid	<b>0.90p</b>	0.90p	<b>1,344</b>	1,337
	Final dividend - proposed	<b>1.80p</b>	1.80p	<b>2,015</b>	<b>2,006</b>
		<b>2.70p</b>	<b>2.70p</b>		

<b>Notes</b>	<b>2004</b>	<b>2003</b>
<b>11 (Loss)/earnings per share</b>	<b>£000</b>	<b>£000</b>
<b>(Loss)/profit on ordinary activities after taxation</b>	<b>(3,007)</b>	<b>1,084</b>
	<b>000</b>	<b>000</b>
<b>Weighted average number of shares in issue</b>	<b>74,508</b>	<b>74,245</b>
Dilution effect of share options	-	-
Dilution effect of contingently issuable shares	-	460
<b>Diluted weighted average number of shares</b>	<b>74,508</b>	<b>74,705</b>
<b>Basic (loss)/earnings per share</b>	<b>(4.04)p</b>	<b>1.46p</b>
<b>Diluted (loss)/earnings per share</b>	<b>(4.04)p</b>	<b>1.45p</b>