

Filtronic plc
Annual Report
2009



Inspired Wireless Solutions



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	Continuing operations	
	2009	2008
Revenue	£28.8m	£40.1m
Operating profit before exceptional items	£2.1m	£2.5m
Operating profit/(loss)	£1.2m	£(23.5)m
Profit/(loss) before taxation	£2.3m	£(16.2)m
Basic earnings/(loss) per share	3.05p	(21.80)p
Diluted earnings/(loss) per share	3.04p	(21.80)p
	Group	
	2009	2008
Profit/(loss) for the period from continuing operations	£2.3m	£(16.2)m
Profit for the period from discontinued operations	£9.4m	£1.6m
Profit/(loss) for the period	£11.7m	£(14.6)m
Basic earnings/(loss) per share	15.68p	(19.67)p
Diluted earnings/(loss) per share	15.65p	(19.67)p
Final dividend per share	1.00p	nil
Special dividend per share	40.00p	120.00p
Special dividend	£29.7m	£89.2m
Cash	£16.2m	£31.5m
Total equity	£21.6m	£38.9m



Chairman's Statement

The year ended 31 May 2009 produced revenue from continuing operations of £28.8m and operating profit before exceptional items of £2.1m compared with the prior year revenue of £40.1m and £2.5m operating profit. The group profit for the period was £11.7m compared with a £14.6m loss in the prior year. Cash at the year end was £16.2m compared with £31.5m at 31 May 2008. A full breakdown of the year is shown in the financial statements, notes and narrative which follow.

The UK Defence business was sold to Teledyne on 15 August 2008 for proceeds of £12.2m (net of costs). The group also received £1.9m before tax from the onward sale of its Australian wireless infrastructure business, originally disposed of in 2005.

A second special dividend of 40p (£29.7m) was paid to shareholders on 24 November 2008. The Board has decided to recommend a final dividend of 1.00p payable on 30 November 2009, to shareholders on the register at 30 October 2009 subject to approval by shareholders at the Annual General Meeting.

Overhead and other cost reductions were implemented as a response to the lower levels of customer demand experienced in the second half of the year. These prompt actions enabled the business to trade above breakeven on a broadly cash neutral basis in the second half of the year. Expenditure on new product development and core technology was maintained.

The underlying market drivers for Point to Point backhaul market growth remain intact, although the immediate outlook is subdued. The group continues to invest in R&D in order to position the company with competitive products to respond to market demand.

I should like to thank Stephen Mole, Chief Financial Officer, who will be leaving the group at the end of September. The process of appointing a successor is well advanced. As previously announced, I will be stepping down as Chairman at the Annual General Meeting on 18 September 2009 to be succeeded by Howard Ford who joined the Board in December 2008 and has considerable experience in the telecommunications equipment and services market.

Finally, I should like to thank all staff in the business for their contribution over the past year.

John Poulter
Chairman
27 July 2009



Summary

The period saw further changes for the group with the disposal of the UK Defence business to Teledyne. The remaining Point to Point business experienced a significant reduction in demand in the second half of the year which was mitigated by prompt cost reduction initiatives. The group structure and central costs have been streamlined with the consolidation of the finance function alongside the Newton Aycliffe operations.

Continuing operations

Filtronic now comprises solely the Point to Point business which designs and manufactures customised microwave electronic sub assembly components that are integrated by OEM's into Point to Point (PTP) radios. These radios provide the backhaul links for telecom networks, particularly the mobile base station market. Filtronic is the leading merchant supplier of transceivers and diplex filters to this market.

The business achieved a strong revenue performance in the first half of the year (£18.3m) but there was a significant weakening of demand in the second half (revenue £10.5m) due to general destocking and one customer who experienced a significant downturn in sales in Asia. This necessitated a prompt initiation of overhead and other cost reduction measures which enabled trading in the second half to be maintained just above breakeven and cash neutrality. Overall revenue for the year was £28.8m, down from £40.1m in the previous year with an operating profit before exceptional items of £2.1m compared with £2.5m in 2008. Operating profit before exceptional items in the second half was £0.3m compared with £1.8m in the first half year. Operating margins moved up from 6% to 7% in the year.

Network expansion in developing regions and capacity upgrades in developed regions continue to drive demand for PTP products. Filtronic is well placed to exploit these markets opportunities as well as extending into adjacent market sectors.

The first order has been received from SELEX Airborne Systems Limited (operating on the markets as SELEX Galileo) under the long-term strategic supply agreement. This order initiates the development of Filtronic's volume capability to manufacture SELEX's microwave modules for their current generation of active electronically scanned array airborne radars.

Discontinued operations

UK Defence

Sale of this business to Teledyne was completed in August 2008 producing net proceeds after costs of £12.2m and a gain on disposal of £8.4m.

Wireless Infrastructure

A gain of £1.3m after taxation was made on the receipt relating to the sale of the Wireless Infrastructure business in Australia.

Capital expenditure

Capital expenditure was £0.9m, of which £0.8m related to continuing operations.

Employees

At 31 May 2009, the group employed 152 people (2008 392 people of which 227 were in continuing operations).

Hemant Mardia
Chief Executive Officer
27 July 2009



Results

Continuing operations generated revenue of £28.8m (2008 £40.1m), resulting in an operating profit before exceptional items of £2.1m (2008 £2.5m). The group profit for the period was £11.7m (2008 £14.6m loss) reflecting the gains on disposal of the UK Defence business and the receipt relating to the Australian wireless infrastructure disposal. The operating results are discussed in the Chief Executive's Operating Review, along with a review of the business.

Disposal of UK Defence business

On 15 August 2008, the sale of the UK Defence business to Teledyne was completed. The disposal generated a gain of £8.4m.

Australian Wireless Infrastructure disposal

A sum of £1.9m before tax was received in July 2008 relating to the sale of the Wireless Infrastructure business in Australia to its management in 2005. Provision for the tax due on this amount of £0.6m has been made in the balance sheet.

Net finance income

The group ended the year with net cash of £16.2m (2008 £31.5m) and generated net finance income of £1.1m (2008 £7.4m), reflecting the interest received on cash deposits.

Taxation

No current tax is due on continuing operations, reflecting available losses. No deferred tax asset was recognised at 31 May 2009 due to uncertainty in future recoverability. Full provision for the £0.6m tax due on the Australian Wireless Infrastructure receipt was made in the year ended 31 May 2009. It is expected that this amount will be paid in the six months ending 30 November 2009.

Capital expenditure

Capital expenditure was £0.9m, of which £0.8m related to continuing operations in the Point to Point business (2008 £1.9m total, £1.2m continuing operations).

Research and development costs

Research and development costs of £2.3m, which represented 7.3% of total revenue were expensed. No research and development costs were capitalised in the balance sheet. Research and development costs relating to continuing operations were £1.8m (6.4% of revenue).

Working capital

At 31 May 2009 net working capital was £5.3m (2008 £6.5m). Net working capital comprised inventories of £4.5m (2008 £6.2m), receivables of £4.8m (2008 £13.0m) and payables of £4.0m (2008 £12.7m).

Cash flow

Cash inflow from operating activities was £0.7m (2008 outflow £16.1m), cash inflow from investing activities was £13.7m (2008 £17.9m) and net cash outflow from financing activities was £29.7m (2008 £89.2m outflow). The closing cash balance as at 31 May 2009 was £16.2m (2008 £31.5m).



Pension matters

The wind up of the defined benefit pension scheme is nearing completion with the issue of annuity policies to individual members by Paternoster.

Dividend

On 24 November 2008 a second special dividend of 40p per share was paid to shareholders.

Based on the full year results for 2009 a final dividend of 1.00p per share has been recommended by the Board and, subject to approval at the Annual General Meeting on 18 September 2009, will be paid on 30 November 2009 to shareholders on the register on 30 October 2009.

Stephen Mole
Chief Financial Officer
27 July 2009



Introduction

Filtronics supplies microwave products for the wireless telecommunications market. The business is in a fast-changing sector with a small number of sophisticated customers, demanding performance standards and international competition; all of which pose risks to the business.

Market

We supply a niche range of products to a small number of large OEM customers. With the rapid evolution of product technology and other corporate decisions the size of our addressable market may be affected. We may also fail to forecast market movements correctly so missing opportunities or wrongly predicting product longevity.

Manufacturing

In most of the products, production is demand led and customers may vary their requirements from the business at short notice, which also impacts inventory management. Customers in these businesses expect consistent high quality product and reducing prices, hence we depend on control of our operating environment, including management of security of supply in our supply chain, and the provision of correctly designed technological solutions including the achievement of target cost reduction plans. Non performance in these areas risks a diminished market position.

All our products are provided to customers after detailed qualification testing. However, this may not test all aspects of the product's design and manufacturing process or may not ensure that the product is viewed as fit for purpose in its intended use. Identification of these types of problem after release of product to customers creates the risk of being required to rectify such product defects. Historically such work has not had a substantial impact on the financial performance of the business, although a major defect, leading to a field recall could do so in future.

We operate two leased manufacturing locations, the larger of which is located within the facility of our major semiconductor supplier.

Technology

Our product competitiveness is strongly influenced by technology choices at product concept stage and throughout execution of design to product launch. For products in the production cycle, technology insertion is often required as a means of achieving price reductions, which underpin sales. The market is time sensitive and opportunities may be lost if the technology we develop is not appropriate or ready for exploitation to match market demand, so having an adverse effect on business performance.

Our ability to remain competitive in terms of technology and product design is also underpinned by retaining key staff, the loss of whom could seriously impact the rate of introduction of new products and technologies.

Financial management

A large proportion of sales is denominated in euros with the cost base substantially in sterling, which may therefore create margin risks that may not be recoverable through price changes. This risk is mitigated to some extent by purchasing some input materials in euros.

We have sold four divisions of the group in the past four years. We have provided warranties in support of these transactions, covering areas including product liability for an initial period and usually environment risks on freehold property and tax risks for longer specified periods. We have received claims on the sale of the Wireless Infrastructure and Defence Electronics business, which have been settled, and may receive claims in future related to these current and future commitments.



Executive directors

Hemant Mardia (aged 47) has been an executive director since 2007. He was appointed Chief Executive Officer on 19 September 2008. Since 1996 he has been Managing Director of the Point to Point business. He joined Filtronic in 1984 having gained a doctorate in electronics from Leeds University. He is a Fellow of the Institute of Electronics and Technology, a Fellow of the Society of Cable Telecommunications Engineers and a Senior Member of the Institute of Electrical and Electronic Engineers.

Stephen Mole (aged 53) was appointed as an executive director on 13 June 2008. He continues in his role as Chief Financial Officer, which he has held since joining Filtronic in 2006. Prior to joining Filtronic he was Finance Director of Renold plc. Previously he held finance positions with BTP plc, Zeneca plc, ICI plc and Unilever plc. He is a non-executive director of the Central Manchester University Hospitals NHS Trust.

Non-executive directors

John Poulter (aged 66) has been non-executive Chairman since 2006. He is chairman of the nominations committee. From 2001 to 2008 he was non-executive Chairman of Spectris plc, the precision instrumentation and controls company, of which he was Managing Director and Chief Executive from 1988. His earlier career was with BTR plc and Cambridge Instruments. He has been a non-executive director for a number of public companies including RAC plc and Kidde plc.

Graham Meek (aged 62) has been a non-executive director since 1999. Since 2006 he has been the senior non-executive director and is chairman of the audit committee. He was Chairman of ICM Computer Group plc until its takeover in 2007 and was Chairman of SPI Lasers plc until its takeover in 2008. He is a non-executive director of Capital Gearing Trust plc.

Reginald Gott (aged 52) has been a non-executive director since 2006. He was appointed as chairman of the remuneration committee on 6 June 2008. He is Chief Executive of the Nuaire Group. From 2002 to 2008 he was an executive director of FKI plc, an international diversified engineering group. He has an extensive background in the machinery, automation and controls segments of the capital goods markets across Europe and North America.

Howard Ford (aged 58) was appointed a non-executive director on 5 December 2008. He has many years of operational experience in the IT and telecoms sector with IBM Europe, BT/Cellnet and Equant Network Services where as Managing Director the company was listed on the New York Stock Exchange and the Paris Bourse until its takeover by France Telecom in 2005. Howard has also served on the Boards of a UK Charity and a number of privately held companies in the UK and France.



The directors present their report and the audited financial statements for the year ended 31 May 2009.

Principal activities

The principal activities of the group are the design and manufacture of microwave products for wireless telecommunications systems.

Business review

The business review on pages 3 to 6 inclusive contains a review of the group's business performance and outlook. The business review includes the statutory requirements of the enhanced business review.

Financial results and dividend

The results for the year are set out in the income statement on page 26. The position at the end of the year is shown in the balance sheet on page 28.

A special interim dividend of 40.00p (2008 120.00p) per share, amounting to £29.7m (2008 £89.2m), was paid on 24 November 2008 (30 May 2008).

The directors are recommending payment of a final dividend of 1.00p per share.

Research and development

Research and development costs were £1.8m (2008 £2.2m) for continuing operations and £0.4m (2008 £4.6m) for discontinued operations.

Directors and their interests

The directors of the company during the year were as follows:

Hemant Mardia
Stephen Mole (appointed 13 June 2008)
Charles Hindson (resigned 19 September 2008)
John Poulter
Graham Meek
Reginald Gott
Howard Ford (appointed 5 December 2008)
Professor Stephen Burbank (retired 19 September 2008)
Ian Hardington (retired 19 September 2008)

Details of directors' interests in the share capital of the company are set out in the remuneration report on pages 17 to 22.

John Poulter will be resigning at the Annual General Meeting.

Reginald Gott retires by rotation and, being eligible, offers himself for re-election at the Annual General Meeting.

Graham Meek, having served on the Board for more than nine years, retires and being eligible, offers himself for re-election at the Annual General Meeting.

Howard Ford retires and, having been appointed by the Board on 5 December 2008, offers himself for election at the Annual General Meeting. The Board states that Howard Ford was independent on his appointment as a director.



Directors indemnity

The company has in place directors' and officers' liability insurance on behalf of its directors and officers in accordance with the provisions of the Companies Act. In addition, certain directors benefit from an indemnity from the company, to the extent not prohibited by law, in respect of losses incurred as a result of the discharge of their duties in the management or supervision of any company in the group. The indemnity does not automatically terminate when the indemnified person ceases to be a director.

Directors conflicts of interest

Graham Meek has provided general notice under Article 185 of the Companies Act 2006 of his interest in the Filtronic plc Defined Benefits Scheme, being a trustee of the Scheme. There are no other declarations to be made under Article 182 of the Companies Act 2006.

Share capital

The company's share capital consists of 10p ordinary shares. The rights and obligations attached to each share are equal. There are no limitations on holding or transfer of the shares. The Board has no powers to issue or buy back the company's shares, other than those approved by the shareholders at the Annual General Meeting held on 18 September 2008.

Substantial shareholdings

The following shareholders have indicated a holding of 3% or more of the issued share capital of 74,323,093 10p ordinary shares as at 17 July 2009.

	Number of 10p ordinary shares	% of issued share capital
Aberforth Partners LLP	12,852,569	17.3
Prudential plc	11,267,319	15.2
SVG Capital plc and SVG Investment Managers Limited	6,452,860	8.7
Capital Group Companies, Inc.	5,080,459	6.8
North Atlantic Value LLP	5,000,000	6.7
Aviva plc	4,340,485	5.8
J P Morgan Chase & Co	3,718,774	5.0
Gartmore Investment Limited	3,760,851	5.1
Legal & General Investment Management Limited	3,378,425	4.5
	55,851,742	75.1

Employees

The group is committed to a policy of equal opportunities in employment by which the group ensures that all aspects of selection and retention are based on merit and suitability for the job regardless of sex, age, marital status, colour, race, ethnicity, sexual orientation or disability.

The group is conscious of its obligations towards disabled persons and tries to ensure that they receive equal opportunities. So far as particular disabilities permit, the group will continue to provide employment for any existing employee who becomes disabled. The group will also provide relevant training, career development and promotion for disabled employees where this is appropriate.

The Chief Executive Officer is the Board member responsible for human resources.



Corporate & social responsibility

(i) Health and safety

The Board is committed to ensuring the health and safety of the group's employees and applies high standards throughout the group in the control and management of its operations. The group analyses its practices and processes using systematic health and safety management techniques and auditing regimes. As part of the group's continued implementation of an occupational health, safety and management system, the group has put preventative measures in place that aim to continue to reduce major injuries and lost time accidents. In addition, the major manufacturing site has achieved OHSAS 18001 (health and safety management systems).

(ii) Employee development

Employee development has been established as one of the group's key objectives. The group has an education and training policy in place to implement continuous improvement where beneficial to the group and employee, thus underlying the group's commitment to ongoing employee development and training.

(iii) Employee communications

The group believes in keeping employees fully informed on matters which affect them through communication procedures including staff meetings and a culture which encourages openness and interaction between all members of staff. The group operates a staff forum for information and consultation ("ICON forum"). The ICON forum is designed to be a gathering at which employee representatives can review group progress and raise, share and discuss specific issues and concerns that affect employees with senior management.

(iv) The environment

Care for the environment is an integral part of the group's business activities. It is the group's policy to ensure that its facilities are safe and the group is committed to ensuring that its impact on the environment is minimised. The group supports and trains its personnel to act responsibly in matters relating to the environment. The group takes account of relevant legislation and regulations and analyses its practices, processes and products to reduce their environmental impact, and works with its customers and suppliers to achieve a high standard of product stewardship. The group's manufacturing sites have established environmental management systems and have achieved ISO 14001 certification.

Wherever possible, components and materials are reused or recycled. The reuse, utilisation and recycling of packaging is subject to monitoring. The group continues to work with its customers to implement programmes to design products for disassembly and recycling, and in particular so as to ensure compliance with the European Union directive on waste electrical and electronic equipment and the European Union initiatives in relation to the restriction of certain hazardous substances in electrical and electronic equipment. The group has introduced focused management teams throughout its business to ensure that compliance with these requirements is achieved within the required implementation timescales. The group continues to work with major suppliers, contractors and customers to assist them in improving their environmental, health and safety performance.



Political and charitable contributions

No contributions were made for political purposes. The group donated £nil (2008 £6,000) to various charities.

Supplier payment policy

It is the group's policy to abide by the terms of payment agreed with suppliers in respect of the goods and services properly invoiced to the group. At 31 May 2009 trade payables of £2.7m represented 42 days' purchases, calculated in accordance with the requirements of the Companies Act.

Disclosure of information to the auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors will be proposed at the Annual General Meeting.

Remuneration report

Pursuant to the Directors' Remuneration Report Regulations 2002 the Board proposes the remuneration report which is set out on pages 17 to 22, for approval (resolution 2 in the notice of Annual General Meeting). No entitlement of a director to remuneration is conditional on the resolution being passed but the result of the vote will be taken into account in considering the development and operation of the company's remuneration policy.

Authority to allot shares

The Companies Act 1985 requires that the authority of the directors to allot relevant securities shall be subject to the approval of shareholders in general meeting or to an authority set out in the company's Articles of Association. Accordingly, an ordinary resolution (resolution 8 set out in the notice of Annual General Meeting) will be proposed at the Annual General Meeting to renew the authority granted at the Annual General Meeting held on 19 September 2008 and thereby authorise the directors to allot unissued ordinary shares of the company up to a total nominal value of £2,477,436 (representing one third of the nominal value of the company's issued share capital).

The Companies Act 1985 also requires that any equity shares issued wholly for cash must be offered to existing shareholders in proportion to their existing holdings. This requirement was disapplied to a limited extent by a resolution passed at the Annual General Meeting held on 19 September 2008 and a special resolution (resolution 10 set out in the notice of Annual General Meeting) will be proposed at the Annual General Meeting to renew the directors' authority to allot equity shares for cash other than on a pro rata basis. This will be limited to equity shares having a nominal value of up to £371,165 (representing 5% of the issued share capital of the company). This authority will terminate no later than fifteen months after the passing of the special resolution.

By order of the Board
M Moynihan
Company Secretary
27 July 2009



The Combined Code on Corporate Governance

The Board operates high standards of corporate governance. The Board has prepared this report with reference to the Combined Code on Corporate Governance issued by the Financial Reporting Council as revised in June 2008. For the year ended 31 May 2009 the directors confirm that the company has been in compliance with the provisions of the Combined Code on Corporate Governance.

The company has three non-executive directors excluding the Chairman, two of whom, Reginald Gott and Howard Ford, meet all of the specific criteria for independence set out in the Combined Code. The other non-executive director, Graham Meek, does not meet all of the requirements for independence set out in the Code since he has been a director for more than nine years but is considered to be independent and to provide valuable advice to the company as well as continuity in the context of the recent corporate activity and Board changes.

Internal control

The Board has overall responsibility for establishing and maintaining the company's system of internal control. Internal control systems are designed to be relevant to the company and the risks to which it is exposed and, by their nature, can provide reasonable but not absolute assurance against material misstatement or loss. The key procedures established by the directors with a view to providing effective internal control are as follows:

(a) Control environment and monitoring systems

The Board usually meets each month and has adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues. The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. Additionally, the Board has established an Executive Management Committee that is responsible for operational matters within the company.

The division of responsibilities between the Chairman and the Chief Executive Officer has been set out in writing and agreed by the Board.

The audit committee, which comprises all of the non-executive directors, reviews the effectiveness of the system of internal control. The external auditors are engaged to express an opinion on the company's annual financial statements. They test the system of internal financial control and the information contained within the annual report and financial statements to the extent necessary for expressing their opinion.

(b) Major information systems

The directors have delegated to executive management implementation of the system of internal control throughout the company. This includes financial controls that enable the Board to meet its responsibilities for the integrity and accuracy of the company's accounting records.

The Board approves, in aggregate, budgets and other performance targets, the components of which form the financial objectives for individual operating units. Performance against these targets is reported monthly. Financial forecasts are updated and reviewed monthly and include cash flow forecasts.



(c) Main control procedures

In addition to matters reserved for Board decisions, the company has established a system whereby authority to take decisions is distributed throughout the company. This distribution of authority defines procedures for authorisation and approval and sets appropriate levels of responsibility.

An accounting policies and procedures manual sets out the company's declared statement of policy in all financial areas and establishes the control procedures, including segregation of duties, to ensure that these policies are implemented.

(d) Identification and evaluation of business risks

The company has clear principles and procedures that are appropriate to an electronics business of its size. These principles are designed to provide an environment of central leadership but with devolved operating responsibility as the framework for the exercise of accountability and control by the Board, its committees and executive management. The Board directs activities in and allocates resources to the key areas of business development, product strategy, research and development, manufacture and financial practice.

Through these ongoing procedures, the Board is able to identify, evaluate and manage the significant risks that the group faces from time to time.

The Board has reviewed its approach to the identification and evaluation of business risks and has put in place a programme to review the main areas of risk identified for the company on an annual basis at the Board.

The Board confirms that it has carried out a review of the effectiveness of the system of internal control as it operated during the year. The Board undertakes, on an ongoing basis, a review of all aspects of the company's internal control procedures. The review is undertaken by the Board through the receipt and consideration of regular monthly and other reports prepared by management on operational, strategic, organisational and financial issues. All areas of operations are audited periodically either by external agencies or through peer review to ensure compliance with group policies.

Constitution of the Board

The Board comprises the Chairman, two executive and three independent, non-executive directors. Short biographies of all of the directors are set out on page 7. The Board considers that its constitution brings both independence and an appropriate balance of experience in judging matters of strategy, performance, resources, investor relations, internal control and corporate governance. Graham Meek is the senior non-executive director. Each of the directors is proposed for re-election at the Annual General Meeting at least every three years. Non-executive directors who have served longer than nine years on the Board are subject to annual re-election.



Graham Meek joined the company in 1999 and the Board has carefully considered his independence. He contributes significantly through his financial expertise and considerable knowledge of the company. He has provided continuity as well as contributing to the overall balance of the Board. The Board has decided that Graham Meek is an independent non-executive director.

A formal performance review of the Board, its committees and the directors was undertaken during the year. This has been implemented in the year by way of a written questionnaire completed by all Board members, and the resulting report has been reviewed by the Board. The performance of individual directors was reviewed by the Chairman. The senior non-executive director led an evaluation of the performance of the Chairman. Each director had the opportunity to review the outcome of the evaluation of the Board and its committees. This year the review highlighted the importance for all directors to refresh their knowledge and skills, particularly in relation to the corporate governance framework and succession plans.

Board committees

The Board has a nominations committee, a remuneration committee and an audit committee. The remuneration and audit committees comprise all of the independent non-executive directors. Each of these committees operates under terms of reference which have been established by the Board.

The nominations committee

The nominations committee is chaired by John Poulter, and the other members are the independent non-executive directors: Graham Meek, Reginald Gott and Howard Ford. The nominations committee's duties are confined to the nomination of appointments, re-appointments and termination of employment or engagement of directors and the company secretary.

The nominations committee met three times during the year to consider Board composition and balance of skills.

The remuneration committee

The remuneration committee is chaired by Reginald Gott. The other members are the other independent non-executive directors: Graham Meek and Howard Ford. The remuneration committee's responsibilities include ensuring that the remuneration and service contract terms of the executive directors and senior management are appropriate. The committee approves the grant of all share options and bonus arrangements.



The audit committee

The audit committee is chaired by Graham Meek, the senior non-executive director. The other members are the other independent non-executive directors: Reginald Gott and Howard Ford. Graham Meek has sufficient, recent and relevant financial experience. The audit committee meets at least twice a year. The committee's terms of reference are consistent with the current best practice for the size of the company and are available on request from the company secretary or on the company's website.

The committee met twice during the financial year with management and external auditors. It also met twice with the external auditors in private. The chairman of the committee also met privately with the auditors regularly during the year. The committee reviewed the following matters and reported its conclusions to the Board:

- the financial statements contained in the company's annual and half-yearly reports to shareholders
- various accounting matters, including the company's accounting policies, raised by management and the external auditors in the context of the financial statements
- the effectiveness of internal controls and the group's internal controls manual
- authorisation of the amount and purposes of non-audit fees
- reviewing the external auditors' independence and objectivity
- the external auditors' year end report and the findings of their work and confirmation that all significant matters had been satisfactorily treated
- a full and careful consideration of the performance of the external auditors, which involved a competitive tendering process, as a result of which the committee resolved to recommend the re-appointment of KPMG Audit Plc as auditors to the company

The Board has reviewed the composition of the audit committee and is satisfied that it has members who have sufficient, recent and relevant financial experience.



Attendance at Board meetings and committee meetings during the year ended 31 May 2009 was as follows:

	Board	Audit committee	Remuneration committee	Nominations committee
Meetings held	9	2	3	3
Directors' attendance				
Executives				
Hemant Mardia	9	n/a	n/a	n/a
Stephen Mole (appointed 13 June 2008)	8	n/a	n/a	n/a
Charles Hindson (resigned 19 September 2008)	3	n/a	n/a	n/a
Non-executives				
John Poulter (Chairman)	9	n/a	n/a	3
Graham Meek	9	2	3	3
Reginald Gott	9	2	3	3
Howard Ford (appointed 5 December 2008)	5	1	1	1
Professor Stephen Burbank (retired 19 September 2008)	3	1	1	–
Ian Hardington (retired 19 September 2008)	3	1	1	–

Relations with investors

Communications with investors are given high priority. There is regular dialogue with institutional investors including presentations after the company's preliminary announcement of the year-end results and at the half year, which are attended by non-executive directors. Analyst reports and feedback from shareholders are discussed at Board meetings.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the chairmen of the audit and remuneration committees are available at the Annual General Meeting to answer questions. Information is also available to all investors by way of the company's website at www.filtronic.com.

Going concern

The group's business, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 3 to 6. The financial position of the group, its cash flows, and its liquidity position are described in the Financial Review on pages 4 and 5. Note 52 to the financial statements describes and quantifies exposures to liquidity, credit, interest rate and foreign currency risk and how they are managed. Also in note 52 capital management is described.

At 31 May 2009 the group had a cash balance of £16.2m.

The directors have reviewed the budgeted cash flow and other relevant information and have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Remuneration Report

for the year ended 31 May 2009



Composition of the remuneration committee

During the period 1 June 2008 to 31 May 2009 the remuneration committee consisted of the following non-executive directors:

Reginald Gott (Chairman)
Graham Meek
Howard Ford (appointed 5 December 2008)
Professor Stephen Burbank (retired 19 September 2008)
Ian Hardington (retired 19 September 2008)

The committee receives advice in its deliberations concerning the remuneration of the executive directors from the Chairman, John Poulter and Chief Executive Officer, Hemant Mardia. The committee's recommendations have been accepted by the Board without amendment.

Compliance

The company has complied with the provisions in the Code of Best Practice relating to Directors' Remuneration. In preparing this report, the provisions in Schedule B to the Combined Code have been followed.

Policy on remuneration of executive directors and senior executives

(a) Total level of remuneration

The committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors and senior executives.

(b) The main components

The company's policy is to structure remuneration packages to align the interests of employees with those of shareholders.

The main components of remuneration are:

(i) Salary

Salary for each executive is determined by the remuneration committee taking into account the performance and responsibilities of the individual. Electronic and electrical engineering is an international industry within which there is a clear market in executive talent. The overriding factor in determining executive remuneration is market forces. Salaries are normally reviewed on 1 July each year.

(ii) Executive directors bonuses

The executive directors were participants in an annual bonus scheme during the year under which a maximum of 30% of salary was payable in the case of Hemant Mardia, subject to profit and cash targets and personal targets, and a maximum of 30% of salary was payable in the case of Stephen Mole, subject to profit and cash targets and personal targets, the achievements of which have been assessed by the remuneration committee.

Under the scheme, the executive directors were not awarded any annual bonuses for the year ended 31 May 2009 as the profit and cash targets were not met.

In the previous year Hemant Mardia was awarded a bonus of £52,000, being 30% of salary and Charles Hindson was awarded a bonus of £128,000 being 50% of salary.



Remuneration Report

for the year ended 31 May 2009

No non-recurring bonus arrangements were put in place in the year ended 31 May 2009. However the non-recurring bonus put in place in July 2007 fell for assessment at 31 May 2009. The remuneration committee considered that the relevant performance targets had been met in full. The performance targets for Hemant Mardia included the creation of one new product line which generated business with meaningful revenue and profit in the two years ended 31 May 2009. The performance targets for Stephen Mole included the completion of the disposal of the Defence Electronics business and the wind-up of the defined benefit pension scheme. The performance targets for Charles Hindson included the completion of the disposal of the Defence Electronics business.

Hemant Mardia was awarded a non-recurring bonus of £53,000 (2008 £37,000), being 30% (2008 30%) of his salary.

Stephen Mole was awarded a non-recurring bonus of £36,000 being 30% of his salary.

Charles Hindson was awarded a non-recurring bonus of £77,000 (2008 £180,000), being 30% (2008 70%) of his salary.

(iii) Defence Electronics bonus arrangements

Special bonus arrangements were put in place for management in the Defence Electronics business with the aim of retaining key staff while options for the sale of this business were being explored. Those bonuses paid out a maximum of 50% of salary for general managers and 25% for senior managers on completion of the sale of this business in August 2008.

(iv) Bonus scheme

The remuneration committee has agreed an approach for management incentives for the year ending 31 May 2010 of an annual bonus for performance in the year, based on profit and cash targets. The level of up to 30% of annual salary for executive directors and up to 15% of annual salary for senior managers has been agreed for each of these bonuses. The annual bonus will be assessed against the achievement of profit and cash targets in the year ended 31 May 2010.

(v) Performance share plan

A performance share plan was approved by shareholders at the Annual General Meeting in September 2008. However no awards were made under the plan during the year ended 31 May 2009 as the company was in a prohibited period at all relevant times. It is anticipated that the remuneration committee will make awards under the plan after 27 July 2009 to Hemant Mardia and the new Chief Financial Officer up to a maximum of 60% and 40% of salary respectively.

The vesting of the awards is subject to performance targets based on growth in earnings per share (EPS) over a three year period. If growth in EPS exceeds growth in the Retail Price Index (RPI) by 3% per year (on a compound basis) then 25% of the awarded shares will vest. If growth in EPS exceeds growth in RPI by 10% per year (on a compound basis) then 100% of the awarded shares will vest. If growth in EPS falls between these two targets, then the awarded shares will vest on a sliding scale between 25% and 100% of the awarded shares.

(vi) Sharesave plan

A sharesave plan was approved by shareholders at the Annual General Meeting in September 2008. All employees including executive directors are eligible. The first offer under the sharesave plan was made in February 2009, which resulted in 45% of employees joining the scheme.

(c) Company policy on contracts of service

Hemant Mardia and Stephen Mole, the executive directors, both have rolling service contracts. Under Hemant Mardia's service contract the notice period for termination by either party is twelve months. Under Stephen Mole's service contract the notice period for termination by either party is six months. There are no specific compensation commitments for early termination in either service contract.

Charles Hindson had a service contract, the notice period for termination by the company was twelve months. On termination of his employment as Chief Executive and director on 19 September 2008 he was paid £262,000 salary in lieu of notice.

Remuneration Report

for the year ended 31 May 2009



(d) Company pensions policy

The company's policy is to offer executives membership of the Filtronic plc Stakeholder Pension Plan on the same basis as all other employees of the company. The plan is a defined contribution scheme. The maximum contribution the company makes to the plan is 8% of pensionable salary, if the member makes a contribution of 6% of pensionable salary. Members of the plan are also entitled to death in service benefit of four times pensionable salary and long term disability insurance.

In the case of Stephen Mole, under the terms of his service contract, instead of joining the Filtronic plc Stakeholder Pension Plan, the company pays 10.5% of his pensionable salary into a personal pension plan of his choice.

(e) Company policy on external appointments

The remuneration committee reviews any request by an executive director with regard to a proposed external appointment and deals with each request on its individual merits. The overriding requirement is for each executive, as a term of his contract, to devote substantially the whole of his time, skill and attention to the affairs of the group.

Non-executive directors agreements for services and remuneration

The non-executive directors have rolling agreements for services with the company. These are terminable by the company or the non-executive director on six months notice for the Chairman and on three months notice for the other non-executive directors and are reviewed annually by the Board.

The Board determines the remuneration of the non-executive directors. Non-executive directors are not entitled to any share options, performance shares, bonuses or pension benefits.



Remuneration Report

for the year ended 31 May 2009

The information on pages 20 and 21 has been audited.

Directors' remuneration

	Salary or fees	Bonuses	Benefits	Total remuneration excluding pension contributions	
	2009	2009	2009	2009	2008
	£000	£000	£000	£000	£000
Executives					
Hemant Mardia (appointed 18 October 2007)	180	53	18	251	210
Stephen Mole (appointed 13 June 2008)	119	36	7	162	–
Charles Hindson (resigned 19 September 2008)	341	77	2	420	571
Iain Gibson (resigned 21 September 2007)	–	–	–	–	185
Non-executives					
John Poulter	125	–	–	125	125
Graham Meek	35	–	–	35	35
Reginald Gott	33	–	–	33	30
Howard Ford (appointed 5 December 2008)	15	–	–	15	–
Prof Stephen Burbank (retired 19 September 2008)	17	–	–	17	30
Ian Hardington (retired 19 September 2008)	17	–	–	17	30
Total 2009	882	166	27	1,075	1,216
Total 2008	798	397	21	1,216	

Benefits incorporate all assessable tax benefits arising from employment by the company and relate in the main to the provision of a fully expensed company car or car allowance and private medical insurance.

Directors' pension benefits

Company's pension contributions to defined contribution schemes.

	Pension contributions	
	2009	2008
	£000	£000
Hemant Mardia (appointed 18 October 2007)	14	9
Stephen Mole (appointed 13 June 2008)	13	–
Charles Hindson (resigned 19 September 2008)	6	19
Iain Gibson (resigned 21 September 2007)	–	22
	33	50

Remuneration Report

for the year ended 31 May 2009



Directors' shareholdings

	2009	2008
Hemant Mardia	12,007	12,007
Stephen Mole	-	-
John Poulter	-	-
Graham Meek	-	-
Reginald Gott	-	-
Howard Ford	-	-
	<u>12,007</u>	<u>12,007</u>

All of the above shareholdings are held beneficially.

Charles Hindson did not hold any shares from 1 June 2008 to his resignation on 19 September 2008.

Prof Stephen Burbank held 900 shares from 1 June 2008 to his retirement on 19 September 2008.

Ian Hardington did not hold any shares from 1 June 2008 to his retirement on 19 September 2008.

Directors' interests in share options

Sharesave plan	Exercise period	Option price	2008	Granted during the year	2009
Hemant Mardia	01/04/2012 – 01/10/2012	25p	-	62,400	62,400
Stephen Mole	01/04/2012 – 01/10/2012	25p	-	31,200	31,200
Total all directors			<u>-</u>	<u>93,600</u>	<u>93,600</u>

Hemant Mardia's share options include those awarded to his wife, who is employed by the group.

The closing middle market share price on 31 May 2009 was 30p, and on 31 May 2008 it was 75p. The range of closing middle market share prices during the year ended 31 May 2009 was 19p – 93p. A special dividend of 40p per share was paid on 24 November 2008.

There were no changes to the directors' interests between 31 May 2009 and 27 July 2009. The company's register of directors' interests which is open to inspection at the registered office contains full details of directors' shareholdings.



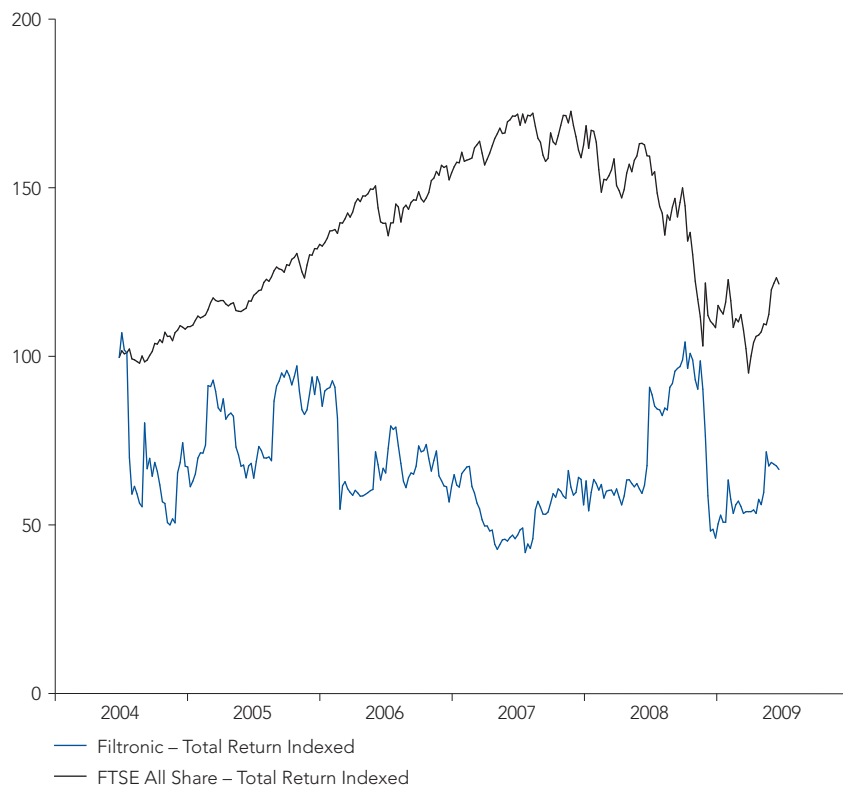
Remuneration Report

for the year ended 31 May 2009

Performance graph

This graph illustrates the performance of the company's shares measured by Total Shareholder Return (TSR) relative to a broad equity market index over the past five years. The FTSE All Share is considered to be the most appropriate index against which to measure performance, as the company has been a constituent of the FTSE All Share throughout the five-year period and the index is widely used. TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends.

Total Shareholder Return
1 June 2004 to 31 May 2009 Weekly Indexed



Source: Thomson Datastream

Approved by the Board on 27 July 2009 and signed on its behalf by

M Moynihan
Company Secretary



Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

In preparing each of the group and parent company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Independent auditors' report to the members of Filtronic plc

We have audited the financial statements of Filtronic plc for the year ended 31 May 2009 set out on pages 26 to 82. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 495, 496 and 497 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 auditors' 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/ukp

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required 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 and the part of the Directors' Remuneration Report to be audited 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.
- Under the Listing Rules we are required to review:
 - the directors' statement, set out on page 16, in relation to going concern; and
 - the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

David Morrith (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

KPMG Audit Plc
Chartered Accountants
Leeds
Registered Auditor
27 July 2009



Consolidated Income Statement

for the year ended 31 May 2009

		Group	
		2009 £000	2008 £000
Continuing operations	note		
Revenue	7	28,779	40,133
Operating profit before exceptional items		2,080	2,522
Exceptional items	8	(937)	(26,029)
Operating profit/(loss)	6	1,143	(23,507)
Loss on sale of property		–	(115)
Finance income	20	1,255	9,110
Finance costs	21	(132)	(1,688)
Profit/(loss) before taxation		2,266	(16,200)
Taxation	22	–	–
Profit/(loss) for the period from continuing operations		2,266	(16,200)
Profit for the period from discontinued operations	3	9,390	1,585
Profit/(loss) for the period		11,656	(14,615)
Basic earnings/(loss) per share			
Continuing operations	29	3.05p	(21.80)p
Discontinued operations	29	12.63p	2.13p
Basic earnings/(loss) per share	29	15.68p	(19.67)p
Diluted earnings/(loss) per share			
Continuing operations	29	3.04p	(21.80)p
Discontinued operations	29	12.61p	2.13p
Diluted earnings/(loss) per share	29	15.65p	(19.67)p

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

Consolidated Statement of Recognised Income and Expense

for the year ended 31 May 2009



	2009 £000	Group 2008 £000
Profit/(loss) for the period	11,656	(14,615)
Actuarial gain on defined benefit pension scheme	929	4,964
Transfer to income from translation reserve related to business disposal	(340)	(453)
Currency translation movement arising on consolidation	139	(6)
	<u>728</u>	<u>4,505</u>
Total recognised income and expense for the period	<u>12,384</u>	<u>(10,110)</u>

The total recognised income and expense for the period is attributable to the equity shareholders of the parent company Filtronics plc.



Consolidated Balance Sheet

at 31 May 2009

		2009	Group
	note	£000	2008 £000
Non-current assets			
Property, plant and equipment	32	<u>1,996</u>	4,045
Current assets			
Inventories	34	4,531	6,245
Trade and other receivables	35	4,779	12,999
Cash and cash equivalents		<u>16,218</u>	31,451
		<u>25,528</u>	50,695
Total assets		<u>27,524</u>	54,740
Current liabilities			
Trade and other payables	36	3,999	12,673
Income tax payable		635	–
Provision	37	<u>1,314</u>	2,152
		<u>5,948</u>	14,825
Non-current liabilities			
Defined benefit pension	40	–	1,002
Total liabilities		<u>5,948</u>	15,827
Net assets		<u>21,576</u>	38,913
Equity			
Share capital	41	7,432	7,432
Translation reserve	42	–	201
Retained earnings	44	<u>14,144</u>	31,280
Total equity		<u>21,576</u>	38,913

The total equity is attributable to the equity shareholders of the parent company Filtronic plc.

Approved by the Board on 27 July 2009 and signed on its behalf by

Hemant Mardia
Chief Executive Officer

Consolidated Cash Flow Statement

for the year ended 31 May 2009



		Group	
	note	2009 £000	2008 £000
Cash flows from operating activities			
Profit/(loss) for the period		11,656	(14,615)
Gain on sale of discontinued operations		(9,614)	(3,596)
Finance costs		132	1,688
Finance income		(1,255)	(9,110)
Loss on sale of property		–	115
Operating profit/(loss)	50	919	(25,518)
Defined benefit pension charge		–	27,010
Defined benefit pension contributions paid		(100)	(27,701)
Share-based payments		8	–
Property impairment		–	6,300
Depreciation		920	2,040
Loss on sale of plant and equipment		–	87
Licence fee released to income		–	(1,751)
Movement in inventories		59	1
Movement in trade and other receivables		4,721	2,079
Movement in trade and other payables		(5,646)	(323)
Movement in provision		(172)	1,704
Net cash from/(used in) operating activities	50	709	(16,072)
Cash flows from investing activities			
Proceeds from sale of property		–	6,044
Proceeds from sale of plant and equipment		–	50
Interest received		1,213	6,724
Acquisition of plant and equipment		(945)	(2,309)
Sale of discontinued operations		13,418	7,413
Net cash from investing activities	50	13,686	17,922
Cash flows from financing activities			
Dividends paid		(29,729)	(89,188)
Net cash used in financing activities	50	(29,729)	(89,188)
Decrease in cash and cash equivalents		(15,334)	(87,338)
Currency exchange movement		101	522
Opening cash and cash equivalents		31,451	118,267
Closing cash and cash equivalents		16,218	31,451



Company Income Statement

for the year ended 31 May 2009

		Company	
	note	2009 £000	2008 £000
Operating loss before exceptional items		(1,822)	(3,635)
Exceptional items	8	(649)	(26,029)
Operating loss	6	(2,471)	(29,664)
Loss on sale of property		–	(115)
Gain on sale of investments in subsidiaries		9,534	1,039
Impairment of investments in subsidiaries	31	–	(103,000)
Decrease in provision for doubtful group receivables		–	100,900
Other income		–	138
Finance income	20	1,250	9,102
Finance costs	21	(132)	(1,688)
Profit/(loss) before taxation		8,181	(23,288)
Taxation	22	–	–
Profit/(loss) for the period		8,181	(23,288)

Company Statement of Recognised Income and Expense

for the year ended 31 May 2009



	Company	
	2009	2008
	£000	£000
Profit/(loss) for the period	8,181	(23,288)
Actuarial gain on defined benefit pension scheme	929	4,964
Total recognised income and expense for the period	9,110	(18,324)



Company Balance Sheet

at 31 May 2009

		Company	
	note	2009 £000	2008 £000
Non-current assets			
Investments in subsidiaries	31	–	2,250
Property, plant and equipment	32	–	47
		<u>–</u>	<u>2,297</u>
Current assets			
Trade and other receivables	35	4,040	6,594
Cash and cash equivalents		15,766	31,302
		<u>19,806</u>	<u>37,896</u>
Total assets		<u>19,806</u>	<u>40,193</u>
Current liabilities			
Trade and other payables	36	3,123	1,890
Non-current liabilities			
Defined benefit pension	40	–	1,002
		<u>–</u>	<u>1,002</u>
Total liabilities		<u>3,123</u>	<u>2,892</u>
Net assets		<u>16,683</u>	<u>37,301</u>
Equity			
Share capital	41	7,432	7,432
Retained earnings	44	9,251	29,869
Total equity		<u>16,683</u>	<u>37,301</u>

Approved by the Board on 27 July 2009 and signed on its behalf by

Hemant Mardia
Chief Executive Officer

Company Cash Flow Statement

for the year ended 31 May 2009



	Company	
	2009	2008
	£000	£000
Cash flows from operating activities		
Profit/(loss) for the period	8,181	(23,288)
Finance costs	132	1,688
Finance income	(1,250)	(9,102)
Other income	–	(138)
Decrease in provision for doubtful group receivables	–	(100,900)
Impairment of investments in subsidiaries	–	103,000
Gain on sale of investment in subsidiary	(9,534)	(1,039)
Loss on sale of property	–	115
Operating loss	(2,471)	(29,664)
Share-based payments	1	–
Defined benefit pension operating charge	–	26,336
Additional defined benefit pension contributions paid	(100)	(27,027)
Depreciation	47	101
Loss on sale of plant and equipment	–	22
Movement in trade and other receivables	2,554	15,134
Movement in trade and other payables	1,133	(731)
Net cash from/(used in) operating activities	1,164	(15,829)
Cash flows from investing activities		
Proceeds from sale of property	–	5,774
Interest received	1,208	6,712
Acquisitions of plant and equipment	–	(23)
Sale of investments in subsidiaries	11,884	5,979
Net cash from investing activities	13,092	18,442
Cash flows from financing activities		
Dividends paid	(29,729)	(89,188)
Net cash used in financing activities	(29,729)	(89,188)
Decrease in cash and cash equivalents	(15,473)	(86,575)
Currency exchange movement	(63)	405
Opening cash and cash equivalents	31,302	117,472
Closing cash and cash equivalents	15,766	31,302



1 Accounting policies

Reporting entity

Filtronic plc is a company registered in England and Wales, domiciled in the United Kingdom, and is listed on the London Stock Exchange.

Basis of accounting

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

The financial statements have been prepared under the historical cost convention except for forward foreign exchange contracts that are accounted for on a fair value basis.

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, and are not consolidated from the date that control ceases. Intra group transactions and balances are eliminated on consolidation.

Foreign currency translation

The functional currency of each group company is the currency of the primary economic environment in which the group company 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 group company at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency 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.

Forward foreign exchange contracts are recognised in the balance sheet at their market value at the balance sheet date, and the resulting gain or loss is 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, which approximates the rate of exchange ruling at the date of the transactions.

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.

Notes to the Financial Statements

for the year ended 31 May 2009



1 Accounting policies (continued)

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.

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.

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 operated share option schemes, under which share options were granted to certain employees. The granting of the share options was a share-based payment.

The fair value of the share options at the date of grant was 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 was expensed in the income statement on a straight line basis over the expected vesting period. Each reporting period these vesting expectations were revised as appropriate.

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

Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the financial results.



1 Accounting policies (continued)

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, which is allocated to cash generating units, 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.

Investments in subsidiaries

Investments in subsidiaries are stated in the company's financial statements at cost less any accumulated impairment losses.

Investments in subsidiaries are tested for impairment when there is an indication of impairment.

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:

Land	Not depreciated
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 and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and bank deposits with an original maturity of three months or less.

Notes to the Financial Statements

for the year ended 31 May 2009



1 Accounting policies (continued)

Defined contribution pension schemes

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

Defined benefit pension scheme

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

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

Settlement losses were recognised within operating costs in the income statement in the period when settlement occurred.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions were 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.

Warranty provision

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. A warranty provision is recognised when products are sold. The provision is based on historical warranty data. The level of warranty provision required is reviewed on a product by product basis and adjusted accordingly in light of actual experience.



Notes to the Financial Statements

for the year ended 31 May 2009

1 Accounting policies (continued)

Share capital

Ordinary shares issued are classified as share capital in equity.

Dividends

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups classified as held for sale are recognised at the lower of carrying amount and fair value less costs to sell. No depreciation is provided on property, plant and equipment once they are classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. The condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The directors must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations

A discontinued operation is a component of the group's activities that represents a separate business operation. Classification as a discontinued operation occurs upon disposal or if earlier when the operation meets the criteria to be classified as held for sale.

During the year ended 31 May 2009 the Defence Electronics business in the United Kingdom and Australia was sold. Consequently the result of this business has been reclassified as discontinued operations for the current and comparative period.

New IFRS and amendments to IFRS

There are a number of new standards issued by the International Accounting Standards Board, that are effective for financial statements after this reporting period, which have not yet been adopted by the group.

IAS 1 (Amendment) Presentation of Financial Statements, Presentation of performance (effective for periods commencing on or after 1 January 2009).

IFRS 2 (Amendment) Share-based Payment – Vesting Conditions and Cancellations (effective for periods commencing on or after 1 January 2009).

IFRS 8 Operating Segments (effective for periods commencing on or after 1 January 2009).

The application of these standards is not anticipated to have a material effect on the group's financial statements except for changes in the format of the presentation of performance and additional disclosure.

Notes to the Financial Statements

for the year ended 31 May 2009



2 Accounting estimates and judgements

The preparation of the financial statements requires the use of accounting estimates and judgements, that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The accounting estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of the future, that are believed to be reasonable under the circumstances. Actual results may differ from the expected results.

The accounting estimates and judgements that have a significant effect on the financial statements are considered below.

Property, plant and equipment

The carrying amount of property, plant and equipment assets is tested for impairment when there is an indication of impairment. The recoverable amount of the assets is determined based on value in use calculations using cash flow forecasts. The cash flow forecasts require the use of estimates and judgements about the future performance of the related business.

Inventory

Inventories are stated at the lower of cost and net realisable value. The assessment of the net realisable value of inventory requires forecasts of the future demand and selling prices of inventory.

Group receivables

At least annually an assessment is made of the recoverability of group receivables in the company's balance sheet. As a result of this assessment group receivables are provided for if impaired. The assessment of the recoverability for certain group receivables is determined based on the cash flow forecasts for the respective subsidiary. The cash flow forecasts require the use of estimates and judgements about the future performance of the subsidiary.

Deferred tax asset

The recognition of the deferred tax assets relating to tax losses carried forward depends on forecasts of the future taxable profits of certain subsidiaries. These forecasts require the use of estimates and judgements about the future performance of the respective subsidiaries.

Defined benefit pension liability

The carrying amount of the defined benefit pension liability is based on actuarial valuations. The valuations are based on estimates and judgements about the future, in particular the average life expectancy of pensioners.

Warranty provision

Warranties are given to customers on products sold to them. A warranty provision is recognised when products are sold. The provision is based on historical warranty data. Actual warranty costs in the future may differ from the estimates based on historical performance. The level of warranty provision required is reviewed on a product by product basis and adjusted accordingly in light of actual experience.



Notes to the Financial Statements

for the year ended 31 May 2009

3 Profit for period from discontinued operations

		2009	2008
		£000	£000
Discontinued operations	note		
Revenue	7	2,111	44,293
Operating (loss)/profit before exceptional items		(224)	4,464
Exceptional items	8	–	(6,475)
Operating loss	6	(224)	(2,011)
Loss before taxation		(224)	(2,011)
Taxation	22	–	–
Loss after taxation		(224)	(2,011)
Gain on sale of discontinued operations	23	9,614	3,596
Profit for the period from discontinued operations		9,390	1,585

Notes to the Financial Statements

for the year ended 31 May 2009



4 Business segment analysis

The group comprises the following business segments:

Continuing operations

The business designs and manufactures transceiver modules and filters for backhaul microwave linking of base stations used in wireless telecommunication networks.

The continuing operations for the current period form one business located in the United Kingdom. Consequently the previously reported results for Point to Point, Central Services and unallocated pension charge have been combined for the comparative period.

Discontinued operations

Defence Electronics

Defence Electronics designed and manufactured RF components and subsystems for military applications and digital signal processing products. The United Kingdom and Australian Defence Electronics business was sold on 15 August 2008. The United States Defence Electronics business was sold on 12 October 2007.

Compound Semiconductors

Compound Semiconductors designed and manufactured compound semiconductors for mobile telephone handset, wireless infrastructure and defence electronic applications. The business was sold on 29 February 2008.



Notes to the Financial Statements

for the year ended 31 May 2009

4 Business segment analysis (continued)

	Group	
	2009 £000	2008 £000
Revenue		
Defence Electronics	2,111	16,980
Compound Semiconductors	–	27,313
Discontinued operations	<u>2,111</u>	<u>44,293</u>
Operating loss		
Defence Electronics	(224)	322
Compound Semiconductors	–	(2,333)
Discontinued operations	<u>(224)</u>	<u>(2,011)</u>
Loss before taxation	(224)	(2,011)
Taxation	–	–
Loss after taxation	<u>(224)</u>	<u>(2,011)</u>
Gain on sale of discontinued operations	9,614	3,596
Profit for the period from discontinued operations	<u>9,390</u>	<u>1,585</u>
The operating loss is stated after crediting the release of deferred income as follows:		
	2009 £000	2008 £000
Compound Semiconductors licence fee	<u>–</u>	<u>1,751</u>

Notes to the Financial Statements

for the year ended 31 May 2009



4 Business segment analysis (continued)

	2009 £000	Group 2008 £000
Depreciation		
Continuing operations	837	672
Defence Electronics	83	598
Compound Semiconductors	–	770
Discontinued operations	83	1,368
	920	2,040
Capital expenditure		
Continuing operations	864	1,238
Defence Electronics	81	729
Compound Semiconductors	–	342
Discontinued operations	81	1,071
	945	2,309
Assets		
Continuing operations	11,306	15,288
Discontinued operations	–	7,429
Total segment assets	11,306	22,717
Business sale consideration receivable	–	572
Cash and cash equivalents	16,218	31,451
Total assets	27,524	54,740
Liabilities		
Continuing operations	5,213	10,414
Discontinued operations	–	3,905
Total segment liabilities	5,213	14,319
Business sale costs	100	506
Income tax payable	635	–
Defined benefit pension	–	1,002
Total liabilities	5,948	15,827



Notes to the Financial Statements

for the year ended 31 May 2009

5 Geographical origin segment analysis

	Group	
	2009 £000	2008 £000
Revenue		
United Kingdom	1,900	40,881
United States of America	–	2,462
Australia	211	950
Discontinued operations	<u>2,111</u>	<u>44,293</u>
Operating loss		
United Kingdom	(261)	(1,226)
United States of America	–	(1,016)
Australia	37	231
Discontinued operations	<u>(224)</u>	<u>(2,011)</u>
Loss before taxation	(224)	(2,011)
Taxation	–	–
Loss after taxation	<u>(224)</u>	<u>(2,011)</u>
Gain on sale of discontinued operations	9,614	3,596
Profit for the period from discontinued operations	<u>9,390</u>	<u>1,585</u>

Notes to the Financial Statements

for the year ended 31 May 2009



5 Geographical origin segment analysis (continued)

	2009 £000	Group 2008 £000
Depreciation		
Continuing operations	<u>837</u>	<u>672</u>
United Kingdom	80	1,214
United States of America	–	140
Australia	<u>3</u>	<u>14</u>
Discontinued operations	<u>83</u>	<u>1,368</u>
	<u>920</u>	<u>2,040</u>
Capital expenditure		
Continuing operations	<u>864</u>	<u>1,238</u>
United Kingdom	75	1,032
United States of America	–	13
Australia	<u>6</u>	<u>26</u>
Discontinued operations	<u>81</u>	<u>1,071</u>
	<u>945</u>	<u>2,309</u>
Assets		
Continuing operations	<u>27,524</u>	<u>47,311</u>
United Kingdom	–	6,772
Australia	–	657
Discontinued operations	<u>–</u>	<u>7,429</u>
	<u>27,524</u>	<u>54,740</u>
Liabilities		
Continuing operations	<u>5,948</u>	<u>11,922</u>
United Kingdom	–	3,828
Australia	–	77
Discontinued operations	<u>–</u>	<u>3,905</u>
	<u>5,948</u>	<u>15,827</u>



Notes to the Financial Statements

for the year ended 31 May 2009

6 Operating profit/(loss)

		2009	Group
		£000	2008
			£000
Continuing operations	note		
Revenue	7	28,779	40,133
Raw materials and consumables		16,469	23,751
Wages and salaries		6,018	6,494
Social security costs		619	649
Pension costs	38	241	26,695
Share-based payments	47	8	–
Staff costs		6,886	33,838
Depreciation		837	672
Profit on sale of plant and equipment		–	(2)
Other operating charges		3,444	5,381
Operating costs		27,636	63,640
Operating profit/(loss)		1,143	(23,507)

The operating loss is stated after the exceptional items in note 8.

Notes to the Financial Statements

for the year ended 31 May 2009



6 Operating profit/(loss) (continued)

		2009	Group 2008
	note	£000	£000
Discontinued operations			
Revenue	7	<u>2,111</u>	<u>44,293</u>
Raw materials and consumables		<u>590</u>	<u>13,954</u>
Wages and salaries		<u>843</u>	12,952
Social security costs		<u>84</u>	1,108
Pension costs	38	<u>55</u>	753
Staff costs		<u>982</u>	<u>14,813</u>
Depreciation		<u>83</u>	<u>1,368</u>
Loss on sale of plant and equipment		<u>-</u>	<u>89</u>
Property impairment	14	<u>-</u>	<u>6,300</u>
Other operating charges		<u>680</u>	<u>9,780</u>
Operating costs		<u>2,335</u>	<u>46,304</u>
Operating loss		<u>(224)</u>	<u>(2,011)</u>

The operating loss is stated after the exceptional items in note 8.



Notes to the Financial Statements

for the year ended 31 May 2009

6 Operating profit/(loss) (continued)

		Company	
	note	2009 £000	2008 £000
Wages and salaries		1,146	1,635
Social security costs		138	190
Pension costs	38	43	108
Share-based payments	47	1	–
Staff costs		<u>1,328</u>	<u>1,933</u>
Depreciation		<u>47</u>	<u>101</u>
Loss on sale of plant and equipment		<u>–</u>	<u>22</u>
Other operating charges		<u>1,096</u>	<u>1,272</u>
Defined benefit pension operating charge	40	<u>–</u>	<u>26,336</u>
Operating costs		<u>2,471</u>	<u>29,664</u>
Operating loss		<u>(2,471)</u>	<u>(29,664)</u>

The operating loss is stated after the exceptional items in note 8.

Notes to the Financial Statements

for the year ended 31 May 2009



7 Revenue analysis by destination

	Group	
	2009 £000	2008 £000
United Kingdom	56	56
Europe	28,723	40,077
Continuing operations	<u>28,779</u>	<u>40,133</u>
United Kingdom	968	13,099
Europe	450	4,241
Americas	25	21,190
Asia Pacific	668	5,763
Discontinued operations	<u>2,111</u>	<u>44,293</u>



Notes to the Financial Statements

for the year ended 31 May 2009

8 Exceptional items

Operating profit/(loss) is stated after charging exceptional items as follows:

	note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
Chief Executive termination cost	9	383	–	383	–
Pension scheme closure costs	10	266	–	266	–
Enhanced pension transfer value offer costs	11	–	311	–	311
Pension settlement charge	12	–	24,868	–	24,868
Pension past service cost	13	–	850	–	850
Redundancy costs		288	–	–	–
Continuing operations		<u>937</u>	<u>26,029</u>	<u>649</u>	<u>26,029</u>
Compound Semiconductors assets impairment	14	–	6,300	–	–
Compound Semiconductors redundancy costs		–	175	–	–
Discontinued operations		<u>–</u>	<u>6,475</u>	<u>–</u>	<u>–</u>

9 Chief Executive termination cost

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Chief Executive termination cost	<u>383</u>	–	<u>383</u>	–

Charles Hindson resigned as Chief Executive on 19 September 2008. Under the terms of his contract he was paid twelve months' salary in lieu of notice plus accrued bonus entitlement.

10 Pension scheme closure costs

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Pension scheme closure costs	<u>266</u>	–	<u>266</u>	–

Professional fees were incurred in connection with the process of closing the defined benefit pension scheme.

Notes to the Financial Statements

for the year ended 31 May 2009



11 Enhanced pension transfer value offer costs

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Enhanced pension transfer value offer costs	-	311	-	311

Professional fees were incurred in connection with the enhanced pension transfer value offer made during the period 1 June 2007 to 31 January 2008.

12 Pension settlement charge

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Enhanced transfer values	-	3,206	-	3,206
Fully funding past service liabilities with annuities	-	21,662	-	21,662
	-	24,868	-	24,868

A pension settlement charge of £3,206,000 resulted from the settlement of the enhanced transfer values paid out during the period 1 June 2007 to 31 January 2008. The company paid £6,027,000 of additional contributions to the pension scheme to fund the settlement of the enhanced transfer values.

A pension settlement charge of £21,662,000 resulted from the settlement of past service liabilities with annuities at 29 February 2008. Pension benefits ceased accruing from 29 February 2008, and the defined benefits scheme is in the process of being closed. The company paid £21,000,000 of additional contributions to the pension scheme to fund the settlement of past service liabilities with annuities.

13 Pension past service cost

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Pension past service cost	-	850	-	850

The past service cost was the cost of providing for the equalisation of retirement ages for male and female members of pension schemes that were transferred into the defined benefit pension scheme. This was part of the process of transferring all the residual liabilities of the scheme to the assurance company providing the annuities.

14 Compound Semiconductors assets impairment

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Property impairment	-	6,300	-	-

The property impairment resulted from an impairment review at 30 November 2007.



Notes to the Financial Statements

for the year ended 31 May 2009

15 Operating items

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Operating profit/(loss) is stated after charging/(crediting):				
Continuing operations:				
Research and development costs	1,838	2,173	–	–
Operating lease rentals	116	171	47	41
Discontinued operations:				
Research and development costs	413	4,591	–	–
Operating lease rentals	40	416	–	–
Licence fee released	–	(1,751)	–	–

16 Auditors' remuneration

The company auditors are KPMG Audit Plc. The auditors' remuneration was as follows:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Company auditors:				
Audit of the group and company financial statements	7	47	7	47
Company auditors and their associates:				
Audit of subsidiaries financial statements pursuant to legislation	18	67	–	–
Other services pursuant to such legislation	10	21	10	21
Other assurance services	–	15	–	15
Taxation services	24	24	24	13

Notes to the Financial Statements

for the year ended 31 May 2009



17 Employees

The average number of people employed by the group comprised:

	Group	
	2009 Number	2008 Number
Business segment		
Continuing operations	<u>199</u>	<u>235</u>
Defence Electronics	34	187
Compound Semiconductors	–	188
Discontinued operations	<u>34</u>	<u>375</u>
	<u>233</u>	<u>610</u>
Geographical segment		
Continuing operations	<u>199</u>	<u>235</u>
United Kingdom	32	343
United States of America	–	26
Australia	2	6
Discontinued operations	<u>34</u>	<u>375</u>
	<u>233</u>	<u>610</u>
	Company	
	2009 Number	2008 Number
Average number of people employed by the company	<u>11</u>	<u>18</u>



Notes to the Financial Statements

for the year ended 31 May 2009

18 Compensation of directors

Details of the remuneration, pension entitlements and share options of the individual directors are set out in the remuneration report on pages 17 to 22. The compensation of the directors was:

	2009 £000	2008 £000
Salary or fees	882	798
Bonuses	166	397
Benefits	27	21
Total remuneration excluding pension contributions and share-based payments	1,075	1,216
Pension contributions	33	68
Share-based payments	1	–
	<u>1,109</u>	<u>1,284</u>

Included in the salary and bonuses amounts for the year ended 31 May 2009 are the amounts paid to Charles Hindson of £262,000 salary in lieu of notice and £77,000 bonus, which are included in the exceptional termination cost of £383,000 in note 9.

The directors are related parties.

19 Related party transaction

Chief Executive Officer, Hemant Mardia's wife is employed by the group. Her salary, car allowance and pension contributions amounted to £96,000 (£45,000 for the period 18 October 2007 to 31 May 2008).

20 Finance income

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Interest income	1,213	6,724	1,208	6,712
Expected return on pension scheme assets	42	1,985	42	1,985
Currency exchange gains	–	401	–	405
	<u>1,255</u>	<u>9,110</u>	<u>1,250</u>	<u>9,102</u>

21 Finance costs

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Interest on pension scheme liabilities	69	1,688	69	1,688
Currency exchange losses	63	–	63	–
	<u>132</u>	<u>1,688</u>	<u>132</u>	<u>1,688</u>

Notes to the Financial Statements

for the year ended 31 May 2009



22 Taxation

The reconciliation of the effective tax rate is as follows:

	Group				Company			
	2009 £000		2008 £000		2009 £000		2008 £000	
Profit/(loss) before taxation								
Continuing operations	2,266		(16,200)		8,181		(23,288)	
Discontinued operations	(224)		(2,011)		-		-	
Profit/(loss) before taxation	2,042		(18,211)		8,181		(23,288)	
Loss before taxation multiplied by standard rate of corporation tax in the UK	28%	572	(30%)	(5,463)	28%	2,291	(30%)	(6,986)
Disallowable items	2%	50	0%	29	1%	43	0%	14
Depreciation in advance of capital allowances	13%	257	14%	2,479	0%	13	0%	72
Other temporary differences	-	-	(1%)	(112)	-	-	(0%)	(41)
Defined benefit pension	(1%)	(20)	(2%)	(296)	0%	(20)	(1%)	(296)
Pension contributions carried forward	-	-	24%	4,328	-	-	19%	4,328
Pension contributions brought forward utilised	(83%)	(1,688)	(2%)	(366)	(21%)	(1,688)	(2%)	(366)
Tax losses carried forward	41%	829	5%	894	10%	792	3%	590
Tax losses brought forward utilised	-	-	(8%)	(1,493)	-	-	-	-
Non-taxable gain on sale of investments	-	-	-	-	(33%)	(2,670)	(1%)	(312)
Impairment of investments	-	-	-	-	-	-	132%	30,900
Movement in provision for group receivables	-	-	-	-	-	-	(130%)	(30,270)
Group relief	-	-	-	-	15%	1,239	10%	2,367
Taxation	-	-	-	-	-	-	-	-



Notes to the Financial Statements

for the year ended 31 May 2009

23 Gain on sale of discontinued operations

		Group	
	note	2009 £000	2008 £000
Gain/(loss) on sale of:			
Australian Wireless Infrastructure business	24	1,313	–
Wireless Infrastructure business	25	–	2,805
United Kingdom and Australian Defence Electronics business	26	8,388	–
United States Defence Electronics business	27	(87)	(667)
Compound Semiconductors business	28	–	1,458
		<u>9,614</u>	<u>3,596</u>

24 Sale of the Australian Wireless Infrastructure business

The Australian Wireless Infrastructure business was sold to its management in 2005. The business was sold on to another party in July 2008. Under the terms of the original sale a proportion of the sell-on proceeds were received by the group in July 2008, and amounted to £1,903,000.

	Group	
	2009 £000	2008 £000
Gain on sale of Australian Wireless Infrastructure business before taxation	1,903	–
Taxation	(590)	–
Gain on sale of Australian Wireless Infrastructure business after taxation	<u>1,313</u>	<u>–</u>

25 Sale of the Wireless Infrastructure business

On 16 October 2007 the Wireless infrastructure business was sold for \$185,000,000 cash and 17,700,000 shares in Powerwave Technologies, Inc. common stock. Additional cash consideration of £2,675,000 was received in the year ended 31 May 2008, which had not been recognised in the year ended 31 May 2007. An adjustment was also made for sale costs overprovided of £130,000.

	2009 £000	2008 £000
Consideration and costs		
Cash consideration	–	2,675
Sale costs adjustment	–	130
Gain on sale of the Wireless Infrastructure business	<u>–</u>	<u>2,805</u>

Notes to the Financial Statements

for the year ended 31 May 2009



26 Sale of the United Kingdom and Australian Defence Electronics business

On 15 August 2008 the United Kingdom and Australian Defence Electronics business was sold. The sale is analysed as follows:

	Group	
	2009 £000	2008 £000
Consideration and costs		
Gross consideration	13,000	–
Adjustment for working capital	(287)	–
Net consideration	<u>12,713</u>	–
Sale costs	(879)	–
Currency translation adjustment	340	–
	<u>12,174</u>	–
Assets and liabilities sold		
Property, plant and equipment	2,073	–
Inventories	1,655	–
Trade and other receivables	2,925	–
Cash and cash equivalents	419	–
Trade and other payables	(2,620)	–
Provision	(666)	–
Net assets sold	<u>3,786</u>	–
Gain on sale of the United Kingdom and Australian Defence Electronics business	<u>8,388</u>	–
	<u>12,174</u>	–



Notes to the Financial Statements

for the year ended 31 May 2009

27 Sale of the United States Defence Electronics business

The Defence Electronics business of Sage Laboratories, Inc. in the United States of America was sold on 12 October 2007. The initial consideration was \$3,556,000 and a further \$1,000,000 of deferred consideration was due in January 2009. Also there was a further \$500,000 of contingent consideration due in January 2009, depending on the revenue performance of the business, which was not recognised.

At 31 May 2008, \$1,130,000 of consideration was included in receivables and \$1,000,000 of sale costs were accrued to meet a potential claim from the purchaser. In March 2009 agreement was reached to offset the outstanding consideration against the claim from the purchaser, resulting in full and final settlement of the business sale transaction. The sale is analysed as follows:

	Group	
	2009 £000	2008 £000
Consideration and costs		
Initial consideration	–	1,712
Deferred consideration	–	481
Sale costs	–	(692)
Currency translation adjustment	–	453
Consideration adjustment	(689)	–
Sale costs adjustment	602	–
	<u>(87)</u>	<u>1,954</u>
Assets and liabilities sold		
Property, plant and equipment	–	1,130
Inventories	–	1,240
Trade and other receivables	–	803
Trade and other payables	–	(552)
	<u>–</u>	<u>2,621</u>
Net assets sold	<u>(87)</u>	<u>(667)</u>
Loss on sale of the United States Defence Electronics business	<u>(87)</u>	<u>1,954</u>

Notes to the Financial Statements

for the year ended 31 May 2009



28 Sale of the Compound Semiconductors business

On 29 February 2008 the Compound Semiconductors business was sold. The sale is analysed as follows:

	2009	Group
	£000	2008
		£000
Consideration and costs		
Gross consideration	-	12,500
Adjustment for working capital	-	(1,832)
	<hr/>	<hr/>
Net consideration	-	10,668
Sale costs	-	(395)
	<hr/>	<hr/>
	-	10,273
	<hr/>	<hr/>
Assets and liabilities sold		
Property, plant and equipment	-	8,533
Inventories	-	3,083
Trade and other receivables	-	926
Cash and cash equivalents	-	3
Trade and other payables	-	(3,341)
Deferred income	-	(389)
	<hr/>	<hr/>
Net assets sold	-	8,815
Gain on sale of Compound Semiconductors business	-	1,458
	<hr/>	<hr/>
	-	10,273
	<hr/>	<hr/>



Notes to the Financial Statements

for the year ended 31 May 2009

29 Earnings/(loss) per share

	Group	
	2009 £000	2008 £000
Profit/(loss) for the period		
Continuing operations	2,266	(16,200)
Discontinued operations	9,390	1,585
Profit/(loss) for the period	11,656	(14,615)
	000	000
Basic weighted average number of shares	74,323	74,323
Dilution effect of share options	120	–
Diluted weighted average number of shares	74,443	74,323
Basic earnings/(loss) per share		
Continuing operations	3.05p	(21.80)p
Discontinued operations	12.63p	2.13p
Basic earnings/(loss) per share	15.68p	(19.67)p
Diluted earnings/(loss) per share		
Continuing operations	3.04p	(21.80)p
Discontinued operations	12.61p	2.13p
Diluted earnings/(loss) per share	15.65p	(19.67)p

Notes to the Financial Statements

for the year ended 31 May 2009



30 Goodwill

	Group Goodwill £000
Cost	
At 1 June 2007	2,576
Disposal of United States Defence Electronics business	(2,452)
Currency translation movement	(124)
At 31 May 2008	—
At 31 May 2009	—
Impairment	
At 1 June 2007	2,576
Disposal of United States Defence Electronics business	(2,452)
Currency translation movement	(124)
At 31 May 2008	—
At 31 May 2009	—
Carrying amount at 1 June 2007	—
Carrying amount at 31 May 2008	—
Carrying amount at 31 May 2009	—



Notes to the Financial Statements

for the year ended 31 May 2009

31 Investments in subsidiaries

	Company Investments in subsidiaries £000
Cost	
At 1 June 2007	25,485
Additions	112,040
Disposals	(112,040)
At 31 May 2008	25,485
Disposals	(2,250)
Dissolved	(1,596)
At 31 May 2009	21,639
Impairment	
At 1 June 2007	20,235
Impairment in the year	103,000
Disposals	(100,000)
At 31 May 2008	23,235
Dissolved	(1,596)
At 31 May 2009	21,639
Carrying amount at 1 June 2007	5,250
Carrying amount at 31 May 2008	2,250
Carrying amount at 31 May 2009	-

In the year ended 31 May 2009, the disposals of £2,250,000 were the sale of all the share capital of Filtronic Defence Limited and Filtronic Properties Limited on 15 August 2008.

In the year ended 31 May 2009, four dormant United Kingdom subsidiaries were dissolved.

In the year ended 31 May 2008, the additions of £112,040,000 were the investment in additional share capital of Filtronic Compound Semiconductors Limited to allow the repayment of the receivable due from that subsidiary. All of the share capital of Filtronic Compound Semiconductors Limited was sold on 29 February 2008.

Impairment in the year ended 31 May 2008 of £100,000,000 related to Filtronic Compound Semiconductors Limited. The investment in this subsidiary was written down to its estimated recoverable amount following an impairment review. A further £3,000,000 of impairment in the year ended 31 May 2008 related to Filtronic Holdings UK Limited as a result of an impairment review of the value of its investments in the overseas subsidiaries.

The company's subsidiaries are related parties.

A complete list of the company's subsidiaries, all of which are wholly owned, is given in note 53.

Notes to the Financial Statements

for the year ended 31 May 2009



32 Property, plant and equipment

	Group		
	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
At 1 June 2007	22,708	64,203	86,911
Additions	–	2,309	2,309
Disposals	(8,836)	(3,003)	(11,839)
Disposals through sale of the Defence Electronics business	–	(3,415)	(3,415)
Disposals through sale of the Compound Semiconductors business	(12,372)	(47,741)	(60,113)
Currency translation movement	–	(124)	(124)
At 31 May 2008	1,500	12,229	13,729
Additions	–	945	945
Disposals	–	(66)	(66)
Disposals through sale of the Defence Electronics business	(1,500)	(6,310)	(7,810)
Currency translation movement	–	(9)	(9)
At 31 May 2009	–	6,789	6,789
Depreciation and impairment			
At 1 June 2007	4,441	56,381	60,822
Depreciation	277	1,763	2,040
Impairment	6,300	–	6,300
Disposals	(2,677)	(2,866)	(5,543)
Disposals through sale of the Defence Electronics business	–	(2,285)	(2,285)
Disposals through sale of the Compound Semiconductors business	(8,031)	(43,549)	(51,580)
Currency translation movement	–	(70)	(70)
At 31 May 2008	310	9,374	9,684
Depreciation	6	914	920
Disposals	–	(66)	(66)
Disposals through sale of the Defence Electronics business	(316)	(5,421)	(5,737)
Currency translation movement	–	(8)	(8)
At 31 May 2009	–	4,793	4,793
Carrying amount at 1 June 2007	18,267	7,822	26,089
Carrying amount at 31 May 2008	1,190	2,855	4,045
Carrying amount at 31 May 2009	–	1,996	1,996



Notes to the Financial Statements

for the year ended 31 May 2009

32 Property, plant and equipment (continued)

	Land and buildings £000	Company Plant and equipment £000	Total £000
Cost			
At 1 June 2007	8,249	71	8,320
Additions	–	23	23
Disposals	(8,249)	(28)	(8,277)
At 31 May 2008	–	66	66
Disposals	–	(66)	(66)
At 31 May 2009	–	–	–
Depreciation			
At 1 June 2007	2,280	4	2,284
Depreciation	80	21	101
Disposals	(2,360)	(6)	(2,366)
At 31 May 2008	–	19	19
Depreciation	–	47	47
Disposals	–	(66)	(66)
At 31 May 2009	–	–	–
Carrying amount at 1 June 2007	5,969	67	6,036
Carrying amount at 31 May 2008	–	47	47
Carrying amount at 31 May 2009	–	–	–

Notes to the Financial Statements

for the year ended 31 May 2009



33 Deferred tax assets

Deferred tax assets which have not been recognised:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Depreciation in advance of capital allowances	1,633	3,522	546	533
Defined benefit pension liability	–	280	–	280
Pension contributions carried forward	3,034	4,722	3,034	4,722
Tax losses carried forward	10,222	9,464	10,222	9,464
	14,889	17,988	13,802	14,999

The deferred tax assets have not been recognised where the directors consider that it is unlikely that the underlying temporary differences will reverse in the foreseeable future.

34 Inventories

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Raw materials	1,675	3,497	–	–
Work in progress	980	2,450	–	–
Finished goods	1,876	298	–	–
	4,531	6,245	–	–
Inventories are stated net of provision	1,372	1,773	–	–

35 Trade and other receivables

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade receivables	4,368	11,682	–	–
Group receivables	–	–	3,957	6,503
Business sale consideration receivable	–	572	–	–
Other receivables and prepayments	356	745	28	91
Forward foreign exchange contracts	55	–	55	–
	4,779	12,999	4,040	6,594
Trade receivables are stated net of provision	15	508	–	–



Notes to the Financial Statements

for the year ended 31 May 2009

36 Trade and other payables

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade payables	2,732	7,994	–	–
Group payables	–	–	2,685	942
Business sale costs	100	506	100	–
Other payables and accruals	1,167	4,173	338	948
	<u>3,999</u>	<u>12,673</u>	<u>3,123</u>	<u>1,890</u>

37 Provision

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Warranty provision				
Opening balance	2,152	–	–	–
Transfer from accruals	–	448	–	–
Used during the year	(600)	–	–	–
Charge for the year	428	1,704	–	–
Sale of the Defence Electronics business	(666)	–	–	–
Closing balance	<u>1,314</u>	<u>2,152</u>	<u>–</u>	<u>–</u>

Notes to the Financial Statements

for the year ended 31 May 2009



38 Pension costs

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Defined contribution schemes	241	131	43	63
Defined benefit scheme	-	26,564	-	45
Continuing operations	<u>241</u>	<u>26,695</u>	<u>43</u>	<u>108</u>
Discontinued operations				
Defined contribution schemes	55	307	-	-
Defined benefit scheme	-	446	-	-
Discontinued operations	<u>55</u>	<u>753</u>	<u>-</u>	<u>-</u>

39 Defined contribution pension schemes

Defined contribution pension schemes are operated for employees in accordance with local regulations and practices.

The pension cost for defined contribution pension schemes was:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Continuing operations	<u>241</u>	<u>131</u>	<u>43</u>	<u>63</u>
United Kingdom	46	233	-	-
United States of America	-	48	-	-
Australia	9	26	-	-
Discontinued operations	<u>55</u>	<u>307</u>	<u>-</u>	<u>-</u>



40 Defined benefit pension scheme

A defined benefit pension scheme was operated for United Kingdom employees. The scheme provided benefits on a career average revalued earnings basis.

The assets of the scheme were held in a separate trust fund which was managed by independent professional investment managers. Contributions to the scheme were determined by a qualified actuary on the basis of annual actuarial valuations using the projected unit measure. Employer's regular contributions were 10.5% of pensionable salary and employees' contributions were 6.0% of pensionable salaries.

An enhanced transfer value offer was made to deferred members of the pension scheme during the period 1 June 2007 to 31 January 2008. This resulted in a pension settlement charge of £3,206,000. The company paid £6,027,000 of additional contributions to the pension scheme to fund the settlement of the enhanced transfer value.

Pension benefits ceased accruing from 29 February 2008, and the defined benefits scheme is in the process of being closed. The past service liabilities at 29 February 2008 have been settled by purchasing annuities from an assurance company. This resulted in a pension settlement charge of £21,662,000. The company paid £21,000,000 of additional contributions to the pension scheme to fund the settlement of past service liabilities with annuities.

The past service cost of £850,000 for the year ended 31 May 2008 was the cost of providing for the equalisation of retirement ages for male and female members of pension schemes that were transferred into the defined benefit pension scheme. This was part of the process of transferring all the residual liabilities of the scheme to the assurance company providing the annuities.

At 31 May 2008 there were residual assets of £993,000 and residual liabilities of £1,995,000 remaining in the defined benefit scheme.

The company had to pay an additional contribution of £100,000 to the scheme in the year ended 31 May 2009.

The most recent actuarial valuation of the scheme was at 1 July 2006. The results of that valuation have been projected to 31 May 2007 and 31 May 2008 and then recalculated based on the following assumptions:

	2009	2008
Liability discount rate	–	6.6%
Expected return on scheme assets	–	8.0%

The average life expectancy in years of a pensioner retiring at the age of 65 was as follows:

	2009	2008
Male	–	21.9
Female	–	24.8

Notes to the Financial Statements

for the year ended 31 May 2009



40 Defined benefit pension scheme (continued)

The amount charged to operating costs was:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Current service cost	-	1,292	-	1,292
Past service cost	-	850	-	850
Settlement charge	-	24,868	-	24,868
Less group employers' contributions	-	-	-	(674)
	<u>-</u>	<u>27,010</u>	<u>-</u>	<u>26,336</u>

The amounts credited and charged to finance income and costs:

	Group and Company	
	2009 £000	2008 £000
Expected return on pension scheme assets	42	1,985
Interest on pension scheme liabilities	(69)	(1,688)
	<u>(27)</u>	<u>297</u>

The actuarial gain recognised in the statement of recognised income and expense was:

	Group and Company	
	2009 £000	2008 £000
Actual return less expected return on pension scheme assets	(58)	(3,711)
Actuarial gain on pension scheme liabilities	987	8,675
	<u>929</u>	<u>4,964</u>

The defined benefit pension liability was:

	Group and Company	
	2009 £000	2008 £000
Present value of defined benefit pension scheme liabilities	-	1,995
Fair value of defined benefit pension scheme assets	-	(993)
Defined benefit pension liability	<u>-</u>	<u>1,002</u>



Notes to the Financial Statements

for the year ended 31 May 2009

40 Defined benefit pension scheme (continued)

Movements in the present value of the defined benefit pension scheme liabilities were:

	2009 £000	2008 £000
Opening balance	1,995	51,472
Current service cost	–	1,292
Past service cost	–	850
Settlement charge	–	63
Interest cost	69	1,688
Actuarial gain	(987)	(8,675)
Employees' contributions	–	385
Benefits paid	(1,077)	(963)
Liabilities extinguished on settlements	–	(44,117)
Closing balance	–	1,995

Movements in the fair value of the defined benefit pension scheme assets were:

	2009 £000	2008 £000
Opening balance	993	44,518
Expected return on assets	42	1,985
Actual return less expected return on assets	(58)	(3,711)
Employer's contributions	100	27,701
Employees' contributions	–	385
Benefits paid	(1,077)	(963)
Assets distributed on settlements	–	(68,922)
Closing balance	–	993

The expected rate of return and the fair value of the defined benefit pension scheme assets at the balance sheet date were:

	Expected return		Fair value	
	2009	2008	2009 £000	2008 £000
Equities	–	8.0%	–	993

Notes to the Financial Statements

for the year ended 31 May 2009



40 Defined benefit pension scheme (continued)

The history of the defined benefit pension scheme liabilities and assets and the experience adjustments related to them are as follows:

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of defined benefit pension scheme liabilities	–	1,995	51,472	50,588	39,379
Fair value of defined benefit pension scheme assets	–	(993)	(44,518)	(30,003)	(23,230)
Defined benefit pension liability	<u>–</u>	<u>1,002</u>	<u>6,954</u>	<u>20,585</u>	<u>16,149</u>
Experience adjustments on:					
Pension scheme liabilities	<u>987</u>	<u>8,675</u>	<u>(2,556)</u>	<u>(5,098)</u>	<u>(7,994)</u>
Percentage of liabilities	–	–	(5%)	(10%)	(20%)
Pension scheme assets	<u>(58)</u>	<u>(3,711)</u>	<u>3,118</u>	<u>2,249</u>	<u>1,210</u>
Percentage of assets	–	–	7%	7%	5%



Notes to the Financial Statements

for the year ended 31 May 2009

41 Share capital

	Group and Company			
	Ordinary shares of 10p each			
	Authorised Number	£000	Issued and fully paid Number	£000
At 1 June 2007	100,000,000	10,000	74,323,093	7,432
At 31 May 2008	100,000,000	10,000	74,323,093	7,432
At 31 May 2009	100,000,000	10,000	74,323,093	7,432

Holders of the ordinary shares are entitled to receive dividends when declared, and are entitled to one vote per share at meetings of the company.

42 Reserves

	Group and Company		Group
	Share premium £000	Capital redemption reserve £000	Translation reserve £000
At 1 June 2007	139,253	58	660
Transfer to accumulated losses	(139,253)	(58)	–
Transfer to income related to business disposal	–	–	(453)
Currency translation movement arising on consolidation	–	–	(6)
At 31 May 2008	–	–	201
Transfer to income related to business disposal	–	–	(340)
Currency translation movement arising on consolidation	–	–	139
At 31 May 2009	–	–	–

The share premium and capital redemption reserve were cancelled by special resolutions passed at the general meeting held on 28 March 2008. The capital reduction was confirmed by the High Court of England and Wales on 18 April 2008. The capital reduction became effective on 21 April 2008 when the Court Order was registered with the Registrar of Companies.

Notes to the Financial Statements

for the year ended 31 May 2009



43 Dividends

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

	Per share	Group and Company	
		2009 £000	2008 £000
Special interim dividend year ended 31 May 2008	120.00p	–	89,188
Special interim dividend year ended 31 May 2009	40.00p	29,729	–
		29,729	89,188

The final dividend proposed for the year ended 31 May 2009 is 1.00p per share payable on 30 November 2009 to shareholders on the register on 30 October 2009. The final dividend will amount to £743,000 based on the issued share capital of 74,323,093 10p ordinary shares as at 27 July 2009.

44 Retained earnings

	Group £000	Company £000
At 1 June 2007	(9,192)	(1,930)
Loss for the period	(14,615)	(23,288)
Actuarial gain on defined benefit pension scheme	4,964	4,964
Transfer from share premium	139,253	139,253
Transfer from capital redemption reserve	58	58
Dividends	(89,188)	(89,188)
At 31 May 2008	31,280	29,869
Profit for the period	11,656	8,181
Actuarial gain on defined benefit pension scheme	929	929
Share-based payments	8	1
Dividends	(29,729)	(29,729)
At 31 May 2009	14,144	9,251

45 Reconciliation of movements in total equity

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Opening total equity	38,913	138,211	37,301	144,813
Total recognised income and expense for the period	12,384	(10,110)	9,110	(18,324)
Share-based payments	8	–	1	–
Dividends	(29,729)	(89,188)	(29,729)	(89,188)
Closing total equity	21,576	38,913	16,683	37,301



Notes to the Financial Statements

for the year ended 31 May 2009

46 Share options

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2009	2009	2008	2008
Executive Share Option Schemes				
Outstanding at the beginning of the period	-	-	472p	4,089,809
Cancelled during the period	-	-	472p	(4,089,809)
Outstanding at the end of the period	-	-	-	-

Under the Executive Share Option Schemes the remuneration committee had a discretion to invite any full time employee who was required to devote substantially all of his time to the business of the group to participate in the scheme. Options granted under this scheme were generally exercisable in five equal annual tranches over a five year period and, except in certain circumstances, only if certain performance targets had been satisfied. The exercise price for an option was the average middle market quotation of Filtronic plc's ordinary shares as derived from the Official List of the United Kingdom Financial Services Authority for the three dealing days prior to the date of grant of the option.

All outstanding share options vested and became exercisable on the completion of the sale of the Wireless Infrastructure business on 16 October 2006. All outstanding options were cancelled on 16 October 2007.

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2009	2009	2008	2008
Sharesave Plan				
Outstanding at the beginning of the period	-	-	-	-
Granted during the period	25p	919,350	-	-
Cancelled during the period	25p	(62,250)	-	-
Outstanding at the end of the period	25p	857,100	-	-
Exercisable at the end of the period	-	-	-	-

The options outstanding at 31 May 2009 have a weighted average remaining contractual life of 3.3 years.

The share options granted during the year have an exercise price of 25p and have an exercise period from 1 April 2012 to 1 October 2012.

The Sharesave Plan was offered to employees in February 2009. Under the plan employees who join the plan save up to £250 per month for three years. The members of the plan were granted a number of share options based on the amount they would save over the three years. At the end of the three years the members have a six month period in which they can exercise the share options. The exercise price for an option was the middle market quotation of Filtronic plc's ordinary shares as derived from the Official List of the United Kingdom Financial Services Authority on the dealing day immediately prior to the plan offer date.

Notes to the Financial Statements

for the year ended 31 May 2009



47 Share-based payments

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Share options expense	8	–	1	–

The share options expense was the fair value of the share options at the date of grant spread over the expected vesting period of the share options. The fair value of the share options at the date of grant was measured using the Black-Scholes model.

The inputs to the Black-Scholes model and the weighted average fair value of the share options granted during the year were as follows:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Number of options granted	919,350	–	124,800	–
Weighted average share price	26p	–	26p	–
Weighted average exercise price	25p	–	25p	–
Expected volatility	50%	–	50%	–
Expected life	3.1 years	–	3.1 years	–
Risk free interest rate	3%	–	3%	–
Weighted average fair value	10p	–	10p	–

Expected volatility is the estimate of the volatility of the share price over the expected life of the share options.



Notes to the Financial Statements

for the year ended 31 May 2009

48 Operating lease commitments

At the balance sheet date there were commitments for lease payments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Less than one year	141	298	113	48
Between one and five years	422	698	384	10
More than five years	–	107	–	–
	<u>563</u>	<u>1,103</u>	<u>497</u>	<u>58</u>

Operating leases are for land and buildings and motor vehicles and the lease terms are for periods of one to five years.

49 Capital expenditure commitments

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	<u>119</u>	<u>269</u>	<u>–</u>	<u>–</u>

Notes to the Financial Statements

for the year ended 31 May 2009



50 Note to the consolidated cash flow statement

	note	2009 £000	Group 2008 £000
Operating profit/(loss)			
Continuing operations		1,143	(23,507)
Discontinued operations		(224)	(2,011)
		<u>919</u>	<u>(25,518)</u>
Net cash from/(used in) operating activities			
Continuing operations		689	(22,542)
Discontinued operations		20	6,470
		<u>709</u>	<u>(16,072)</u>
Net cash from investing activities			
Continuing operations		349	11,554
Discontinued operations		(81)	(1,045)
Sale of discontinued operations	51	13,418	7,413
		<u>13,686</u>	<u>17,922</u>
Net cash used in financing activities			
Continuing operations		(29,729)	(89,188)

51 Net cash from sale of discontinued operations

	2009 £000	Group 2008 £000
Consideration received	14,616	14,964
Sale costs paid	(779)	(1,801)
Cash and cash equivalents sold	(419)	–
Product liability costs paid	–	(5,750)
	<u>13,418</u>	<u>7,413</u>



Notes to the Financial Statements

for the year ended 31 May 2009

52 Financial instruments

Fair value

The carrying amount of all the financial assets and liabilities approximate to their fair value as described below.

Cash and cash equivalents comprise bank balances and bank deposits with a maturity of three months or less.

Trade and other receivables are all receivable in less than one year. Trade receivables are generally receivable within 60 days.

Trade and other payables are all payable in less than one year. Trade payables are generally payable within 60 days.

Liquidity risk

The group and company hold substantial cash balances and have no debt. Cash is held on bank deposit for varying periods from overnight to six months to ensure all liabilities can be met as they fall due. The amount of the cash balances results in liquidity risk being very low.

Credit risk

The exposure to credit risk is limited to the carrying amount of cash and cash equivalents and trade and other receivables in the balance sheet as follows:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Cash and cash equivalents	16,218	31,451	15,766	31,302
Trade and other receivables	4,779	12,999	4,040	6,594
	<u>20,997</u>	<u>44,450</u>	<u>19,806</u>	<u>37,896</u>

The cash and cash equivalents in the balance sheet were on deposit with large banks with high credit ratings as follows:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Barclays Bank	16,175	31,328	15,766	31,302
Commonwealth Bank of Australia	43	123	–	–
	<u>16,218</u>	<u>31,451</u>	<u>15,766</u>	<u>31,302</u>

During the year ended 31 May 2009 significant deposits were made with the Royal Bank of Scotland. In the future significant deposits will be made with Barclays and may be made with the other three major United Kingdom clearing banks. The credit risk related to cash and cash equivalents is considered to be low due to the banks being large with high credit ratings.

Notes to the Financial Statements

for the year ended 31 May 2009



52 Financial instruments (continued)

Credit risk is primarily related to trade receivables. The group's businesses are concentrated on long term relationships with a small number of larger and long established original equipment manufacturers. Overdue receivables are regularly monitored and appropriate action is taken to collect payment. The group has historically incurred only low levels of unrecoverable receivables. Therefore credit risk is considered to be low.

The company has no trade receivables.

Trade receivables included the following amounts for the group's largest customers.

	Group	
	2009	2008
	£000	£000
Customer one	2,179	3,078
Customer two	1,138	4,128
Customer three	938	901
Other customers	113	3,575
	<u>4,368</u>	<u>11,682</u>

The age of trade receivables that have not been provided for was as follows:

	Group	
	2009	2008
	£000	£000
Not past due	3,939	9,790
Past due less than three months	429	1,184
Past due three to six months	-	98
Past due greater than six months	-	610
	<u>4,368</u>	<u>11,682</u>

The age of trade receivables that have been provided for was as follows:

	Group	
	2009	2008
	£000	£000
Past due less than three months	15	198
Past due three to six months	-	91
Past due greater than six months	-	219
	<u>15</u>	<u>508</u>

The movement in the provision for doubtful trade receivables was as follows:

	Group	
	2009	2008
	£000	£000
Opening balance	508	-
Charge for the year	-	508
Release for the year	(493)	-
Closing balance	<u>15</u>	<u>508</u>



52 Financial instruments (continued)

Interest rate risk

Cash is held on short term bank deposits which earn interest at variable money market deposit rates. At 31 May 2009 £15,500,000 was held on short term bank deposit with an interest rate of 0.3%. Sterling interest rates are very low and therefore interest rate risk is considered to be low.

The interest rate sensitivity of the expected annual interest income assuming a balance on deposit of £16,000,000 is as follows:

Interest rate	Expected annual interest income £000
1.5%	240
1.0%	160
0.5%	80

Foreign currency risk

The group's and company's reporting currency is sterling, which is also the company's functional currency. The functional currencies of the subsidiaries are sterling, Australian dollar and US dollar.

The group's results and financial position are affected by fluctuations in foreign currency exchange rates.

A significant proportion of continuing revenues are denominated in euros. A surplus of euros has been generated over the last two financial years, and this situation is expected to continue for the foreseeable future. The nature of the group's businesses means that there is limited visibility of future revenues in euros. Therefore when forward foreign exchange contracts are used to reduce the currency risk on the surplus euros expected to be generated, they are usually only for short term periods of no more than six months. If sterling were to strengthen significantly against the euro this could materially reduce the group's revenue and operating result.

Forward foreign exchange contracts may also be used to reduce the foreign currency risk on other transactions, for example the income tax payment resulting from the sale of the Australian Wireless Infrastructure business.

At 31 May 2009 there was an outstanding forward foreign exchange contract to buy AUD 1,250,000 for £565,000, which matured on 30 June 2009. The market value of this outstanding forward foreign exchange contract at 31 May 2009 was an asset of £55,000 which was recognised in the balance sheet. The forward foreign exchange contract was taken out to eliminate the foreign exchange risk on the payment of Australian income tax resulting from the sale of the Australian Wireless Infrastructure business.

At 31 May 2008 there were no outstanding forward foreign exchange contracts.

Nearly all cash is held in sterling.

Notes to the Financial Statements

for the year ended 31 May 2009



52 Financial instruments (continued)

The group's exposure to foreign currency risk for cash and cash equivalents, trade receivables and trade payables was as follows:

	Group					
	EUR £000	2009 SEK £000	USD £000	EUR £000	2008 SEK £000	USD £000
Cash and cash equivalents	345	-	-	-	-	6
Trade receivables	1,235	938	-	4,283	901	14
Trade payables	(907)	-	(165)	(1,959)	-	(362)
Net exposure	<u>673</u>	<u>938</u>	<u>(165)</u>	<u>2,324</u>	<u>901</u>	<u>(342)</u>

The sensitivity of the group operating profit from continuing operations to the euro to sterling exchange rate, assuming all other variables remain constant, is as follows:

If the euro had been one per cent stronger/weaker against sterling throughout the year ended 31 May 2009 then the group operating profit from continuing operations would have been £51,000 higher/lower.

The company has no significant exposure to foreign currency risk.

Capital management

The group's and company's capital is the total equity which comprises ordinary share capital and retained earnings. The group and company have no debt or undrawn debt facilities. At 31 May 2009 the group had a cash balance of £16,218,000 and the company had a cash balance of £15,766,000. The group and company have sufficient cash to cover working capital requirements and capital expenditure plans.

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide future returns for shareholders. Surplus cash has been returned to shareholders, and was done by the two special interim dividends of £29,729,000 in the year ended 31 May 2009 and £89,188,000 in the year ended 31 May 2008.



Notes to the Financial Statements

for the year ended 31 May 2009

53 Subsidiaries

The subsidiaries at 31 May 2009 were as follows:

Name of subsidiary	Country of incorporation	Description of equity held	Proportion held	Activity
Owned by Filtronic plc				
Filtronic Broadband Limited	UK	1p ordinary shares	100%	Design and manufacture of microwave products
Filtronic Comtek (UK) Limited	UK	12p ordinary shares	100%	Dormant company
Filtronic Holdings UK Limited	UK	£1 ordinary shares	100%	Holding company
Owned by Filtronic Holdings UK Limited				
Filtronic Pty Limited	Australia	A\$1 ordinary shares	100%	Dormant company
Filtronic Signal Solutions, Inc.	USA	\$1 common stock	100%	Holding company
Owned by Filtronic Signal Solutions, Inc.				
Filtronic Disposition Corp.	USA	\$0.10 common stock	100%	Dormant company



Annual General Meeting

The Annual General Meeting of Filtronic plc will be held at Marriott Hollins Hall Hotel, Hollins Hill, Baildon, Shipley, BD17 7QW on Friday 18 September 2009 at 11.00 am. The notice of meeting, together with details of business to be conducted at the meeting and a form of proxy, is being circulated to shareholders with this report.

Financial calendar

Provisional dates for the announcement of results:

Interim results to 30 November 2009

18 January 2010

Final results to 31 May 2010

26 July 2010

Website

The company's website address is www.filtronic.com

The website includes company news and investor sections. The interim and annual reports of the company can be downloaded from the website. The company's share price is also available on the website.

Shareholder enquiries and change of address

Shareholders should direct all enquiries regarding their shareholdings and notification of change of address to the company's registrars:

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA
Tel: 0870 162 3100

Capita Registrars also provide a range of online shareholder services at www.capitashareportal.com which shareholders may find useful.



Company secretary

M Moynihan

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2891064

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