



Filtronic plc Interim Report 2004





### Interim financial results

Sales for the six months ended 30 November 2003 were £121.5m (2002 £123.9m) and operating profit was £4.7m (2002 £1.4m). The prior year figure is stated after charging £2.7m of exceptional closure costs relating to the Santa Clara compound semiconductor facility.

Financing costs totalled £2.5m (2002 £1.4m), comprising net interest payable of £2.8m (2002 £4.4m), a net currency exchange gain of £0.8m (2002 £2.0m) and an exceptional loss on the repayment of debt of £0.5m (2002 £1.0m gain).

The profit before taxation was £2.2m (2002 £0.0m). After taxation charges of £1.5m (2002 £1.5m), the profit was £0.7m (2002 £1.5m loss). Basic earnings per share is 0.98p (2002 1.99p loss). Diluted earnings per share is 0.97p (2002 1.99p loss).

### Dividend

The Board is maintaining an interim dividend of 0.90p (2002 0.90p) per share payable on 1 April 2004 to shareholders on the register at 27 February 2004.

### Operations

On 26 January 2004, the company announced that the Board had implemented a reorganisation of the business segments. This ensures that Filtronic is better positioned to address the challenges of moving from the development stage into production with a broad range of new products including power amplifiers. Accordingly, the segmental analysis of the operating results is as follows:

Six months ended 30 November	Sales		Operating profit	
	2003 £m	2002 £m	2003 £m	2002 £m
Wireless infrastructure	<b>68.9</b>	81.5	<b>7.1</b>	13.4
Handset products	<b>33.3</b>	24.3	<b>7.7</b>	5.2
Integrated products	<b>18.7</b>	17.4	<b>(8.2)</b>	(14.2)
Central services	<b>1.9</b>	1.2	<b>(1.9)</b>	(3.0)
Inter segment	<b>(1.3)</b>	(0.5)	<b>-</b>	-
	<b>121.5</b>	123.9	<b>4.7</b>	1.4

Note that the operating loss of Integrated Products for the six months ended 30 November 2002 is stated after charging exceptional closure costs of £2.7m.



### **Wireless Infrastructure**

Sales in Wireless Infrastructure were similar to those achieved in the second half of the previous financial year. Pricing pressure from the major Original Equipment Manufacturers ("OEMs") has kept margins at the lower end of our expectations for transmit/receive modules where we have maintained our position as the world's leading independent supplier.

### **Handset Products**

Handset Products saw demand for mobile handsets increase substantially towards the end of 2003. We have maintained our leading market position resulting in increased sales of antennas. High volume flexible manufacturing techniques have enabled us to take increased market share and to achieve strong margins. These manufacturing processes are well suited to the increasing complexity of the products, many of which now include additional components.

### **Integrated Products**

Integrated Products embraces the segments previously disclosed as Electronic Warfare, Broadband Access and Compound Semiconductors and will rely on integrated compound semiconductor circuits from our Newton Aycliffe facility in its future products. The business will provide the high power gallium arsenide ("GaAs") power amplifier modules to the Wireless Infrastructure business for incorporation into the complete power amplifier and related products for the base station market. The company has developed a range of radio frequency ("RF") switches using our high performance proprietary GaAs switch process. Costs of the Newton Aycliffe compound semiconductor facility remain at approximately £1m per month.

Currently the largest area of Integrated Products sales is in defence, including products on the European Fighter Aircraft programme. Defence sales were slightly higher than the comparative period. We are continuing to improve our manufacturing processes for these products to increase volumes and improve margins.

### **Central Services**

Central Services incorporates the digital signal processing expertise of Filtronic Sigtek together with a small research and development team based in Saltaire and group administrative services. Part of the central development group which has been involved with the power amplifier products has now been reallocated, either to the Wireless



Infrastructure business or the Integrated Products business as appropriate, to facilitate the move to production quantities. These reallocations have increased the cost base of Wireless Infrastructure by approximately £2.5m in this financial year and will add almost £1m to the cost base of Integrated Products.

### Finance

Net cash outflow before the repayment of debt in the six months ended 30 November 2003 was £1.1m (2002 £4.9m inflow).

The company bought in \$13.6m (£8.5m) of 10% Senior Notes due 1 December 2005 during the period. At 30 November 2003, long term debt totalled £51.5m (2002 £74.9m), representing £52.4m (\$90.0m) of 10% Senior Notes due 1 December 2005, net of £0.9m of deferred debt issue costs.

At 30 November 2003, Filtronics had a cash balance of £4.4m and was using £7.6m of its £31m bank overdraft facility. Net gearing was 51% (2002 73%).

On 1 December 2003, the company redeemed a further \$16.0m of the Senior Notes by utilising £10m of short term bank financing. On 16 January 2004, Filtronics announced the refinancing of all of the remaining Senior Notes and the short term bank financing by a £50.0m Term Loan, which is being provided by Barclays Bank PLC and HSBC Bank PLC. The refinancing will take place on 17 February 2004. Foreign exchange risk on the refinancing has been eliminated by taking out a forward contract at an exchange rate of approximately \$1.82 = £1. An estimated total exceptional loss on repurchase of the Senior Notes of £2.5m will be recorded in the results for the year ending 31 May 2004. In a full financial year, the refinancing is expected to save approximately £1.5m at current interest rates. Following the refinancing, Filtronics will have overdraft and other short term borrowing facilities of approximately £9m available which the Board considers to be sufficient for the company's foreseeable requirements.

### Sale of Filtronics Solid State Electronic Warfare business and assets

On 31 December 2003, the disposal of the Electronic Warfare division of Filtronics Solid State to Teledyne Wireless, Inc. was completed for \$12.0m in cash. During the six months ended 30 November 2003, this part of the Integrated Products business segment contributed £3.4m of sales and £0.2m of operating profit.

After costs, this transaction is expected to show an exceptional profit on sale of approximately \$8.0m which will be recorded in the results for the year ending 31 May 2004.



## Foreign currency exchange rates

The weakening of the US dollar, and consequently the Chinese yuan which is linked to the US dollar, when compared to sterling, has had an adverse impact on our trading results. Had rates of exchange remained unchanged since 1 June 2003, sales for the six months ended 30 November 2003 would have been £3.0m higher and operating profit £0.6m higher when recorded in sterling.

## Trading outlook

Wireless Infrastructure forecast demand has increased in the last few weeks for transmit/receive modules and associated products for base stations. Pricing pressure, however, is likely to continue to restrict growth in sales and margins. We are continuing to increase our manufacturing capacity in China and are also aggressively pursuing additional OEM customers for transmit/receive modules for mobile base stations to strengthen further our market leading position.

Our new base station power amplifier products provide opportunities for further expansion and growth to this business segment. In September 2003, we were selected by a new OEM customer to supply initial quantities of an integrated RF head unit, incorporating power amplifiers, for 3G WCDMA base stations. We are currently supplying these initial units. Production quantities are expected to commence in the second half of this calendar year for this customer. Negotiations over pricing and volume requirements are not yet completed. Other power amplifier products are being developed for this customer and for three other OEMs.

In Handset Products the exceptional market share gained on certain mobile phone programmes in the first half of this financial year may not be maintained, with the possibility of a reduction in both sales and margins in the second half. However, we have a record number of antennas currently in development for mobile phone programmes. These antennas are based on new techniques with many featuring a range of additional components and including quad band designs. We expect to maintain our market leading position in Handset Products.

In Integrated Products, defence sales are expected to increase in the second half of the financial year with a consequent reduction in operating losses. Filtronics has been selected by a new customer as a preferred supplier, to manufacture pHEMT RF switches including a quad band version for cellular handset and wireless LAN applications. Volume manufacture is expected to commence in the first half of this calendar year increasing to



more than one million units per month by the end of the year. Power amplifier modules for applications in WIMAX base stations, satellite ground stations, phased array radars and point to point transceivers are in development in addition to those for wireless infrastructure applications. All wireless systems require radiated power to increase in proportion to the amount of information transmitted, increasing demand for power amplifiers.

Within Central Services, our digital signal processing expertise at Filtronic Sigtek will continue to be focussed on developing proprietary real time predistortion techniques for power amplifier applications and the new standard base band digital interfaces necessary for the next generation of products.

### Summary

Filtronic is a world leader in the design and manufacture of customised microwave electronic products. We have maintained our market leading position in our two main businesses. The facility at Newton Aycliffe provides the company with the compound semiconductor technology necessary in future microwave electronic products. The company's financial position has been strengthened with the return to profitability and the refinancing of our borrowings.

Professor J D Rhodes CBE FRS FREng  
Executive Chairman  
2 February 2004



		Unaudited 6 Months Ended 30 November 2003 £000	Unaudited 6 Months Ended 30 November 2002 £000	Audited Year Ended 31 May 2003 £000
<b>Sales</b>	1, 2	<b>121,520</b>	123,869	241,268
<b>Operating profit</b>	1, 2	<b>4,723</b>	1,448	6,715
Net interest payable		<b>(2,808)</b>	(4,451)	(7,995)
Net financing currency exchange gain		<b>766</b>	2,027	4,236
Exceptional (loss)/gain on repayment of debt		<b>(460)</b>	1,026	881
		<b>(2,502)</b>	(1,398)	(2,878)
<b>Profit on ordinary activities before taxation</b>		<b>2,221</b>	50	3,837
Taxation		<b>(1,494)</b>	(1,525)	(2,753)
<b>Profit/(loss) on ordinary activities after taxation</b>		<b>727</b>	(1,475)	1,084
Dividends		<b>(671)</b>	(669)	(2,006)
<b>Profit retained/(deficit) for the period</b>		<b>56</b>	(2,144)	(922)
<b>Earnings/(loss) per share</b>				
Basic	3	<b>0.98p</b>	(1.99)p	1.46p
Diluted	3	<b>0.97p</b>	(1.99)p	1.45p
<b>Dividend per share</b>		<b>0.90p</b>	0.90p	2.70p



## Consolidated Balance Sheet

	Unaudited 30 November 2003 £000	Unaudited 30 November 2002 £000	Audited 31 May 2003 £000
<b>Fixed assets</b>			
Intangible assets	33,529	33,459	35,769
Tangible assets	90,885	101,493	96,272
	<u>124,414</u>	<u>134,952</u>	<u>132,041</u>
<b>Current assets</b>			
Stocks	34,560	36,443	34,344
Debtors	57,900	58,257	50,908
Cash	4,389	3,026	6,522
	<u>96,849</u>	<u>97,726</u>	<u>91,774</u>
<b>Creditors: amounts falling due within one year</b>			
Borrowings	7,558	2,429	-
Other creditors	41,229	40,670	38,821
	<u>48,787</u>	<u>43,099</u>	<u>38,821</u>
<b>Net current assets</b>	<u>48,062</u>	<u>54,627</u>	<u>52,953</u>
<b>Total assets less current liabilities</b>	<u>172,476</u>	<u>189,579</u>	<u>184,994</u>
<b>Creditors: amounts falling due after one year</b>			
Borrowings	51,462	74,874	61,942
Provision for deferred tax	728	409	750
Deferred income	12,583	12,337	13,143
	<u>107,703</u>	<u>101,959</u>	<u>109,159</u>
<b>Net assets</b>	<u>107,703</u>	<u>101,959</u>	<u>109,159</u>
<b>Capital and reserves</b>			
Called up share capital	7,453	7,430	7,430
Share premium account	137,461	135,851	135,851
Shares to be issued	2,168	4,392	4,321
Revaluation reserve	106	106	106
Other reserve	788	-	828
Profit and loss account	(40,273)	(45,820)	(39,377)
<b>Equity shareholders' funds</b>	<u>107,703</u>	<u>101,959</u>	<u>109,159</u>



		Unaudited 6 Months Ended 30 November 2003 note £000	Unaudited 6 Months Ended 30 November 2002 £000	Audited Year Ended 31 May 2003 £000
<b>Net cash flow from operating activities</b>	A	<b>9,915</b>	16,413	38,528
<b>Returns on investment and servicing of finance</b>				
Net interest paid		<b>(2,880)</b>	(4,133)	(7,407)
<b>Tax paid</b>		<b>(1,961)</b>	(2,598)	(4,128)
<b>Capital expenditure</b>				
Purchase of tangible fixed assets		<b>(4,980)</b>	(4,382)	(8,198)
Sale of tangible fixed assets		<b>147</b>	851	1,378
Government grants received		<b>-</b>	37	1,319
<b>Net cash flow from capital expenditure</b>		<b>(4,833)</b>	(3,494)	(5,501)
<b>Equity dividends paid</b>		<b>(1,337)</b>	(1,333)	(2,002)
<b>Net cash flow before financing</b>		<b>(1,096)</b>	4,855	19,490
<b>Financing</b>				
Issue of shares		<b>83</b>	-	-
Loans repaid		<b>(8,463)</b>	(12,473)	(22,107)
<b>Net cash flow from financing</b>		<b>(8,380)</b>	(12,473)	(22,107)
<b>Decrease in cash</b>	B	<b>(9,476)</b>	(7,618)	(2,617)



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

	<b>Unaudited 6 Months Ended 30 November 2003 £000</b>	Unaudited 6 Months Ended 30 November 2002 £000	Audited Year Ended 31 May 2003 £000
<b>Operating profit</b>	<b>4,723</b>	1,448	6,715
Goodwill amortisation	<b>1,138</b>	1,063	2,348
Share compensation	<b>145</b>	218	146
Depreciation	<b>9,244</b>	9,088	19,322
Profit on sale of tangible fixed assets	<b>(111)</b>	(246)	(518)
Licence fee released	<b>(395)</b>	-	(66)
Government grants released	<b>(165)</b>	(115)	(525)
Movement in stocks	<b>(975)</b>	6,309	8,734
Movement in debtors	<b>(7,290)</b>	(4,038)	3,876
Movement in creditors	<b>3,601</b>	2,686	(1,504)
<b>Net cash flow from operating activities</b>	<b>9,915</b>	16,413	38,528

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

	<b>Unaudited 6 Months Ended 30 November 2003 £000</b>	Unaudited 6 Months Ended 30 November 2002 £000	Audited Year Ended 31 May 2003 £000
<b>Decrease in cash</b>	<b>(9,476)</b>	(7,618)	(2,617)
Cash flow from debt	<b>8,463</b>	12,473	22,107
<b>Change in net debt resulting from cash flows</b>	<b>(1,013)</b>	4,855	19,490
Non-cash movement	<b>(388)</b>	708	293
Currency exchange movement	<b>2,190</b>	4,846	9,483
<b>Movement in net debt in the period</b>	<b>789</b>	10,409	29,266
Opening net debt	<b>(55,420)</b>	(84,686)	(84,686)
<b>Closing net debt</b>	<b>(54,631)</b>	(74,277)	(55,420)



	<b>Unaudited 6 Months Ended 30 November 2003 £000</b>	Unaudited 6 Months Ended 30 November 2002 £000	Audited Year Ended 31 May 2003 £000
<b>Profit/(loss) on ordinary activities after taxation</b>	<b>727</b>	(1,475)	1,084
Currency exchange movement arising on consolidation	<b>(3,255)</b>	(4,283)	(590)
Currency exchange movement on loan	<b>1,515</b>	2,972	5,329
<b>Total recognised gains and losses for the period</b>	<b><u>(1,013)</u></b>	<u>(2,786)</u>	<u>5,823</u>



## Consolidated Reconciliation of Shareholders' Funds

	<b>Unaudited 6 Months Ended 30 November 2003 £000</b>	Unaudited 6 Months Ended 30 November 2002 £000	Audited Year Ended 31 May 2003 £000
<b>Profit/(loss) on ordinary activities after taxation</b>	<b>727</b>	(1,475)	1,084
Dividends	<b>(671)</b>	(669)	(2,006)
<b>Profit retained/(deficit) for the period</b>	<b>56</b>	(2,144)	(922)
Currency exchange movement arising on consolidation	<b>(3,255)</b>	(4,283)	(590)
Currency exchange movement on loan	<b>1,515</b>	2,972	5,329
Issue of shares	<b>2,381</b>	2,508	2,507
Shares to be issued			
– shares issued	<b>(2,298)</b>	(2,508)	(2,507)
– share compensation	<b>145</b>	218	146
<b>Movement in shareholders' funds</b>	<b>(1,456)</b>	(3,237)	3,963
Opening shareholders' funds	<b>109,159</b>	105,196	105,196
<b>Closing shareholders' funds</b>	<b>107,703</b>	101,959	109,159



## 1 Geographical origin segment analysis

	<b>Unaudited 6 Months Ended 30 November 2003 £000</b>	Unaudited 6 Months Ended 30 November 2002 £000	Audited Year Ended 31 May 2003 £000
<b>Sales</b>			
United Kingdom	<b>46,924</b>	53,214	102,807
Finland	<b>31,692</b>	32,051	64,954
United States of America	<b>25,390</b>	30,746	56,967
Australia	<b>2,363</b>	3,632	5,490
China	<b>23,945</b>	10,035	21,791
Inter segment	<b>(8,794)</b>	(5,809)	(10,741)
	<b><u>121,520</u></b>	<u>123,869</u>	<u>241,268</u>
<b>Operating profit</b>			
United Kingdom	<b>(5,587)</b>	(2,000)	(4,768)
Finland	<b>1,020</b>	4,281	5,960
United States of America	<b>147</b>	(3,144)	716
Australia	<b>(650)</b>	(734)	(2,004)
China	<b>9,793</b>	3,045	6,811
	<b><u>4,723</u></b>	<u>1,448</u>	<u>6,715</u>
The operating profit/(loss) in the United States of America is after charging exceptional closure costs:	<b><u>-</u></b>	<u>2,719</u>	<u>1,812</u>



## 2 Business segment analysis

	<b>Unaudited 6 Months Ended 30 November 2003 £000</b>	Unaudited 6 Months Ended 30 November 2002 £000	Audited Year Ended 31 May 2003 £000
<b>Sales</b>			
Wireless infrastructure	<b>68,854</b>	81,454	151,715
Handset products	<b>33,341</b>	24,324	51,242
Integrated products	<b>18,690</b>	17,402	37,443
Central services	<b>1,885</b>	1,219	1,771
Inter segment	<b>(1,250)</b>	(530)	(903)
	<b><u>121,520</u></b>	<u>123,869</u>	<u>241,268</u>
<b>Operating profit</b>			
Wireless infrastructure	<b>7,096</b>	13,443	20,962
Handset products	<b>7,757</b>	5,173	10,834
Integrated products	<b>(8,231)</b>	(14,203)	(19,344)
Central services	<b>(1,899)</b>	(2,965)	(5,737)
	<b><u>4,723</u></b>	<u>1,448</u>	<u>6,715</u>
The operating loss of integrated products is after charging exceptional closure costs:	<b><u>—</u></b>	<u>2,719</u>	<u>1,812</u>

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

The prior period comparative figures have been re-analysed to be consistent with the current period.



### 3 Earnings/(loss) per share

	Unaudited 6 Months Ended 30 November 2003 £000	Unaudited 6 Months Ended 30 November 2002 £000	Audited Year Ended 31 May 2003 £000
<b>Profit/(loss) on ordinary activities after taxation</b>	<u>727</u>	<u>(1,475)</u>	<u>1,084</u>
	000	000	000
<b>Weighted average number of shares</b>	<b>74,418</b>	74,186	74,245
Dilution effect of share options	<b>98</b>	–	–
Dilution effect of contingently issuable shares	<u>283</u>	<u>–</u>	<u>460</u>
<b>Diluted weighted average number of shares</b>	<u>74,799</u>	<u>74,186</u>	<u>74,705</u>
<b>Basic earnings/(loss) per share</b>	<u>0.98p</u>	<u>(1.99)p</u>	<u>1.46p</u>
<b>Diluted earnings/(loss) per share</b>	<u>0.97p</u>	<u>(1.99)p</u>	<u>1.45p</u>

### 4 Post balance sheet events

On 1 December 2003 \$16,033,000 of 10% Senior Notes were redeemed at a redemption price of \$1,025 per \$1,000 principal amount. After the redemption there were \$74,000,000 of Senior Notes outstanding.

On 31 December 2003 the electronic warfare business of Filtronics Solid State was sold for a cash consideration of \$12,000,000, resulting in an estimated profit on disposal of \$8,000,000.

On 16 January 2004 notice was given to holders of the 10% Senior Notes that the remaining \$74,000,000 of the Senior Notes will be redeemed on 17 February 2004 at a redemption price of \$1,025 per \$1,000 principal amount. A medium term bank loan of £50,000,000 will be drawn down to pay for the redemption and repay existing bank borrowings.



## 5 Interim financial information

The accounting policies adopted in preparing this interim financial information are consistent with those set out on pages 22 and 23 of the Filtronic plc Annual Report 2003.

The interim financial information contained in this report does not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985.

The figures for the year ended 31 May 2003 are extracted from the Financial Statements included in the Filtronic plc Annual Report 2003 dated 28 July 2003. Those Financial Statements, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies in England and Wales.

Copies of this Interim Report are available from the registered office of the company:

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## Introduction

We have been engaged by the company to review the financial information set out on pages 6 to 15 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 November 2003.

KPMG Audit Plc  
Chartered Accountants  
Leeds  
2 February 2004