

FILTRONIC PLC
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 NOVEMBER 2005
Underlying performance of continuing operations broadly in line with market expectations;
Handset Products division sale completed on 8 September for £45m; Foundry's growth meeting plans;
Group debt reduced; Dividend maintained

Filtronic plc ("Filtronic"), a leading global designer and manufacturer of customised microwave electronic subsystems for the wireless telecommunications and defence industries, announces its Interim Results for the six months ended 30 November 2005. Worldwide sites are in the UK (North of England, Yorkshire, Midlands, Scotland), USA, Finland, China and Hungary.

Filtronic is one of the world's leading independent suppliers of transmit/receive modules for base stations and a leading manufacturer of semiconductor switches for mobile handsets. The contribution to sales for continuing operations is: Wireless Infrastructure (80%), Defence Electronics (13%); Compound Semiconductors (7%).

Financial Highlights

- Revenue from continuing operations of £110.8m (2004: £103.2m)
- Operating loss from continuing operations before non recurring items of £0.4m (2004 loss: £1.3m)
- Operating loss from continuing operations of £2.9m (2004 loss: £1.3m)
- Loss on disposal of property of £0.4m (2004 gain: £2.4m)
- Net interest expense of £1.1m (2004: £2.0m)
- Pre-tax loss of £5.6m (2004 profit: £3.5m)
- Gain on disposal of discontinued operation £2.9m (2004: £nil)
- Diluted loss per share of 5.66p (2004: diluted EPS of 2.45p)
- Interim dividend maintained at 0.90p (2004: 0.90p), payable 31 March 2006
- Net debt of £12.0m (2004: £44.0m), with working capital facilities of £20.0m

Operational Highlights

- *Wireless Infrastructure:*
 - Maintaining market share in stable market for transmit / receive filters
 - Volume production of integrated power amplifier achieved
 - Sector now includes backhaul radio products
 - Operations in Australia closed with non recurring cost of £0.6m
- *Defence Electronics*
 - US operations integrated as Filtronic Signal Solutions with move to new facilities in New Hampshire, £1.5m inventory write down
 - Site in US sold for £1.4m
- *Compound Semiconductors:*
 - Performance in line with revenue plan with established demand whilst operational challenges remain
 - West coast sales office closed with non recurring cost of £0.4m
- Handset Products division sale completed on 8 September for £45m
- Capital expenditure of £6.8m (2004: £7.3m)

Outlook

Professor J. David Rhodes said: "Wireless Infrastructure is experiencing a flat market in the second half of the financial year with operating margins for the core transmit / receive filters at over 10%. Revenue growth awaits some delayed contracts and new OEM platforms moving into production.

Our market driven approach to Power Amplifiers is gaining traction and will be a growth mechanism in the coming financial year. New products in remote radio heads for 3G and WiMAX, some of which are at the prototype stage, will give growth in 2007.

In Defence Electronics, consolidation in the US is positioning the business favourably with old and new customers. Completion of large contracts will reduce revenue in the next financial year, with the lead time to production on sizeable new opportunities being 12 to 18 months.

In Compound Semiconductors, the loading of the foundry is increasing, with more customers expected. The foundry ramp up supports Compound Semiconductors reaching run rate breakeven at the end of this financial year. Additional capital expenditure of £4m is being undertaken to increase foundry capacity from 17,500 to nearly 27,000 wafers a year during the coming period.

The net cash flow for the coming half year is expected to be neutral after the additional capital expenditure committed for the foundry, without the benefit of £4m collected from overdue debtors in December 2005. The contingent consideration arising from the sale of the Handset Products division is expected to be around €10m (£7m) and is due to be received in August 2006."

Enquiries

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Chairman's Statement

Interim financial results

These results have been prepared for the first time on the basis of International Financial Reporting Standards.

Revenue for continuing operations for the six months ended 30 November 2005 was £110.8m (2004 £103.2m) and the operating loss for continuing operations was £2.9m (2004 £1.3m). Loss on disposal of property was £0.4m (2004 profit £2.4m).

Net financing costs totalled £2.2m (2004 £1.9m) including net interest payable £1.1m (£2004 £2.0m) and a net currency exchange loss of £0.4m (2004 gains £0.4m).

The loss before taxation was £5.6m (2004 profit £3.5m). After taxation charges of £1.6m (2004 £1.7m) and gain on sale of discontinued operations of £2.9m (2004 £nil), the loss was £4.2m (2004 profit £1.8m). Basic and diluted loss per share are 5.66p (2004 earnings 2.46p and 2.45p respectively).

Dividend

The Board is maintaining an interim dividend of 0.90p (2004 0.90p) per share payable on 31 March 2006 to shareholders on the register on 24 February 2006.

Operations

The Group completed the sale of the Handset Products division in September 2005 for an initial consideration of £45.5m, along with a potential further consideration on an earn out based on revenue for the year ending 31 May 2006. The proceeds were used to repay the company's long term debt and enabled the group's working capital facilities to be increased to £20m.

Overall continuing operations grew 7% over the comparable period, and underlying operating performance was near breakeven for the period after excluding non recurring costs of £2.5m arising on the closure of operations in two sites and an inventory write down in the US Defence activities.

The segmental analysis of the operating results for continuing operations is as follows:

6 months ended 30 November	Sales		Operating (loss) / profit	
	2005 £m	2004 £m	2005 £m	2004 £m
Wireless Infrastructure	89.4	86.7	5.6	7.1
Defence Electronics	15.3	15.2	(0.7)	1.2
Compound Semiconductors	8.5	3.6	(5.1)	(6.3)
Central Services	-	-	(2.1)	(2.7)
Inter segment	(2.4)	(2.3)	-	-
Unallocated pension charge	-	-	(0.6)	(0.6)
	-----	-----	-----	-----
	110.8	103.2	(2.9)	(1.3)
	=====	=====	=====	=====

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

Wireless Infrastructure

This business segment provides transmit / receive filters, power amplifiers and backhaul radio products for mobile base stations to all of the leading Original Equipment Manufacturers (OEMs).

It has maintained its market share at 28% of the available market, in a market that is stable, with new programmes for major customers under development to enter production in the second half of the coming financial year. We are seeing continued strength of demand for backhaul radio products as OEMs continue to outsource their requirements.

Significant opportunities with OEMs for power amplifiers are starting development, along with new OEM requirement secured for remote radio heads using optical interfaces for all 3G bands plus the expansion bands and for WiMAX at both 3.5GHz and 2.5GHz.

The operations in Australia have been closed, resulting in non recurring costs of £0.6m.

Defence Electronics

Defence Electronics covers the Group's defence interests in the UK and the US. The latter were brought together as Filtronic Signal Solutions and strategy has been repositioned to take advantage of the integration of its expertise in digital and analogue signal processing. The main manufacturing plant was moved to new facilities in New Hampshire and the previous manufacturing site has been sold. As a result of these changes, the management team has changed and an inventory write down of £1.5m has been made.

Compound Semiconductors

Compound Semiconductors are principally the operations established at the foundry at Newton Aycliffe, UK. This segment's performance is in line with our revenue plan. Its principal product is semiconductor switches for mobile handsets, for which the demand is now established, with a second customer secured. Wafer production has increased substantially in the period and operational challenges remain as capacity expansion continues faster than originally planned to meet demand. Its sales office based on the West coast of the USA has been closed, with non recurring costs of £0.4m.

Finance

Net finance costs were £2.2m (2004 £1.9m) reflecting a reduced interest expense of £1.1m (2004 £2.0m), bank loan renewal fee of £0.3m (2004 £nil) and currency exchange losses of £0.4m (2004 gains £0.4m). Working capital facilities total £20m comprising revolving committed facilities of £18m and overdraft facilities of £2m.

Capital expenditure

Capital expenditure in the six months to 30 November 2005 was £6.8m (2004 £7.3m) including investment in additional capacity in the foundry, the establishment of the new site for Defence Electronics in the US and the start of the new facility in Hungary for Wireless Infrastructure.

Cash flow and closing net debt

The Group's long term loan of £44.0m was repaid from the proceeds of the sale of the Handset Products division. Net cash from operating activities was an outflow of £5.1m (2004 inflow £10.1m) reflecting increased working capital of £6.4m (2004 £1.6m). This included some £4m of overdue and non trading debtors that were collected in December 2005 and increased creditor payments in the period. Capital expenditure net of disposals of £5.1m and financing and tax payments of £2.6m resulted in a closing net debt of £12.0m (2004 £44.0m).

Outlook

Wireless Infrastructure is experiencing a flat market in the second half of the financial year with operating margins for the core transmit / receive filters at over 10%. Revenue growth awaits some delayed contracts and new OEM platforms moving into production.

Our market driven approach to Power Amplifiers is gaining traction and will be a growth mechanism in the coming financial year. New products in remote radio heads for 3G and WiMAX, some of which are at the prototype stage, will give growth in 2007.

In Defence Electronics, consolidation in the US is positioning the business favourably with old and new customers. Completion of large contracts will reduce revenue in the next financial year, with the lead time to production on sizeable new opportunities being 12 to 18 months.

In Compound Semiconductors, the loading of the foundry is increasing, with more customers expected. The foundry ramp up supports Compound Semiconductors reaching run rate breakeven at the end of this financial year. Additional capital expenditure of £4m is being undertaken to increase foundry capacity from 17,500 to nearly 27,000 wafers a year during the coming period.

The net cash flow for the coming half year is expected to be neutral after the additional capital expenditure committed for the foundry, without the benefit of £4m collected from overdue debtors in December 2005. The contingent consideration arising from the sale of the Handset Products division is expected to be around €10m (£7m) and is due to be received in August 2006.

Professor J D Rhodes CBE FRS FREng
Chairman
30 January 2006

Independent Review Report to Filtronic plc

Introduction

We have been engaged by the company to review the financial information consisting of the income statement, statement of recognised income and expense, balance sheet, cash flow statement and notes 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.

As disclosed in basis of preparation note (note 11) to the financial information, the next annual financial statements of the group will be prepared in accordance with IFRS as adopted for use in the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. As the basis of preparation note to the financial information explains, there is a possibility that the directors may determine that some changes to the accounting policies adopted in preparing the financial information are necessary when the group prepares its full annual financial statements for the first time in accordance with IFRS as adopted for use in the European Union.

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 2005.

KPMG Audit Plc
Chartered Accountants
Leeds
30 January 2006

Consolidated Income Statement

6 months ended 30 November 2005

		Continuing operations	Discontinued operation	Total
	note	£000	£000	£000
Revenue		110,753	13,645	124,398
		=====	=====	=====
Operating (loss)/profit	3	(2,916)	(85)	(3,001)
(Loss)/gain on disposal of property		(376)	–	(376)
Finance income	4	94	–	94
Finance costs	5	(2,278)	–	(2,278)
		-----	-----	-----
(Loss)/profit before taxation		(5,476)	(85)	(5,561)
Taxation		(1,569)	–	(1,569)
		-----	-----	-----
(Loss)/profit after taxation		(7,045)	(85)	(7,130)
Gain on sale of discontinued operation	6	–	2,894	2,894
		-----	-----	-----
(Loss)/profit for the period		(7,045)	2,809	(4,236)
		=====	=====	=====
(Loss)/earnings per share				
Basic	7	(9.41)p	3.75p	(5.66)p
Diluted	7	(9.41)p	3.75p	(5.66)p

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

Consolidated Income Statement

6 months ended 30 November 2004				
		Continuing	Discontinued	Total
	note	operations	operation	
		£000	£000	£000
Revenue		103,168	26,973	130,141
		=====	=====	=====
Operating (loss)/profit	3	(1,329)	4,311	2,982
(Loss)/gain on disposal of property		2,372	–	2,372
Finance income	4	431	–	431
Finance costs	5	(2,281)	–	(2,281)
		-----	-----	-----
(Loss)/profit before taxation		(807)	4,311	3,504
Taxation		(1,668)	–	(1,668)
		-----	-----	-----
(Loss)/profit after taxation		(2,475)	4,311	1,836
Gain on sale of discontinued operation	6	–	–	–
		-----	-----	-----
(Loss)/profit for the period		(2,475)	4,311	1,836
		=====	=====	=====
(Loss)/earnings per share				
Basic	7	(3.31)p	5.77p	2.46p
Diluted	7	(3.31)p	5.76p	2.45p

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

Consolidated Income Statement

Year ended 31 May 2005				
		Continuing	Discontinued	Total
	note	operations	operation	
		£000	£000	£000
Revenue		212,891	49,974	262,865
		=====	=====	=====
Operating (loss)/profit	3	5,650	5,554	11,204
(Loss)/gain on disposal of property		2,356	–	2,356
Finance income	4	607	–	607
Finance costs	5	(4,624)	–	(4,624)
		-----	-----	-----
(Loss)/profit before taxation		3,989	5,554	9,543
Taxation		(241)	–	(241)
		-----	-----	-----
(Loss)/profit after taxation		3,748	5,554	9,302
Gain on sale of discontinued operation	6	–	–	–
		-----	-----	-----
(Loss)/profit for the period		3,748	5,554	9,302
		=====	=====	=====
(Loss)/earnings per share				
Basic	7	5.01p	7.43p	12.44p
Diluted	7	5.00p	7.41p	12.41p

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

Consolidated Statement of Recognised Income and Expense

	6 months	6 months	Year
	ended	ended	ended
	30 November	30 November	31 May
	2005	2004	2005
	£000	£000	£000
(Loss)/profit for the period	(4,236)	1,836	9,302
Actuarial gain/(loss) on defined benefit pension scheme	1,304	(3,584)	(6,784)
Currency translation movement arising on consolidation	3,149	471	1,314
	-----	-----	-----
Total recognised income and expense for the period	217	(1,277)	3,832
	=====	=====	=====

Consolidated Balance Sheet

	30 November 2005 £000	30 November 2004 £000	31 May 2005 £000
Non-current assets			
Goodwill	2,944	32,024	31,400
Property, plant and equipment	69,716	81,601	79,793
Deferred tax	2,433	–	2,309
	-----	-----	-----
	75,093	113,625	113,502
	-----	-----	-----
Current assets			
Inventories	33,808	30,862	34,802
Trade and other receivables	63,016	58,731	67,924
Income tax receivable	–	686	–
Cash and cash equivalents	3,955	6,322	6,563
	-----	-----	-----
	100,779	96,601	109,289
	-----	-----	-----
Total assets	175,872	210,226	222,791
	-----	-----	-----
Current liabilities			
Bank overdraft	–	2,369	5,958
Bank revolving credit	16,000	–	–
Bank loan	–	8,000	11,000
Trade and other payables	39,283	40,224	49,844
Income tax payable	2,387	1,954	1,880
	-----	-----	-----
	57,670	52,547	68,682
	-----	-----	-----
Non-current liabilities			
Bank loan	–	40,000	33,000
Defined benefit pension	15,700	15,804	16,149
Deferred income	9,168	12,295	10,730
Deferred tax	665	608	661
	-----	-----	-----
	25,533	68,707	60,540
	-----	-----	-----
Total liabilities	83,203	121,254	129,222
	-----	-----	-----
Net assets	92,669	88,972	93,569
	=====	=====	=====
Equity			
Share capital	7,484	7,484	7,484
Share premium	139,172	139,172	139,172
Translation reserve	4,011	554	1,302
Other reserve	6,024	1,937	5,584
Accumulated losses	(64,022)	(60,175)	(59,973)
	-----	-----	-----
Total equity	92,669	88,972	93,569
	=====	=====	=====

Consolidated Cash Flow Statement

	6 months ended 30 November 2005 £000	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Cash flows from operating activities			
(Loss)/profit for the period	(4,236)	1,836	9,302
Gain on sale of discontinued operation	(2,894)	–	–
Taxation	1,569	1,668	241
Finance costs	2,278	2,281	4,624
Finance income	(94)	(431)	(607)
Loss/(gain) on disposal of property	376	(2,372)	(2,356)
	-----	-----	-----
Operating (loss)/profit	(3,001)	2,982	11,204
Defined benefit pension charge/(credit)	1,849	1,476	(422)
Defined benefit pension contributions paid	(1,260)	(855)	(2,029)
Share-based payment	230	129	291
Depreciation	5,866	7,235	14,572
Loss/(gain) on disposal of plant and equipment	278	(136)	(235)
Licence fee released	(1,167)	(1,167)	(2,335)
Government grants released	(395)	(296)	(693)
Government grants received	–	1,000	1,000
Government grants repaid	–	(150)	(150)
Movement in inventories	(2,010)	5,466	2,107
Movement in trade and other receivables	(2,248)	(4,915)	(13,249)
Movement in trade and other payables	(2,175)	1,034	10,384
	-----	-----	-----
Cash flow from operations	(4,033)	11,803	20,445
Taxation paid	(1,041)	(1,662)	(1,846)
	-----	-----	-----
Net cash from operating activities	(5,074)	10,141	18,599
	-----	-----	-----

Consolidated Cash Flow Statement continued

	6 months ended 30 November 2005 note	6 months ended 30 November 2004	Year ended 31 May 2005
	£000	£000	£000
Net cash from operating activities	(5,074)	10,141	18,599
Cash flows from investing activities			
Proceeds from sale of property	1,383	6,358	6,349
Proceeds from sale of plant and equipment	282	1,004	1,555
Interest received	94	45	85
Acquisition of property, plant and equipment	(6,776)	(7,255)	(12,963)
Sale of discontinued operation	42,523	–	–
Net cash from investing activities	37,506	152	(4,974)
Cash flows from financing activities			
Bank revolving credit drawn	16,000	–	–
Bank loan repaid	(44,000)	(2,000)	(6,000)
Bank loan renewal fee paid	(343)	–	–
Interest paid	(1,244)	(2,063)	(4,189)
Dividends paid	(1,347)	(1,344)	(2,018)
Net cash from financing activities	(30,934)	(5,407)	(12,207)
Increase in cash and cash equivalents	1,498	4,886	1,418
Currency exchange gain on sale of discontinued operation	1,007	–	–
Currency exchange movement	845	366	486
Opening cash and cash equivalents	605	(1,299)	(1,299)
Closing cash and cash equivalents	9	3,953	605

Notes to the Interim Financial Information

1 Business segment analysis

	6 months ended 30 November 2005 £000	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Revenue			
Wireless Infrastructure	89,370	86,631	177,733
Defence Electronics	15,337	15,216	31,590
Compound Semiconductors	8,466	3,610	8,572
Inter segment	(2,420)	(2,289)	(5,004)
	-----	-----	-----
Continuing operations	110,753	103,168	212,891
Handset Products – discontinued operation	13,645	26,973	49,974
	-----	-----	-----
	124,398	130,141	262,865
	=====	=====	=====
Operating (loss)/profit			
Wireless Infrastructure	5,548	7,062	17,524
Defence Electronics	(668)	1,197	3,070
Compound Semiconductors	(5,055)	(6,289)	(11,701)
Central Services	(2,152)	(2,678)	(5,694)
Unallocated pension (charge)/credit	(589)	(621)	2,451
	-----	-----	-----
Continuing operations	(2,916)	(1,329)	5,650
Handset Products – discontinued operation	(85)	4,311	5,554
	-----	-----	-----
Operating (loss)/profit	(3,001)	2,982	11,204
(Loss)/gain on disposal of property	(376)	2,372	2,356
Finance income	94	431	607
Finance costs	(2,278)	(2,281)	(4,624)
	-----	-----	-----
(Loss)/profit before taxation	(5,561)	3,504	9,543
Taxation	(1,569)	(1,668)	(241)
	-----	-----	-----
(Loss)/profit after taxation	(7,130)	1,836	9,302
	=====	=====	=====

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

2 Geographical origin segment analysis

	6 months ended 30 November 2005 £000	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Revenue			
United Kingdom	56,661	54,614	106,447
Finland	22,133	16,223	31,214
Hungary	18	–	–
United States of America	26,234	27,030	65,880
China	32,505	23,647	57,147
Australia	1,026	2,405	4,300
Inter segment	(27,824)	(20,751)	(52,097)
	-----	-----	-----
Continuing operations	110,753	103,168	212,891
	-----	-----	-----
Finland	4,405	13,374	23,220
China	11,067	14,990	29,841
Inter segment	(1,827)	(1,391)	(3,087)
	-----	-----	-----
Discontinued operation	13,645	26,973	49,974
	-----	-----	-----
	124,398	130,141	262,865
	=====	=====	=====
Operating (loss)/profit			
United Kingdom	(9,439)	(10,077)	(20,798)
Finland	3,040	2,227	3,041
Hungary	(558)	–	–
United States of America	(2,411)	1,080	9,538
China	7,430	6,750	16,198
Australia	(978)	(1,309)	(2,329)
	-----	-----	-----
Continuing operations	(2,916)	(1,329)	5,650
	-----	-----	-----
Finland	(3,473)	(137)	(2,923)
China	3,388	4,448	8,477
	-----	-----	-----
Discontinued operation	(85)	4,311	5,554
	-----	-----	-----
Operating (loss)/profit	(3,001)	2,982	11,204
(Loss)/gain on disposal of property	(376)	2,372	2,356
Finance income	94	431	607
Finance costs	(2,278)	(2,281)	(4,624)
	-----	-----	-----
(Loss)/profit before taxation	(5,561)	3,504	9,543
Taxation	(1,569)	(1,668)	(241)
	-----	-----	-----
(Loss)/profit after taxation	(7,130)	1,836	9,302
	=====	=====	=====

3 Reorganisation costs

Operating (loss)/profit is stated after charging reorganisation costs:

	6 months	6 months	Year
	ended	ended	ended
	30 November	30 November	31 May
	2005	2004	2005
	£000	£000	£000
Closure costs of the Wireless			
Infrastructure facility in Australia	560	–	–
Closure costs of the Compound			
Semiconductors facility in California, USA	406	–	–
Inventory write down in the US Defence			
Electronics business	1,512	–	–
	-----	-----	-----
	2,478	–	–
	=====	=====	=====

The write down of the inventory in the US Defence Electronics business has arisen as a result of its strategic repositioning, and after its move to a new facility.

4 Finance income

	6 months	6 months	Year
	ended	ended	ended
	30 November	30 November	31 May
	2005	2004	2005
	£000	£000	£000
Interest income	94	45	85
Currency exchange gains	–	386	522
	-----	-----	-----
	94	431	607
	=====	=====	=====

5 Finance costs

	6 months	6 months	Year
	ended	ended	ended
	30 November	30 November	31 May
	2005	2004	2005
	£000	£000	£000
Interest expense	(1,244)	(2,063)	(4,189)
Bank loan renewal fee	(343)	–	–
Net pension finance cost	(266)	(218)	(435)
Currency exchange losses	(425)	–	–
	-----	-----	-----
	(2,278)	(2,281)	(4,624)
	=====	=====	=====

6 Gain on sale of discontinued operation

On 8 September 2005 the Handset Products business was sold. The sale is analysed as follows:

	£000
Consideration and costs	
Cash consideration	47,113
Currency exchange gain on consideration	1,007
Sale costs	(2,711)
Currency translation adjustment	53

	45,462
	=====
Assets and liabilities sold	
Goodwill	28,466
Property, plant and equipment	9,425
Inventories	4,064
Trade and other receivables	10,110
Cash and cash equivalents	208
Trade and other payables	(9,667)
Income tax payable	(38)

Net assets sold	42,568
Gain on sale of discontinued operation	2,894

	45,462
	=====

In September 2005 cash consideration of £45,442,000 was received. The balance of £1,671,000 was received in December 2005. Further cash consideration may be receivable in August 2006 depending on the revenue achieved by the Handset Products business in the period 1 June 2005 to 30 June 2006. The amount of this contingent consideration will be recognised at 31 May 2006.

The Handset Products business had the following cash flows:

	6 months ended 30 November 2005 £000	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
Cash flows from operating activities	(1,567)	6,090	10,358
	=====	=====	=====
Cash flows from investing activities	(973)	(3,120)	(4,471)
	=====	=====	=====

7 (Loss)/earnings per share

	6 months ended 30 November 2005 £000	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
(Loss)/profit for the period			
– continuing operations	(7,045)	(2,475)	3,748
– discontinued operation	2,809	4,311	5,554
	-----	-----	-----
(Loss)/profit for the period	(4,236)	1,836	9,302
	=====	=====	=====
	000	000	000
Weighted average number of shares	74,842	74,753	74,797
Dilution effect of share options	238	33	84
Dilution effect of contingently issuable shares	–	89	45
	-----	-----	-----
Diluted weighted average number of shares	75,080	74,875	74,926
	=====	=====	=====
Basic (loss)/earnings per share			
– continuing operations	(9.41)p	(3.31)p	5.01p
– discontinued operation	3.75p	5.77p	7.43p
	-----	-----	-----
Basic (loss)/earnings per share	(5.66)p	2.46p	12.44p
	=====	=====	=====
Diluted (loss)/earnings per share			
– continuing operations	(9.41)p	(3.31)p	5.00p
– discontinued operation	3.75p	5.76p	7.41p
	-----	-----	-----
Diluted (loss)/earnings per share	(5.66)p	2.45p	12.41p
	=====	=====	=====

8 Dividends

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

		6 months ended 30 November 2005 £000	6 months ended 30 November 2004 £000	Year ended 31 May 2005 £000
	Per share			
Final dividend year ended				
31 May 2004	1.80p	–	1,344	1,344
Interim dividend year ended				
31 May 2005	0.90p	–	–	674
Final dividend year ended				
31 May 2005	1.80p	1,347	–	–
		-----	-----	-----
		1,347	1,344	2,018
		=====	=====	=====

The interim dividend declared for the year ending 31 May 2006 is 0.90p per share payable on 31 March 2006 to shareholders on the register on 24 February 2006.

9 Cash and cash equivalents and net debt

	30 November 2005 £000	30 November 2004 £000	31 May 2005 £000
Cash and cash equivalents	3,955	6,322	6,563
Bank overdraft	–	(2,369)	(5,958)
	-----	-----	-----
Cash and cash equivalents in the cash flow statement	3,955	3,953	605
	-----	-----	-----
Bank revolving credit	(16,000)	–	–
Bank loan – current	–	(8,000)	(11,000)
– non-current	–	(40,000)	(33,000)
	-----	-----	-----
Debt	(16,000)	(48,000)	(44,000)
	-----	-----	-----
	-----	-----	-----
Net debt	(12,045)	(44,047)	(43,395)
	=====	=====	=====

10 Reconciliation of movements in equity

	6 months	6 months	Year
	ended	ended	ended
	30 November	30 November	31 May
	2005	2004	2005
	£000	£000	£000
Opening equity	93,569	91,464	91,464
Total recognised income and expense for the period	217	(1,277)	3,832
Share-based payments	230	129	291
Dividends	(1,347)	(1,344)	(2,018)
	-----	-----	-----
Closing equity	92,669	88,972	93,569
	=====	=====	=====

11 Basis of preparation

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

The consolidated financial statements for the year ended 31 May 2006 will be the group's first full IFRS financial statements. The date of transition to IFRS is 1 June 2004. The financial information for the comparative periods has been restated on the basis of IFRS. Reconciliations from UK GAAP to IFRS of the profit for the period and total equity for the comparative periods are set out in note 12. Explanations of the differences between the UK GAAP and the IFRS financial statements are provided in note 13. The group has elected to take certain IFRS first-time adoption options and these are described in note 14.

The accounting policies adopted when reporting under UK GAAP have been revised where necessary to comply with IFRS. The accounting policies adopted by the group under IFRS are laid out in note 15. The accounting policies have been applied consistently to all the periods presented in these interim financial statements.

12 Reconciliations from UK GAAP to IFRS

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

Profit for the period

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

Total equity

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

13 Differences between the UK GAAP and the IFRS financial statements

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

Presentation of financial statements

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

Segment reporting

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

Goodwill

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

Share-based payment

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

Defined benefit pension

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

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

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

Dividends

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

Translation reserve

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

Revaluation reserve

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

14 IFRS first-time adoption options

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

Business combinations

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

Share-based payments

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

Employee benefits

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

Foreign exchange

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

15 Accounting policies

Basis of accounting

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

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

The accounting policies have been applied consistently throughout the group.

Basis of consolidation

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

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

Intra group transactions and balances are eliminated on consolidation.

Segment reporting

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

Foreign currency translation

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

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

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

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

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

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

Revenue

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

Research and development

All research costs are expensed as incurred.

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

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

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

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

Government grants

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

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

Operating leases

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

Share-based payments

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

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

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

Goodwill

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and less any accumulated impairment losses. Depreciation is provided on a straight line basis over the estimated useful lives of the assets as follows:

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

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

Inventories

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

Trade receivables

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

Cash and cash equivalents

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

Net debt

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

Dividends

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

Share capital

Ordinary shares issued are classified as share capital in equity.

Pension schemes

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

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

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

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

Deferred taxation

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

16 Interim financial information

The comparative financial information previously published under UK GAAP has been restated in accordance with IFRS. Reconciliations of this restatement are given in note 12.

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 financial information for the year ended 31 May 2005 is based on the UK GAAP Financial Statements included in the Filtronic plc Annual Report 2005 dated 1 August 2005. 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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