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FILTRONIC PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MAY 2005
Results in line with market expectations; Group returned to growth; Bank facilities amended and rescheduled; Progress on sale of Handset Products division

Filtronic plc ("Filtronic"), a leading global designer and manufacturer of customised microwave electronic subsystems for the wireless telecommunications and defence industries, announces its Preliminary Results for the year ended 31 May 2005. Worldwide sites are in the UK (North of England, Yorkshire, Midlands, Scotland), USA, Finland, China and Australia.

Filtronic is one of the world's leading independent suppliers of transmit/receive modules for base stations and the world's leading manufacturer of mobile handset antennas. The contribution to sales is: Wireless Infrastructure (64%), Handset Products (19%), Integrated Products (17%).

Financial Highlights
- Group sales £262.9m (2004: £245.1m)
- Operating profit £6.8m (2004: £4.8m)
- Pre-tax profit £5.5m (2004: £0.9m)
- Basic EPS 7.10p per share (2004: loss per share 2.38p)
- Diluted EPS 7.09p (2004: loss per share 2.38p)
- Final dividend maintained at 1.80p (2004: 1.80p), payable 1 November 2005, making total dividend 2.70p (2004: 2.70p)
- Net gearing reduced from 51% to 41%
- Bank facilities amended with Barclays and ABN AMRO and repayment rescheduled over five years

Operational Highlights
- *Wireless Infrastructure*:
  - Dominating market for bases station filters with 28% market share
  - Supplying production quantities to all major OEMs
  - Started supply of integrated power amplifiers for base stations
- *Integrated Products*:
  - High volume semiconductor contract supported by round the clock working at the foundry at Newton Aycliffe
  - New contract started with ITT for electronic warfare subsystem in US
  - New point to point microwave links being sold to 3 OEMs
- *Handset Products*:
  - In period of exclusive negotiations for its disposal
- *Board appointments:*
  John Roulston as Group CEO on 6 September 2004, Charles Hindson as Group Finance Director on 14 December 2004 and Iain Gibson joined on 21 February 2005 and became CEO of the Integrated Products division on 6 April 2005.
- Disposal of sites in Merrimack USA and Brisbane Australia for £6.3m
- Capital expenditure of £13.0m (2004 £11.7m)

Outlook

Professor J. David Rhodes said: "We see continued growth prospects for the group. Wireless Infrastructure is experiencing a substantial market recovery and the strategic efforts undertaken over the past few years in power amplifiers is increasing our presence in this important market sector. In Integrated Products, we have acquired volume contracts in compound semiconductors for our foundry at Newton Aycliffe, which now requires to meet the ramp up in its production, and strengthened our defence position in the United States. For the coming year, the group is well positioned for growth, due to strengthening markets in the communications sector."

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Chairman's Statement

I am pleased to report that over the year the group has returned to growth, with sales for the year ended 31 May 2005 increased by 7% to £262.9m (2004 £245.1m) and operating profit increased by 42% to £6.8m (2004 £4.8m). The profit before tax was £5.5m (2004 £0.9m) and the profit after tax was £5.3m (2004 £1.8m loss).

The Board is therefore proposing to maintain a final dividend of 1.80p (2004 1.80p) payable on 1 November 2005 to shareholders on the register at 23 September 2005.

This year, it has been satisfying to observe the progress made in both the Wireless Infrastructure and Integrated Product divisions. Wireless Infrastructure achieved sales growth of 16% and with continuing attention to manufacturing costs increased operating profit by 68%, year on year. The Integrated Products division, where sales grew by 26% (after the exclusion of the business sold in December 2003), again continued the trend of reducing operating losses achieving 26% reduction year on year.

In July 2005, the Company arranged an amended bank facility with Barclays and ABN AMRO, rescheduling these facilities over a five year term with revised financial covenants.

The focus during the main part of the year for the Handset Products division has been its preparation for disposal. I am now pleased to announce that exclusive negotiations are progressing.

The year has also been active for the company in strengthening the Board. The role of Chairman and Group CEO has been divided. John Roulston joined as Group CEO on 6 September 2004 and Charles Hindson as Group Finance Director on 14 December 2004. Iain Gibson joined on 21 February 2005 and became CEO of the Integrated Products division on 6 April 2005.

During the coming year, the Board intends to appoint new non-executive directors and has engaged external advisors to assist with the appointments. I am, though, gratified that current non-executive directors are willing to offer themselves for re-election at the annual general meeting until their successors are appointed and, for this interim period, to bring their independent advice to the company's affairs.

Looking to the coming year, we see continued growth prospects for the group. Wireless Infrastructure is experiencing a substantial market recovery and the strategic efforts undertaken over the past few years in power amplifiers are increasing our presence in this important market sector. In Integrated Products, we have acquired volume contracts in compound semiconductors for our foundry at Newton Aycliffe, which now requires to meet the ramp up in its production, and strengthened our defence position in the United States through a contract for supply of sub-systems for upgrade of widely deployed airborne electronic countermeasures equipment.

I would also like to thank all of our employees across our different operations throughout the world for their continued dedication and contribution to the business, reflecting in particular on the difficult changes that have take place in reducing manufacturing at the Shipley site in the UK. For the coming year, the group is well positioned for growth, due to strengthening markets in the communications sector.

Professor J David Rhodes CBE FRS FREng
Chairman
1 August 2005

Group CEO's Operating Review

Summary

My first year with Filtronic plc has been one of growth and consolidation within the group, supported by returning markets.

Wireless Infrastructure has shown sustained above market growth for its filter-based transmit-receive modules and made further progress in establishing itself as a force in the base-station power amplifier market, a strategic objective in which we have invested. The inherent technical and manufacturing strengths in the division continue to serve it in maintaining margins, combating price pressure with design innovation and opening new product opportunities through increased integration of base-station functions.

Integrated Products has continued to make progress on semiconductor process technology and merchant market offerings from its compound semiconductor foundry at Newton Aycliffe while reducing losses and preparing for the start of high volume manufacture of switches for mobile handsets in the coming financial year. Sales in the merchant arena have been slow leading us to review our sales approach to this market. The volume switch market, which has taken longer than forecast to mature, is showing strength.

The division has relocated its businesses at Merrimack and Natick in the US into a larger facility at Hudson, New Hampshire, from which it is servicing a major new defence contract with ITT. The improved facilities will allow us to bid competitively for larger contracts, consistent with the strategy of developing business opportunities we perceive in the large US defence market.

At the annual general meeting in September 2004, the Chairman announced the Board's decision to dispose of the Handset Products division, preferably by means of an IPO on the Finnish stock exchange. Preparations were put in hand to achieve this, but by January it was clear that the market conditions had deteriorated to the point where the contemplated IPO would not realise appropriate value. The decision was announced in January that the company would seek a buyer for the business and in June we informed the market that we entered into detailed negotiations. These exclusive negotiations are progressing.

The segmental analysis of the operating results is as follows:

	Sales		**Operating profit**	
Year ended 31 May	**2005**	*2004	**2005**	*2004
	£m	£m	**£m**	£m
Wireless Infrastructure	**168.4**	145.2	**18.1**	10.7
Handset Products	**50.0**	60.2	**3.6**	11.2
Integrated Products	**43.6**	38.4	**(9.9)**	(13.4)
Central Services	**3.6**	3.9	**(5.0)**	(3.7)
Inter segment	**(2.7)**	(2.6)	**-**	-
	262.9	245.1	**6.8**	4.8

* The results for the year ended 31 May 2004 have been restated using the revised accounting policy described in note 2 to the financial statements. The average rate of exchange for the year is now used to translate the results of the overseas subsidiaries.

Wireless Infrastructure

This business segment under the leadership of Alan Needle, divisional CEO, dominates the independent global market in filter-based components and sub-systems for cellular base-stations and is using its established position with OEMs (Original Equipment Manufacturers) to expand into the adjacent product area of power amplifiers. The market has been under continual price pressure which has forced investment in global low-cost manufacturing from Filtronic and its competitors. The value of this transition is nearly exhausted shifting emphasis towards superior product design and technology insertion throughout product life, areas where Wireless Infrastructure can differentiate itself and achieve competitive advantage.

The wide design competence of the division allows economies to be gained through integration of functions, typical opportunities arriving through embedded digital processing for signal conditioning and for computer interface to base-station software. By maintaining in-house expertise and capacity in ferrites, ceramics and digital processing to complement its filter technology, the product offerings can be optimised for performance and value.

In the case of power amplifiers, the company's compound semiconductor facility holds the transistor technology for providing performance levels beyond the reach of standard market components. There is a growing appreciation of the need for higher performance amplifiers as new data transmission formats are required in 3G WCDMA networks and as network loading increases spectral occupancy. We see this as creating an additional growth impetus to our power amplifier business.

The business has capitalised on the ongoing improvements in the overall market worldwide, with the filter-based transmit-receive modules growing sales 15% over the year, which we consider outperformed the overall expansion of the market estimated to be in the range of 12% to 14%. The market continues to be dynamic, with more OEMs sourcing supply from the sector and discontinuing in-house production. During the year we consolidated our position by supplying production quantities to all the major OEMs thereby providing the platform for revenue growth in the coming year. We estimate that we currently hold 28% of our addressable market in filter-based product while our efforts in power amplifiers give us longer-term potential to achieve similar penetration in this area, particularly if the performance emphasis we predict comes to pass.

Deliveries of integrated power amplifiers incorporating fully digital interfaces for signal and control commenced at the end of the first half of the financial year. This sophisticated product integrates a full transmit and receive radio function with a multi-carrier power amplifier. Variants of the product are in development to cover additional frequency bands and higher powers.

During the year, we continued to consolidate production activities in China, resulting in the closure of filter manufacture in the UK, although final assembly for the integrated power amplifiers has been retained. The transfer has been carried out with limited additional capital expenditure, contributing to profitability and continuing cash generation.

Integrated Products

I am very pleased to welcome Iain Gibson, who joined the division in February from SELEX Sensors and Airborne Systems (SELEX SAS), formerly BAE SYSTEMS Avionics and became its CEO in April. Iain brings a wealth of general and commercial management experience from the defence sector which will continue to improve the operational performance of this technologically and product diverse business.

This division engages activities covering the semiconductor and defence and security sectors and point to point microwave links. Sales in the year grew 26% (2004 £34.5m to 2005 £43.6m) after excluding the contribution of the electronic warfare business of Filtronic Solid State, which was sold in December 2003. The sequential growth rate in sales comparing half-year on half-year during the financial year was 14% and the comparative half year growth for the second half of the financial year compared with the same period last financial year was 20%. Operating loss for the financial year was reduced by £3.5m to £9.9m, split £5.7m in the first half and £4.2m in the second. This was achieved while adding staff and upgrading facilities to accommodate high volume output at Newton Aycliffe to service demands from our strategic customer, R.F. Micro Devices (RFMD). At the end of the financial year the foundry moved into round-the-clock, seven-day week production for the first time.

The semiconductor foundry at Newton Aycliffe has now established itself as a leading source for six-inch gallium arsenide wafers using the pHEMT process. In April 2005, it started to supply wafers in volume to RFMD for use in front-end modules for mobile handsets, a world market in excess of 750 million units per year and growing at 7%.

The defence activities have benefited from the start of production supply of sub-systems to ITT in the US and continuing production supply to Elettronica of Italy and EADS of Germany of sub-system assemblies for the Eurofighter Defensive Aids system. The Eurofighter production will reduce to low level in the coming year as a major portion of our work fell outside UK national work-share and will, as a result of the delays to the second tranche, be subsumed into Italy and Germany. This leaves the US defence and security market as the best opportunity for our continuing growth in the short term. Consequently, we have relocated our businesses in the US to support growth and, in June 2005, brought Filtronic Sigtek into the Integrated Products segment where we intend to focus on acquiring external business, while formerly it has mainly supported in-house projects. These moves in the US were accompanied by a management reorganisation, simplifying the reporting structures and creating a single management team to lead all our US activities.

Filtronic Broadband provides point-to-point microwave link transceivers to OEM customers. During the year the customer base was expanded on the basis of new qualified product which entered production in November 2004 using our gallium arsenide integrated circuits. This product is selling to three OEMs in expanding volumes and a further design iteration awaiting qualification uses more complex multi-function integrated circuits further reducing component count. The point-to-point radio market is exhibiting strong growth and our customers are well positioned to benefit. Our technology in this market is recognised to be superior and we confidently expect an increasing market share.

Handset Products

This division is a market leader in the provision of internal antennas for mobile handsets, with a market share of about 18%. Sales declined 17% year on year reflecting lower than anticipated levels of activity in the second half of the financial year with reduced levels of activity with the division's principal customer. Antenna volumes in the financial year were 104 million units (2004 121 million units), of which over 50% were manufactured in China. The operating margin reflected this reduced level of activity and with the impact of the fixed nature of depreciation on automated lines in Finland, operating margins for the year reduced to 11% before goodwill amortisation, 7% after goodwill amortisation.

Central Research and Development

Central Research and Development effort has continued on integrated power amplifiers leading to a solution of the problem of digitally compensating for the distortion products of the gallium arsenide multi-carrier base-station amplifier. This solution lies in the semiconductor technology used and is compatible with existing digital-predistortion processors. This breakthrough has led to increased effort on low-cost packaging to achieve an attractive high-performance module price.

Strategic projects include WiMAX basestation hardware and software and WiMAX mobile transceiver modules.

In the defence sector, effort was expended on a digital integrated frequency measurement module to succeed our very successful product range now in production and on a demonstration "man-pack" ESM receiver which is being evaluated by potential customers.

Finance

The business has been financed by bank facilities during the year, and although covenants were breached, the group's lending banks continued support. These breaches of covenants resulted in additional finance charges in the year of approximately £0.5m. The capital repayments of £6m due in the year were met.

After the year end, the bank facilities were amended through new arrangements with Barclays and ABN AMRO, and they now provide term facilities over the next five years with no capital repayment due in the financial year ending 31 May 2006. The banks have also reconfirmed the overdraft of £9m until end of July 2006.

The recognition as revenue of the outstanding deferred licence fee from BAE SYSTEMS (now SELEX SAS) was changed with effect from 1 June 2004 to be equally spread over the remaining period to 1 May 2008 for which the Filtronic group is liable to provide supply of product. This has increased the annual revenue recognition from £0.8m to £2.3m.

Capital expenditure

Capital expenditure in the year was limited to £13.0m (2004 £11.7m), reflecting additional capacity for Wireless Infrastructure in China and its preparation for production of integrated power amplifiers, funding of replacement capacity within Handset Products, and ongoing plant requirements for defence contracts and high volume compound semiconductor demand in Integrated Products.

Employees

At the end of the financial year the group employed 3,863 people, an increase of 273 (8%) since May 2004. The principal changes were that China increased employees by 555 people, whilst UK employment reduced by 406 people.

Outlook

Wireless Infrastructure foresees continued overall market growth, estimated to be approximately 8% to 10%, with potential to gain modest increase in its market share in filter-based products as a result of the new OEM customers secured during the year. It expects to maintain historic margins through continuing low cost manufacturing, before transfer of central research and development costs. Further growth is expected in integrated power amplifiers. Following market demand, we are supplying Silicon LDMOS power amplifiers for specific customer requirements complementing the high performance gallium arsenide amplifiers.

A further lower cost manufacturing site will be established during the year in Hungary, initially to provide additional capacity for filter production and to reduce dependence on China as a sole low-cost manufacturing base. The division will also cease operations in Australia.

Integrated Products is planning rapid turnover growth through the challenging ramp up of volume semiconductor production for RFMD and supply to additional volume customers. Filtronic Broadband is moving to volume radio production from the new business gained in the year ending 31 May 2005. This is beneficial in sales and profit to the division and also further increases foundry loading. Growth in defence revenues in the US will be offset by run-down of Eurofighter production in the UK towards the end of the year. Overall, the division is expected to reach run rate breakeven in the year ending 31 May 2006, this being dependent on achieving production targets for the foundry.

Handset Products should see a strong recovery in revenue in the financial year as projects acquired and product qualified over the past nine months reach production ramp-up. The longer term outlook is supported by efforts in ceramic antennas for cellular and non-cellular applications and extruded metal structures for integrated assemblies.

John Roulston FREng FIEE CEng
Group CEO
1 August 2005

Consolidated Profit and Loss Account
for the year ended 31 May 2005

	note	2005 £000	Restated 2004 £000
Sales	3, 4	**262,865**	245,076
Operating profit	3, 4	**6,779**	4,804
Exceptional profit on disposal of tangible fixed assets	5	**2,356**	-
Exceptional profit on disposal of business	6	**-**	4,842
Net interest payable and similar charges	7	**(4,104)**	(5,550)
Currency exchange gains/(losses)	8	**522**	(644)
Exceptional loss on repayment of debt	9	**-**	(2,498)
		(3,582)	(8,692)
Profit on ordinary activities before taxation		**5,553**	954
Taxation on profit on ordinary activities	10	**(241)**	(2,730)
Profit/(loss) on ordinary activities after taxation		**5,312**	(1,776)
Dividends	11	**(2,021)**	(2,015)
Retained profit/(deficit) for the year		**3,291**	(3,791)

Earnings/(loss) per share			
Basic	12	**7.10p**	(2.38)p
Diluted	12	**7.09p**	(2.38)p
Dividend per share	11	**2.70p**	2.70p

All the results relate to continuing operations.

Consolidated Balance Sheet
for the year ended 31 May 2005

	2005 £000	2004 £000
Fixed assets		
Intangible assets	**29,195**	30,902
Tangible assets	**79,793**	86,300
	108,988	117,202
Current assets		
Stocks	**34,802**	36,618
Debtors	**67,924**	54,480
Deferred tax asset	**2,309**	-
Cash at bank and in hand	**6,563**	2,070
	111,598	93,168
Creditors: amounts falling due within one year	**70,417**	51,767
Net current assets	**41,181**	41,401
Total assets less current liabilities	**150,169**	158,603
Creditors: amounts falling due after one year	**33,000**	44,000
Provision for deferred tax	**661**	582
Deferred income	**10,730**	12,908
Net assets	**105,778**	101,113
Capital and reserves		
Called up share capital	**7,484**	7,465
Share premium account	**139,172**	137,641
Shares to be issued	**-**	2,255
Revaluation reserve	**106**	106
Other reserve	**5,584**	2,020
Profit and loss account	**(46,568)**	(48,374)
Equity shareholders' funds	**105,778**	101,113

Consolidated Cash Flow Statement
for the year ended 31 May 2005

	note	2005 £000	Restated 2004 £000
Net cash flow from operating activities	A	**19,595**	16,951
Returns on investment and servicing of finance			
Interest received		**85**	95
Interest paid		**(4,189)**	(4,852)
Bank loan arrangement fee paid		**-**	(500)
Premium paid on repayment of debt		**-**	(1,517)
Net cash flow from returns on investment and servicing of finance		**(4,104)**	(6,774)
Tax paid		**(1,846)**	(2,811)
Capital expenditure			
Purchase of tangible fixed assets		**(12,963)**	(11,718)
Sale of tangible fixed assets		**1,555**	305
Exceptional sale of tangible fixed assets (note 5)		**6,349**	-
Government grants received		**1,000**	1,297
Government grants repaid		**(150)**	-
Net cash flow from capital expenditure		**(4,209)**	(10,116)
Disposals (note 6)			
Cash consideration received		**-**	6,970
Disposal costs paid		**-**	(471)
Net cash flow from disposals		**-**	6,499
Equity dividends paid		**(2,018)**	(2,008)
Net cash flow before financing		**7,418**	1,741
Financing			
Issue of shares		**-**	275
Loans taken out		**-**	60,000
Loans repaid		**(6,000)**	(66,947)
Net cash flow from financing		**(6,000)**	(6,672)
Increase/(decrease) in cash	B	**1,418**	(4,931)

Notes to the Consolidated Cash Flow Statement
for the year ended 31 May 2005

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

	2005	Restated 2004
	£000	£000
Operating profit	**6,779**	4,804
Goodwill amortisation	**2,222**	2,256
Share compensation	**43**	232
Depreciation	**14,572**	17,542
Profit on disposal of tangible fixed assets	**(235)**	(44)
Licence fee released	**(2,335)**	(789)
Government grants released	**(693)**	(743)
Movement in stocks	**2,107**	(4,901)
Movement in debtors	**(13,249)**	(7,541)
Movement in creditors	**10,384**	6,135
Net cash flow from operating activities	**19,595**	16,951

B Reconciliation of net cash flow to movement in net debt

	2005	Restated 2004
	£000	£000
Increase/(decrease) in cash	**1,418**	(4,931)
Cash flow from debt	**6,000**	6,947
Change in net debt from cash flows	**7,418**	2,016
Non-cash movement	**-**	(1,274)
Currency exchange movement	**486**	3,379
Movement in net debt	**7,904**	4,121
Opening net debt	**(51,299)**	(55,420)
Closing net debt	**(43,395)**	(51,299)

C Analysis of movement in net debt

	At 1 June 2004	Cash flow	Currency exchange movement	**At 31 May 2005**
	£000	£000	£000	**£000**
Cash at bank and in hand	2,070	4,007	486	**6,563**
Bank overdraft	(3,369)	(2,589)	-	**(5,958)**
Net (overdraft)/cash	(1,299)	1,418	486	**605**
Loans due within one year	(6,000)	(5,000)	-	**(11,000)**
Loans due after one year	(44,000)	11,000	-	**(33,000)**
Loans	(50,000)	6,000	-	**(44,000)**
Net debt	(51,299)	7,418	486	**(43,395)**

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 May 2005

	2005 **£000**	Restated 2004 £000
Profit/(loss) on ordinary activities after taxation	**5,312**	(1,776)
Currency exchange movement arising on consolidation	**1,331**	(9,011)
Currency exchange movement on loan	**-**	4,249
Total recognised gains and losses for the year	**6,643**	(6,538)

Consolidated Reconciliation of Shareholders' Funds
for the year ended 31 May 2005

	2005 **£000**	Restated 2004 £000
Profit/(loss) on ordinary activities after taxation	**5,312**	(1,776)
Dividends	**(2,021)**	(2,015)
Profit retained/(deficit) for the year	**3,291**	(3,791)
Currency exchange movement arising on consolidation	**1,331**	(9,011)
Currency exchange movement on loan	**-**	4,249
Issue of shares	**2,298**	2,573
Shares to be issued – shares issued	**(2,298)**	(2,298)
Shares to be issued – share compensation	**43**	232
Movement in shareholders' funds	**4,665**	(8,046)
Opening shareholders' funds	**101,113**	109,159
Closing shareholders' funds	**105,778**	101,113

Notes

1 Basis of preparation

The financial information set out here in does not constitute the company's statutory accounts for the years ended 31 May 2005 or 31 May 2004. Statutory accounts for 2004 have been delivered to the Registrar of Companies, and those for 2005 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

Financial position and market conditions

The group is currently experiencing increases in demand across its operating divisions from both existing and new customers in the Wireless Infrastructure, arising from new product allocations from the principal customer in the Handset Products division and from the active ramp up of volume semiconductors supply within the Integrated Products division, as discussed in the Group CEO's Operating Review.

Global markets, particular the technology and telecoms sector, continue to experience a high degree of volatility. It remains difficult to predict total volumes and timing with certainty. Securing lower costs of production, through greater output from the group's Chinese facilities and commencement of activities in Hungary and other cost reduction programmes remain important areas. In addition, the foundry at Newton Aycliffe is required to operate successfully to meet the substantial increases in the volume of semiconductor wafers it is expected to produce to meet current and ongoing customer demand. This is critical to ensuring its expected contribution to the group.

The Board has built all of these circumstances into their working capital forecasts and has modelled various business scenarios, including both retention and disposal of the Handset Products division. The Board has recognised the uncertainties referred to above and taken into account the support received from the banks providing the rescheduled debt facilities, including the renewal of the group's overdraft facility of £9,000,000 until 31 July 2006.

Thus the Board has concluded, based on these scenarios, that the group's funding remains adequate and therefore that it is appropriate for the financial statements to be prepared on a going concern basis.

Notes

2 Change of accounting policy

The accounting policy for the translation of the profit and loss accounts and cash flow statements of overseas subsidiaries has been changed. Under the previous policy, the profit and loss accounts and cash flow statements of the overseas subsidiaries were translated at the rate of exchange ruling at the balance sheet date. From 1 June 2004 the profit and loss accounts and cash flow statements of the overseas subsidiaries are translated at the average rate of exchange for the year. The balance sheets of the overseas subsidiaries continue to be translated at the rate of exchange ruling at the balance sheet date. The directors consider that the revised accounting policy provides a fairer view of the group's results as a significant proportion of the group's operations are overseas.

The results for the year ended 31 May 2004 have been restated using the revised accounting policy. There is no change to the consolidated balance sheet at 31 May 2004. The effect of the change in accounting policy on the results for the year ended 31 May 2004 is as follows:

	As previously reported 2004 £000	Prior year adjustment 2004 £000	Restated 2004 £000
Sales	237,203	7,873	245,076
Operating profit	3,707	1,097	4,804
(Loss)/profit on ordinary activities before taxation	(409)	1,363	954
Loss on ordinary activities after taxation	(3,007)	1,231	(1,776)
Currency exchange movement arising on consolidation	(7,780)	(1,231)	(9,011)

Notes

3 Geographical origin segment analysis

	2005 £000	Restated 2004 £000
Sales		
United Kingdom	**106,447**	92,486
Finland	**54,434**	63,479
United States of America	**65,880**	52,523
Australia	**4,300**	4,982
China	**86,988**	50,887
Inter segment	**(55,184)**	(19,281)
	262,865	245,076
Operating profit		
United Kingdom	**(23,082)**	(15,896)
Finland	**(1,841)**	2,216
United States of America	**9,356**	2,963
Australia	**(2,329)**	(1,418)
China	**24,675**	16,939
	6,779	4,804

Operating profit is after charging goodwill amortisation:

	2005 £000	Restated 2004 £000
Finland	**2,028**	2,046
United States of America	**194**	210
	2,222	2,256

Notes

4 Business segment analysis

	2005	Restated 2004
	£00	£000
Sales		
Wireless Infrastructure	**168,425**	145,219
Handset Products	**49,974**	60,154
Integrated Products	**43,593**	38,450
Central Services	**3,575**	3,857
Inter segment	**(2,702)**	(2,604)
	262,865	245,076
Operating profit		
Wireless Infrastructure	**18,062**	10,753
Handset Products	**3,589**	11,180
Integrated Products	**(9,857)**	(13,392)
Central Services	**(5,015)**	(3,737)
	6,779	4,804

Operating profit is after charging goodwill amortisation:

Handset Products	**2,028**	2,046
Integrated Products	**194**	210
	2,222	2,256

Notes

5 Exceptional profit on disposal of tangible fixed assets

During the year two freehold properties were sold:

	2005	2004
	£000	£000
Disposal proceeds	**6,349**	-
Cost	**4,821**	-
Depreciation	**(828)**	-
Net book value	**3,993**	-
Exceptional profit on disposal of tangible fixed assets	**2,356**	-
	6,349	-

6 Exceptional profit on disposal of business

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

	2005	Restated
	£000	2004
		£000
Consideration		
Cash	-	6,970
Disposal costs	-	(471)
	-	6,499
Net assets disposed		
Tangible fixed assets	-	864
Stocks	-	535
Debtors	-	677
Creditors	-	(419)
	-	1,657
Exceptional profit on disposal of business	-	4,842
	-	6,499

The electronic warfare business of Filtronic Solid State was located in the United States of America and formed part of the Integrated Products business segment. For the seven months up to its disposal on 31 December 2003 the disposed business had sales of £3,891,000 resulting in an operating loss of £36,000.

Notes

7 Net interest payable and similar charges

	2005 £000	2004 £000
Interest receivable		
Interest on bank deposits	**85**	95
Interest payable and similar charges		
Interest on bank borrowings	**(4,189)**	(1,233)
Interest on other loans	**-**	(3,619)
Bank loan arrangement fee	**-**	(500)
Debt issues costs - amortisation	**-**	(293)
	(4,189)	(5,645)
Net interest payable and similar charges	**(4,104)**	(5,550)

8 Currency exchange gains/(losses)

	2005 £000	Restated 2004 £000
Currency exchange gains/(losses)	**522**	(2,664)
Currency exchange gain on loan	**-**	2,020
	522	(644)

9 Exceptional loss on repayment of debt

	2005 £000	2004 £000
Premium paid on repayment of debt	**-**	(1,517)
Debt issue costs written off on repayment of debt	**-**	(981)
	-	(2,498)

Notes

10 Taxation on profit on ordinary activities

	2005 £000	Restated 2004 £000
Current tax		
United Kingdom	**11**	27
Overseas	**2,424**	2,820
	2,435	2,847
Deferred tax		
Overseas origination and reversal of timing differences	**(2,194)**	(117)
	241	2,730

The current tax charge for the year arises primarily from the group's operations in China and Finland, where taxable profits cannot be relieved by losses available in other jurisdictions.

The deferred tax credit arises from the group's operations in the United States of America, where a proportion of deferred tax assets relating to tax losses carried forward have been recognised.

The exceptional items had no effect on the taxation charge.

11 Dividends

	2005 per share	2004 per share	2005 £000	2004 £000
Interim dividend – paid	**0.90p**	0.90p	**674**	671
Final dividend - proposed	**1.80p**	1.80p	**1,347**	1,344
	2.70p	2.70p	**2,021**	2,015

12 Earnings/(loss) per share

	2005 £000	Restated 2004 £000
Profit/(loss) on ordinary activities after taxation	**5,312**	(1,776)
	000	000
Weighted average number of shares in issue	**74,797**	74,508
Dilution effect of share options	**84**	-
Dilution effect of contingently issuable shares	**45**	-
Diluted weighted average number of shares	**74,926**	74,508
Basic earnings/(loss) per share	**7.10p**	(2.38)p
Diluted earnings/(loss) per share	**7.09p**	(2.38)p