

FILTRONIC PLC
INTERIM RESULTS SIX MONTHS ENDED 30 NOVEMBER 2004
Results in line with market expectations; Production Contracts with all major OEMs;
Increasing presence in Defence in US; Positive Outlook

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 2004. 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 mobile base stations and a world leading manufacturer of mobile handset antennas. The contribution to sales is: Wireless Infrastructure (63%), Handset Products (21%), Integrated Products (16%).

Financial Highlights

- Group sales of £130.1m (2003: £123.6m)
- Operating profit of £2.6m (2003: £5.2m).
- Exceptional profit on disposals of property of £2.4m (2003: nil)
- Net interest payable of £2.0m (2003 £2.8m)
- Pre-tax profit of £3.3m (2003: £2.7m)
- Diluted earnings per share of 2.21p (2003: diluted EPS of 1.59p)
- Interim dividend maintained at 0.90p (2003: 0.90p), payable 1 April 2005
- Gearing reduced from 51% to 43%

Operational Highlights

- *Wireless Infrastructure:* Over 50% of module products now manufactured in China
 - Now supply major OEMs in production quantities and improved market leading position
 - Stable margins at 13% (2003: 13%)
 - Development of integrated power amplifiers and focus on 3G sector
- *Handset Products:* Maintained market position, supplying c.18% global antennas market for mobile handsets
 - Supply of 'internal antennas' to broadening customer base, including Samsung and other ODMs
 - Operating margins improved compared with preceding six months
- *Integrated Products:* Strong revenue growth of 29% after excluding disposed of activities
 - Increasing demand for catalogue products and more complex higher value Monolithic Microwave Integrated Circuits
 - Operating losses reduced to £5.7m
 - Point to point microwave links now being supplied to two OEMs for use in mobile networks
- Board Appointments: Group Finance Director (14 Dec. 2004), CEO designate Integrated Products (21 Feb. 2005)
- Disposal of sites in Merrimack, USA and Brisbane, Australia for £7.4m on leaseback basis
- Capital expenditure of £7.3m (2003: £5.0m)

Outlook

Professor J. David Rhodes said: 'We are expecting growth in Wireless Infrastructure to remain in line with the strengthening market in 2.5 and 3G with focus on GSM, EDGE, CDMA and WCDMA products. Power amplifier production should increase by financial year end and a further new product is set for next financial year. Continued growth is also expected from electronic warfare in the US and point to point microwave links. Improved product mix should lead to revenue growth in semi-conductors.'

'In Handset Products, revenue is expected to remain seasonal. Demand from our key customer's new models is not expected to start until next financial year. Management focus will remain on achieving efficiency although operating margins may be under pressure.'

'The Board is continuing with the activities for the disposal of the Handset Products division. However, in light of current market conditions, the Board is not pursuing an IPO at this stage.'

Filtronic plc

Professor David Rhodes, Chairman

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The analyst presentation is available on the Filtronic website. (www.filtronic.com)

Chairman's Statement

Interim financial results

Sales for the six months ended 30 November 2004 were £130.1m (*2003 £123.6m) and operating profit was £2.6m (*2003 £5.2m). Exceptional profit on disposals of property was £2.4m (2003 nil).

Financing costs totalled £1.7m (2003 £2.5m) comprising net interest payable £2.0m (2003 £2.8m) and a net currency exchange gain of £0.3m (2003 £0.8m).

The profit before taxation was £3.3m (*2003 £2.7m). After taxation charges of £1.6m (*2003 £1.5m), the profit was £1.7m (*2003 £1.2m). Basic earnings per share is 2.21p (*2003 1.60p). Diluted earnings per share is 2.21p (*2003 1.59p).

Dividend

The Board is maintaining an interim dividend of 0.90p (2003 0.90p) per share payable on 1 April 2005 to shareholders on the register at 25 February 2005.

Operations

The segmental analysis of the operating results is as follows:

Six months ended 30 November	Sales		Operating profit	
	2004 £m	*2003 £m	2004 £m	*2003 £m
Wireless Infrastructure	82.3	69.8	7.4	7.2
Handset Products	27.0	34.1	3.3	8.2
Integrated Products	20.4	19.0	(5.7)	(8.3)
Central Services	1.8	2.0	(2.4)	(1.9)
Inter segment	(1.4)	(1.3)	-	-
	<u>130.1</u>	<u>123.6</u>	<u>2.6</u>	<u>5.2</u>

*The results for the six months ended 30 November 2003 have been restated using the revised accounting policy described in note 6 to the interim financial information. The average rate of exchange for the period is now used to translate the results of overseas subsidiaries.

Wireless Infrastructure

This business segment has two main areas of activity for mobile base stations, these being filter based transmit/receive modules and integrated power amplifiers.

The filter based transmit/receive modules represent the established part of the activity. The overall market expansion is estimated to be 15% in the calendar year 2004, which we outperformed with 18% sales growth compared with the prior period in 2003. We consider that our total available market for these modules increased by more than 20% with the inclusion of Ericsson.

We further consider that we have improved our market leading position, where we hold 28% of the expanded available market, through commencing shipments to two new Original Equipment Manufacturers ("OEMs"), so that we now supply all major OEMs in production quantities. Margins remain stable at 13% compared to the prior period in 2003 as we continue the transition to low cost manufacturing. More than 50% of our module products are now manufactured in China, using locally sourced material.

The integrated power amplifiers are a new product area, which has been the principal development priority. We are focusing on products for the 3G sector, where the WCDMA market for power amplifiers is considered to be showing 20% CAGR. Development and initial production costs in the six months to 30 November 2004 were £3.0m (2003 £2.0m) and shipments of the product started on a small scale at the end of this reporting period.

Handset Products

This business segment has maintained its market position supplying about 18% of the global market in antennas for mobile handsets. We have kept our focus on the growing 'internal antenna' market and on supplying major handset OEMs, broadening our customer base with Samsung and others including Chinese manufacturers and Original Design Manufacturers. Our internal antennas continue to require high levels of mechanical integration.

During the six months ended 30 November 2004, the operating margin has improved, compared with the preceding six months, to 16% before goodwill amortisation, and 12% after goodwill amortisation. The margins were 27% and 24% respectively for the corresponding period of 2003, reflecting the very high level of demand with a customer for a product family in this period and the lower level of integration within antennas.

Integrated Products

We group within this business segment activities supporting the semiconductors and defence sectors and point to point microwave links. Overall, this division is showing revenue growth of 29% compared to the six month period of 2003, after excluding the turnover of the electronic warfare business of Filtronic Solid State that was sold in December 2003. Similarly, operating losses reduced by £2.8m to £5.7m for the six month period ended 30 November 2004.

Within semiconductors, progress has been made to broaden the product mix and use of the capacity of the semiconductor foundry at Newton Aycliffe. Our switches have been selected by RFMD for several products under a strategic supplier agreement. Our catalogue products are selling strongly and are used in space applications. We are experiencing increasing demand for more complex, higher value MMICs (Monolithic Microwave Integrated Circuits), and our foundry products have been accepted for critical applications by cellular OEMs.

The outstanding deferred licence fee from BAE SYSTEMS is now being recognised as revenue equally over the minimum period for which the Filtronic group is liable to make reimbursement. This period is to 1 May 2008. This results in an increase in such revenue in the six months to 30 November 2004 of £0.8m to £1.2m.

We are benefiting from strong growth in the US, based on highly integrated sub-systems for pulse frequency measurement, including a recent contract for upgrade to military aircraft.

Point to point microwave links are now being supplied to two OEMs for use in mobile networks.

Central R&D

The main focus for this activity has been to support the developments for the integrated power amplifiers, including digital pre-distortion techniques.

Finance

Interest costs have reduced by 29% compared to the prior period in 2003.

The group's lending banks have confirmed their support, including continuing to waive the current breach of covenants, whilst reserving their rights. The group's overdraft facility has been renewed at £9m until 31 January 2006. The additional finance charges arising from the breach of covenants will be approximately £0.5m in the year to 31 May 2005.

Capital expenditure

Capital expenditure in the six months to 30 November 2004 was £7.3m (2003 £5.0m). Its main focus was for generic automated production lines for Handset Products to support customer projects (£2.4m) and expansion of Wireless Infrastructure's manufacturing resources in China (£1.4m), with limited investment in Wireless Infrastructure's power amplifiers product (£0.8m) for initial production requirements.

Cash flow and closing net debt

Net cash flow from operations for the six months to 30 November 2004 was £10.9m (including a decrease in working capital of £1.6m), along with £7.4m proceeds principally from the sale of properties at Merrimack, USA and Brisbane, Australia on a sale and leaseback basis, resulted in an increase of cash of £4.9m after meeting capital expenditure of £7.3m, financing tax, dividends, interest and loan repayments of £7.0m. This compares with a decrease in cash of £9.5m for the six months to 30 November 2003, which included loan repayments of £8.4m, and reflects our focus on improving the cash performance in the current period.

As a result of the improved increase in cash, closing net debt was £44.0m, a reduction of £10.6m compared to 30 November 2003, which reduced our debt equity ratio from 51% to 43%.

Outlook

In Wireless Infrastructure, continued volume growth is expected in line with the strengthening market in 2.5 and 3G, with particular value coming from our focus on GSM, EDGE, CDMA and WCDMA products. The power amplifier production is expected to increase by the end of this financial year, and a second power amplifier product is also planned for production during the following financial year.

In Integrated Products, continued growth is expected from electronic warfare in the US and point to point microwave links in line with recent performance. Improved product mix should lead to revenue growth in compound semiconductors. This profile gives the potential overall growth equivalent to the past half year.

In Handset Products, revenue is expected to remain seasonal with growth in demand from our key customer's new models not expected to start until next financial year. Management focus will remain on achieving efficiency although operating margins may be under pressure during this period of reduced demand.

The Board is continuing with the activities for the disposal of the Handset Products division, that was envisaged to be by way of either an IPO or a sale. To facilitate this, we have effected the legal separation of the associated businesses. In the light of current market conditions the Board is not pursuing an IPO at this stage.

Company directors

In line with the decision to split the roles of Chairman and CEO, John Roulston joined as CEO on 6 September 2004. Charles Hindson joined as Group Finance Director on 14 December 2004. Iain Gibson will join as CEO designate of Integrated Products Division on 21 February 2005, replacing Professor Chris Snowden when he leaves to take up the appointment as Vice Chancellor and CEO of Surrey University on 5 April 2005.

**Professor J D Rhodes CBE FRS FREng
Chairman**

31 January 2005

Consolidated Profit and Loss Account

		Unaudited 6 Months Ended 30 November 2004 £000	Restated 6 Months Ended 30 November 2003 £000	Restated Year Ended 31 May 2004 £000
Sales	1, 2	130,141	123,594	245,076
Operating profit	1, 2	2,580	5,210	4,804
Exceptional profit on disposal of tangible fixed assets		2,372	-	-
Exceptional profit on disposal of business		-	-	4,842
Net interest payable		(2,018)	(2,808)	(5,550)
Currency exchange gains/(losses)		386	776	(644)
Exceptional loss on repayment of debt		-	(460)	(2,498)
		(1,632)	(2,492)	(8,692)
Profit on ordinary activities before taxation		3,320	2,718	954
Taxation		(1,668)	(1,530)	(2,730)
Profit/(loss) on ordinary activities after taxation		1,652	1,188	(1,776)
Dividends		(674)	(671)	(2,015)
Profit retained/(deficit) for the period		978	517	(3,791)
Earnings/(loss) per share				
Basic	3	2.21p	1.60p	(2.38)p
Diluted	3	2.21p	1.59p	(2.38)p
Dividend per share		0.90p	0.90p	2.70p

Consolidated Balance Sheet

	Unaudited 30 November 2004 £000	Unaudited 30 November 2003 £000	Audited 31 May 2004 £000
Fixed assets			
Intangible assets	30,900	33,529	30,902
Tangible assets	81,601	90,885	86,300
	----- 112,501	----- 124,414	----- 117,202
Current assets			
Stocks	30,862	34,560	36,618
Debtors	59,417	57,900	54,480
Cash at bank and in hand	6,322	4,389	2,070
	----- 96,601	----- 96,849	----- 93,168
Creditors: amounts falling due within one year			
Bank overdraft and loan	10,369	7,558	9,369
Other creditors	43,240	41,229	42,398
	----- 53,609	----- 48,787	----- 51,767
Net current assets	42,992	48,062	41,401
Total assets less current liabilities	155,493	172,476	158,603
Creditors: amounts falling due after one year			
Loans	40,000	51,462	44,000
Provision for deferred tax	608	728	582
Deferred income	12,295	12,583	12,908
	----- 102,590	----- 107,703	----- 101,113
Net assets			
Capital and reserves			
Called up share capital	7,484	7,453	7,465
Share premium account	139,172	137,461	137,641
Shares to be issued	-	2,168	2,255
Revaluation reserve	106	106	106
Other reserve	1,937	788	2,020
Profit and loss account	(46,109)	(40,273)	(48,374)
	----- 102,590	----- 107,703	----- 101,113
Equity shareholders' funds			

Consolidated Cash Flow Statement

		Unaudited 6 Months Ended 30 November 2004 £000	Restated 6 Months Ended 30 November 2003 £000	Restated Year Ended 31 May 2004 £000
Net cash flow from operating activities	note A	10,953	9,998	16,951
Returns on investment and servicing of finance				
Net interest paid and similar charges		(2,018)	(2,880)	(6,774)
Tax paid		(1,662)	(1,990)	(2,811)
Capital expenditure				
Purchase of tangible fixed assets		(7,255)	(5,044)	(11,718)
Sale of tangible fixed assets		7,362	147	305
Government grants received		1,000	-	1,297
Government grants repaid		(150)	-	-
Net cash flow from capital expenditure		957	(4,897)	(10,116)
Net cash flow from disposals		-	-	6,499
Equity dividends paid		(1,344)	(1,337)	(2,008)
Net cash flow before financing		6,886	(1,106)	1,741
Financing				
Issue of shares		-	83	275
Loans taken out		-	-	60,000
Loans repaid		(2,000)	(8,463)	(66,947)
Net cash flow from financing		(2,000)	(8,380)	(6,672)
Increase/ (decrease) in cash	B	4,886	(9,486)	(4,931)

Notes to the Consolidated Cash Flow Statement

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

	Unaudited 6 Months Ended 30 November 2004 £000	Restated 6 Months Ended 30 November 2003 £000	Restated Year Ended 31 May 2004 £000
Operating profit	2,580	5,210	4,804
Goodwill amortisation	1,109	1,145	2,256
Share compensation	43	145	232
Depreciation	7,235	9,341	17,542
Profit on disposal of tangible fixed assets	(136)	(111)	(44)
Licence fee released	(1,167)	(395)	(789)
Government grants released	(296)	(165)	(743)
Movement in stocks	5,466	(1,057)	(4,901)
Movement in debtors	(4,915)	(8,307)	(7,541)
Movement in creditors	1,034	4,192	6,135
	-----	-----	-----
Net cash flow from operating activities	10,953	9,998	16,951
	-----	-----	-----

B Reconciliation of net cash flow to movement in net debt

	Unaudited 6 Months Ended 30 November 2004 £000	Restated 6 Months Ended 30 November 2003 £000	Restated Year Ended 31 May 2004 £000
Increase/ (decrease) in cash	4,886	(9,486)	(4,931)
Cash flow from debt	2,000	8,463	6,947
	-----	-----	-----
Change in net debt resulting from cash flows	6,886	(1,023)	2,016
Non-cash movement	-	(388)	(1,274)
Currency exchange movement	366	2,200	3,379
	-----	-----	-----
Movement in net debt in the period	7,252	789	4,121
Opening net debt	(51,299)	(55,420)	(55,420)
	-----	-----	-----
Closing net debt	(44,047)	(54,631)	(51,299)
	-----	-----	-----

Statement of Total Recognised Gains and Losses

	Unaudited 6 Months Ended 30 November 2004 £000	Restated 6 Months Ended 30 November 2003 £000	Restated Year Ended 31 May 2004 £000
Profit/(loss) on ordinary activities after taxation	978	1,188	(1,776)
Currency exchange movement arising on consolidation	456	(3,716)	(9,011)
Currency exchange movement on loan	-	1,515	4,249
	-----	-----	-----
Total recognised gains and losses for the period	1,434	(1,013)	(6,538)
	-----	-----	-----

Consolidated Reconciliation of Shareholders' Funds

	Unaudited 6 Months Ended 30 November 2004 £000	Restated 6 Months Ended 30 November 2003 £000	Restated Year Ended 31 May 2004 £000
Profit/(loss) on ordinary activities after taxation	1,652	1,188	(1,776)
Dividends	(674)	(671)	(2,015)
	-----	-----	-----
Profit retained/(deficit) for the period	978	517	(3,791)
Currency exchange movement arising on consolidation	456	(3,716)	(9,011)
Currency exchange movement on loan	-	1,515	4,249
Issue of shares	2,298	2,381	2,573
Shares to be issued			
- shares issued	(2,298)	(2,298)	(2,298)
- share compensation	43	145	232
	-----	-----	-----
Movement in shareholders' funds	1,477	(1,456)	(8,046)
Opening shareholders' funds	101,113	109,159	109,159
	-----	-----	-----
Closing shareholders' funds	102,590	107,703	101,113
	-----	-----	-----

Notes to the Interim Financial Information

1 Geographical origin segment analysis

	Unaudited 6 Months Ended 30 November 2004 £000	Restated 6 Months Ended 30 November 2003 £000	Restated Year Ended 31 May 2004 £000
Sales			
United Kingdom	54,614	46,924	92,486
Finland	29,597	31,760	63,479
United States of America	27,030	26,571	52,523
Australia	2,405	2,313	4,982
China	38,637	25,059	50,887
Inter segment	(22,142)	(9,033)	(19,281)
	----- 130,141 -----	----- 123,594 -----	----- 245,076 -----
Operating profit			
United Kingdom	(9,408)	(5,587)	(15,896)
Finland	1,112	1,022	2,216
United States of America	987	161	2,963
Australia	(1,309)	(634)	(1,418)
China	11,198	10,248	16,939
	----- 2,580 -----	----- 5,210 -----	----- 4,804 -----
Operating profit is after charging goodwill amortisation:			
Finland	1,010	1,035	2,046
United States of America	99	110	210
	----- 1,109 -----	----- 1,145 -----	----- 2,256 -----

Notes to the Interim Financial Information

2 Business segment analysis

	Unaudited 6 Months Ended 30 November 2004 £000	Restated 6 Months Ended 30 November 2003 £000	Restated Year Ended 31 May 2004 £000
Sales			
Wireless Infrastructure	82,287	69,762	145,219
Handset Products	26,973	34,166	60,154
Integrated Products	20,442	18,989	38,450
Central Services	1,799	1,973	3,857
Inter segment	(1,360)	(1,296)	(2,604)
	----- 130,141 -----	----- 123,594 -----	----- 245,076 -----
Operating profit			
Wireless Infrastructure	7,412	7,150	10,753
Handset Products	3,333	8,204	11,180
Integrated Products	(5,732)	(8,255)	(13,392)
Central Services	(2,433)	(1,889)	(3,737)
	----- 2,580 -----	----- 5,210 -----	----- 4,804 -----
Operating profit is after charging goodwill amortisation:			
Handset Products	1,010	1,035	2,046
Integrated Products	99	110	210
	----- 1,109 -----	----- 1,145 -----	----- 2,256 -----

Notes to the Interim Financial Information

3 Earnings/(loss) per share

	Unaudited 6 Months Ended 30 November 2004 £000	Restated 6 Months Ended 30 November 2003 £000	Restated Year Ended 31 May 2004 £000
Profit/(loss) on ordinary activities after taxation	1,652	1,188	(1,776)
	-----	-----	-----
	000	000	000
Weighted average number of shares	74,753	74,418	74,508
Dilution effect of share options	33	98	-
Dilution effect of contingently issuable shares	89	283	-
	-----	-----	-----
Diluted weighted average number of shares	74,875	74,799	74,508
	-----	-----	-----
Basic earnings/(loss) per share	2.21p	1.60p	(2.38)p
	-----	-----	-----
Diluted earnings/(loss) per share	2.21p	1.59p	(2.38)p
	-----	-----	-----

4 Deferred licence fee

Deferred income includes deferred licence fee, of £9,145,000 as at 31 May 2004, which comprises the part of the cash fee paid by BAE SYSTEMS Avionics Limited that has not been recognised as revenue in the profit and loss account. This balance is now being recognised as revenue in the profit and loss account in equal monthly amounts from 1 June 2004 to 1 May 2008. This represents a shortening of the period over which the fee is being recognised as revenue from 31 December 2015 to 1 May 2008 so that the period for the recognition of revenue does not extend beyond the obligations for repayment of the fee by Filtronic plc and Filtronic Compound Semiconductors Limited (together "Filtronic"). The change in the period of revenue recognition reflects the directors' assessment of the feasibility for Filtronic to implement its rights under the agreement to terminate the agreement after 1 May 2008 without financial penalty. This results in an increase of the amount recognised as revenue in the six months ended 30 November 2004 of £772,000 to £1,167,000 and on an annual basis an increase of £1,545,000 to £2,334,000.

Notes to the Interim Financial Information

5 Basis of preparation

Although the group's trading performance has strengthened in the last six months, the group remains in breach of certain of its covenants within its banking facilities. The group's lending banks have re-confirmed their continuing support, including extending the waiving of the covenant breaches, whilst reserving their rights. The group's overdraft facility has been renewed at £9,000,000 until 31 January 2006.

The Board has developed working capital forecasts and has considered various business scenarios. Whilst recognising uncertainties principally relating to customer demand and its impact on revenues, cost profiles and the timescales for implementing capital expenditure programmes, the Board has concluded, based on these considerations, 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.

6 Change in 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 reporting period. 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 comparative periods have been restated using the revised accounting policy. There is no change to the previously reported balance sheets. The effect of the change in accounting policy on the prior period results is as follows:

6 Change of accounting policy (continued)

	As Previously Reported 6 Months Ended 30 November 2003 £000	Prior Period Adjustment 6 Months Ended 30 November 2003 £000	Restated 6 Months Ended 30 November 2003 £000
Sales	121,520	2,074	123,594
Operating profit	4,723	487	5,210
Profit on ordinary activities after taxation	727	461	1,188
Currency exchange movement arising on consolidation	(3,255)	(461)	(3,716)
	As Previously Reported Year Ended 31 May 2004 £000	Prior Year Adjustment Year Ended 31 May 2004 £000	Restated Year Ended 31 May 2004 £000
Sales	237,203	7,873	245,076
Operating profit	3,707	1,097	4,804
Loss on ordinary activities after taxation	(3,007)	1,231	(1,776)
Currency exchange movement arising on consolidation	(7,780)	(1,231)	(9,011)

7 Interim financial information

The accounting policies adopted in preparing this interim financial information are consistent with those set out on pages 20 and 21 of the Filtronic plc Annual Report 2004, except as described in note 6.

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 2004 are extracted from the Financial Statements included in the Filtronic plc Annual Report 2004 dated 2 August 2004, except where they have been restated as a result of the change in accounting policy described in note 6. 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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Independent Review Report to Filtronic plc

Introduction

We have been engaged by the company to review the financial information consisting of the profit and loss account, balance sheet, statement of total recognised gains and losses, reconciliation of shareholders funds, 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.

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 2004.

KPMG Audit Plc
Chartered Accountants
Leeds
31 January 2005