Filtronic plc

Registered number 2891064

Annual report and financial statements

31 May 2008

Filtronic plc
Annual Report
2008

Filtronic
Inspired Wireless Solutions

Contents

Financial Highlights

	Continuing operations 2008	2007
Revenue	**£54 6m**	£38 4m
Operating profit/(loss) before exceptional items	**£3 9m**	£(1 8)m
Operating (loss)/profit	**£(22 1)m**	£5 9m
(Loss)/profit before taxation	**£(14 8)m**	£0 3m
Basic and diluted (loss)/earnings per share	**(20 00)p**	2 46p

	Group 2008	2007
(Loss)/profit for the period from continuing operations	**£(14 8)m**	£1 8m
Profit for the period from discontinued operations	**£0 2m**	£43 2m
(Loss)/profit for the period	**£(14 6)m**	£45 0m
Basic and diluted (loss)/earnings per share	**(19 67)p**	60 36p
Special dividend per share	**120 00p**	nil
Special dividend	**£89 2m**	nil
Cash	**£31 5m**	£118 3m
Total equity	**£38 9m**	£138 2m

The year ended 31 May 2008 produced revenue from continuing operations of £54 6m and operating profit before exceptional items of £3 9m compared with the prior year revenue of £38 4m and £1 8m loss The group loss for the period was £14 6m after pension settlement compared to £45 0m profit in the prior year Cash at the year end was £31 5m compared with £118 3m at 31 May 2007 after payment of the £89 2m special dividend A full breakdown of the year is shown in the financial statements, notes and narratives which follow

Having detailed the events impacting the performance of Filtronic in my report to shareholders at the half year stage, I shall concentrate in this commentary on the activities of the second half of the year to avoid repetition It is pleasing to note that the intentions described in the half yearly financial report have been delivered

The sale of Filtronic Compound Semiconductors Limited to RF Micro Devices was completed on 29 February 2008 Including the disposal proceeds, this business generated £17 1m of cash during the period from 30 November 2007 to disposal

On the same day, 29 February 2008, the company paid a top up amount to Paternoster which, along with the proceeds of the liquidation of the defined benefit pension scheme assets, secured the past service liabilities relating to scheme members by means of annuity purchase Wind up of the scheme continues with an expectation of completion by the end of 2008 and subject to further cash funding of around £1m

Following Court confirmation of the capital reorganisation approved by shareholders, a special dividend of 120p per share (£89 2m) was paid to shareholders on 30 May 2008 This left the group with a closing cash balance of £31 5m

Of the two continuing operations, the Point to Point business performed strongly and the UK Defence business showed some improvement over the first half Point to Point recorded revenue similar to the first half year and produced a very encouraging 79% year on year growth in revenue and 176% growth in operating profit Point to Point has had a strong start to the year

Following the exercise referred to in the year-end trading update, several attractive offers have been received for the company's Defence business Detailed discussions with the preferred bidder are well advanced As a result, the decision has been taken to streamline the Board and reduce corporate overheads in anticipation of a single focus around the high-growth Point to Point business, under the leadership of Hemant Mardia It has been agreed that Charles Hindson, the present Chief Executive, and Professor Stephen Burbank and Ian Hardington, both non-executive directors, will step down from the Board at the AGM on 19 September 2008 I should like to record the Board's thanks to the departing directors for their respective and substantial contributions to the past two challenging years of recovery and reorganisation

In addition to these anticipated Board changes, Stephen Mole was appointed to the Board as Finance Director on 13 June 2008

I should like to thank all staff in the business who have had to accommodate the changes in the group over the period

John Poulter
Chairman
28 July 2008

Summary

Once again, the year has been eventful with a number of major changes for the group with the disposal of the Compound Semiconductors and US Defence businesses, and the closure of the defined benefit pension scheme Point to Point delivered another year of outstanding growth and Defence Electronics produced an unchanged operating profit despite reduced revenues

Continuing operations

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

Year ended 31 May	Revenue		Operating profit/(loss) before exceptional items	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Point to Point	**40 1**	22 3	**6 2**	2 2
Defence Electronics	**14 5**	16 1	**1 3**	1 3
Central Services	**–**	–	**(3.0)**	(4 8)
Unallocated pension charge	**–**	–	**(0.6)**	(0 5)
	54 6	38 4	**3 9**	(1 8)

Point to Point

The Point to Point business designs and manufactures customised microwave electronic sub assembly components that are integrated by OEMs into point to point (PTP) radios These radios provide the backhaul links for telecom networks particularly for the mobile basestation market Customers require a broad radio portfolio in order to provide global coverage of the licensed communication bands

Point to Point applies specialised microwave technology and radio expertise to develop custom solutions for each OEM customer It provides a broad product range of frequency bands underpinned by cost effective designs in order to offer highly competitive volume supply across two product lines – microwave transceiver modules and filters These products are integrated by the customer into the radio

The business has developed proprietary semiconductor technology that enables a high level of product integration These devices have been developed on large scale semiconductor foundries and are manufactured for Point to Point by key semiconductor partners This provides significant cost advantage compared to the normal level of product integration by reducing the complexity of manufacture of transceiver modules Point to Point also offers a full portfolio of filters required to channelise the licensed frequency bands in the radio These products are optimised to meet market needs for high volume supply with short lead times

Point to Point has invested in a world class automated manufacturing facility co-located with its development teams and offering a unique volume supply capability with the high degree of flexibility demanded by the mobile telecoms market

Point to Point is the leading merchant supplier of transceivers and diplex filters Several additional products have been developed and qualified during this financial year Expansion of its product portfolio and significant volume demand from these customers has enabled Point to Point to increase its revenue 79% compared with last financial year and achieve operating margins of 15% in the year

Defence Electronics

The Defence Electronics business supplies complex components, sub-assemblies or major subsystems for use in military communications, radar and sensing equipment Its customers are typically the prime contractors for defence equipment and its products are used to intercept, identify, analyse, generate and transmit radio frequency, microwave and millimetre wave signals

Defence Electronics was affected throughout the year by weaker order intake, largely as a result of customers facing delays to major projects Whilst this reduced the overall sales revenue, efficiencies achieved throughout the year enabled the business to achieve an overall margin improvement Significant new product advances were made both in the UK and in Australia

The UK new product launches led directly to the award of a major contract from Thales for the supply of receiver subsystems for SMART, the radar electronic support measures suite upgrade for the UK submarine fleet In Australia, a successful demonstration of a new radar concept has assisted the securing of follow on research contracts for stand off security imaging hardware and a UAV Collision Avoidance system

Revenue was down 10% year on year but operating profit was unchanged at £1 3m

Discontinued operations

US Defence

Sale of this business was completed in October 2007 producing cash proceeds of £1 4m and a loss of £0 7m

Compound Semiconductors

Sale of the Compound Semiconductors business was completed in February 2008 Disposal proceeds net of working capital adjustments were £10 3m and, in addition, the business generated a cash flow of £6 8m up to disposal

Group matters

Central costs before exceptional items again reduced in the year to £3 0m (2007 £4 8m)

The properties at Saltaire and Stewarton were disposed of in the year producing proceeds of £6 1m and a £0 1m loss on disposal

Capital expenditure

The group's capital expenditure in the year was £2 3m, of which £0 4m was incurred in discontinued operations

Employees

At 31 May 2008, the group employed 392 people (2007 801)

Pension scheme

Past service liabilities for the defined benefit pension scheme have been secured by purchasing annuities with Paternoster The scheme is now in the process of being wound up with an anticipated completion by the end of calendar year 2008 There are provisions for £1 0m of liability left on the balance sheet which the company anticipates funding prior to completion of the remaining wind up process

Charles Hindson
Chief Executive
28 July 2008

Results

Continuing operations generated revenue of £54 6m (2007 £38 4m), resulting in an operating profit before exceptional items of £3 9m (2007 £1 8m loss) The group loss for the period was £14 6m (2007 £45 0m profit) reflecting the additional company contribution to the defined benefit pension scheme, now in wind up The operating results are discussed in the Chief Executive's Operating review, along with a review of the business

Disposal of Compound Semiconductors business

On 29 February 2008, the sale of the Compound Semiconductors business to RF Micro Devices was completed Overall the business generated £17 1m cash since 30 November 2007 including disposal proceeds

Disposal of surplus property

The Waterfront freehold property at Saltaire and the freehold property at Stewarton were both sold in the period generating £6 1m of cash and a £0 1m loss on disposal

Net finance income

The group ended the year with net cash of £31 5m and generated net finance income of £7 4m largely resulting from the interest earned on cash deposits held through the period until the payment of the special dividend of £89 2m on 30 May 2008

Taxation

No current tax is due on continuing operations reflecting available losses and no deferred tax asset was recognised at 31 May 2008 due to uncertainty in future recoverability

Capital expenditure

Capital expenditure of £2 3m (2007 £16 6m) comprised investment in continuing operations of £1 9m (2007 £1 0m) and in discontinued operations of £0 4m (2007 £15 6m)

Research and development costs

Research and development costs of £6 8m (2007 £15 6m) were expensed which was 8 0% of total revenue No research and development costs were capitalised in the balance sheet Research and Development costs relating to continuing operations was £4 2m (7 7% of revenue)

Working capital

At 31 May 2008 net working capital was £6 5m (2007 £3 3m) Net working capital comprised inventories of £6 2m (2007 £10 6m), receivables of £13 0m (2007 £16 3m) and payables of £12 7m (2007 £23 6m)

Cash flow

Cash outflow from operating activities was £16 1m (2007 £10 6m outflow) including £27 0m relating to the defined benefit pension scheme settlement, cash inflow from investing activities was £17 9m (2007 £148 0m inflow) and net cash outflow from financing activities was £89 2m (2007 £21 5m outflow) The closing cash balance as at 31 May 2008 was £31 5m

Pension matters

On 29 February 2008 the company, in agreement with the trustees, made an additional contribution to the defined benefit pension scheme which, together with the proceeds from the liquidation of the scheme assets, was paid to Paternoster to secure past service benefits for scheme members by means of annuities The residual £1 0m liability remaining on the balance sheet will be funded during the wind up of the scheme which is expected to be completed by the end of 2008

Dividend

On 30 May 2008, following Court approval of a capital reorganisation, a special dividend of 120p per share was paid to shareholders

Stephen Mole
Finance Director
28 July 2008

Introduction

Filtronic has two businesses Point to Point which supplies microwave products for the wireless telecommunications market and Defence Electronics supplying complex electromagnetic components and subsystems for the electronic warfare market Point to Point is in a fast-changing business sector with a limited number of sophisticated customers, demanding performance standards and international competition, all of which pose risks to the business The Defence Electronics business operates in a competitive market with longer timescales and the risk here relates to the ability to win, manage and deliver the product programmes appropriately

Market

In Point to Point, we supply a limited range of products to a limited number of large OEM customers, which means that we have the risk that, with the evolution of product technology and other corporate decisions, our addressable market size may be affected

In Defence Electronics, we compete with the major global suppliers into defence prime and system contractors, often for positions on long running programmes The risk here is in potential failure to win future programmes to replace those that have been completed or in delivery of those programmes gained As Defence Electronics moves more towards subsystems supply, the nature of these large opportunities introduces a more irregular order intake pattern, and a resource commitment for development and sales support

As well as these factors that may result in decreased revenue and earnings we may also fail to forecast market movements correctly so missing opportunities or wrongly predicting product longevity

Manufacturing

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

In Defence Electronics, the specifications for the performance of the products are very demanding This, coupled with the complexity of the products, introduces the risk of delays in development, design and manufacture and consequently of delays in making sales

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

Technology

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

Our ability to remain competitive in terms of technology and product design is also underpinned by retaining a relatively low number of world class staff in key positions Loss of key staff could seriously impact the rate of introduction of new products and technologies

Financial management

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

We have sold four divisions of the group in the last three years On the sale of each business, we are usually expected to provide warranties in support of the transaction, covering a wide range of areas including product liability for an initial period and usually environment risks on freehold property and tax risks for longer specified periods We have received claims on the sale of the Wireless Infrastructure business, which have been settled, and may receive claims in future related to these current and future commitments

Executive directors

Charles Hindson (aged 49) has been Chief Executive since 2006 He joined Filtronic as Group Finance Director in 2004 Prior to joining Filtronic he was Finance Director of Eutelsat SA Previously he held finance positions with BT plc, British Gas plc, PricewaterhouseCoopers and 3i plc

Hemant Mardia (aged 46) was appointed as an executive director on 18 October 2007 He continues in his role as Managing Director of the Point to Point business, which he has held since 1996 He joined Filtronic in 1984 having gained a doctorate in electronics from Leeds University He is a Fellow of the Institute of Electronics and Technology, a Fellow of the Society of Cable Telecommunications Engineers and a Senior Member of the Institute of Electrical and Electronic Engineers

Stephen Mole (aged 52) was appointed as an executive director on 13 June 2008 He continues in his role as Finance Director, which he has held since joining Filtronic in 2006 Prior to joining Filtronic he was Finance Director of Renold plc Previously he held finance positions with BTP plc, Zeneca plc, ICI plc and Unilever plc

Non-executive directors

John Poulter (aged 65) has been non-executive Chairman since 2006 He is chairman of the nominations committee From 2001 to May 2008 he was non-executive Chairman of Spectris plc, the precision instrumentation and controls company, of which he was Chief Executive from 1992 His earlier career was with BTR plc and Cambridge Instruments He has been a non-executive director for a number of public companies including RAC plc and Kidde plc He is currently a non-executive director of Smaller Companies Value Trust plc

Graham Meek (aged 61) has been a non-executive director since 1999 Since 2006 he has been the senior non-executive director and is chairman of the audit committee He was Chairman of ICM Computer Group plc until 2007 and is Chairman of SPI Lasers plc and a non-executive director of Capital Gearing Trust plc

Reginald Gott (aged 51) has been a non-executive director since 2006 He was appointed as chairman of the remuneration committee on 6 June 2008 Since 2002 he has been a director of FKI plc, an international diversified engineering group He has an extensive background in the machinery, automation and controls segments of the capital goods markets across Europe and North America

Professor Stephen Burbank (aged 61) has been a non-executive director since 1994 Professor Burbank is currently the David Berger Professor for the Administration of Justice at the University of Pennsylvania One of the pre-eminent scholars of litigation procedure and judicial administration in the United States, Professor Burbank is also an authority on issues of judicial independence and accountability, having served on the National Commission on Judicial Discipline and Removal by appointment of the Speaker of the United States House of Representatives Since 2002, by appointment of a federal judge, he has served as Special Master of the National Football League

Ian Hardington (aged 44) has been a non-executive director since 1999 He was chairman of the remuneration committee from 2006 to 6 June 2008 Mr Hardington is an analyst with Trinity Capital Limited, an investment management firm located in the United States of America

The directors present their report and the audited financial statements for the year ended 31 May 2008

Principal activities

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

Business review

The business review on pages 3 to 8 inclusive contains a review of the group's business performance and outlook The business review includes the statutory requirements of the enhanced business review

Financial results and dividend

The results for the year are set out in the income statement on page 29 The position at the end of the year is shown in the balance sheet on page 31

A special interim dividend of 120 00p per share, amounting to £89 2m, was paid on 30 May 2008

Research and development

Research and development costs were £4 2m (2007 £4 1m) for continuing operations and £2 6m (2007 £11 5m) for discontinued operations

Directors and their interests

The directors of the company during the year were as follows
Charles Hindson
Hemant Mardia (appointed 18 October 2007)
Iain Gibson (resigned 21 September 2007)
John Poulter
Graham Meek
Reginald Gott
Professor Stephen Burbank
Ian Hardington

Stephen Mole was appointed as a director on 13 June 2008

Details of directors' interests in the share capital of the company are set out in the remuneration report on pages 19 to 25

Charles Hindson will be resigning at the annual general meeting

Professor Stephen Burbank and Ian Hardington, having served on the Board for more than nine years, will be retiring at the annual general meeting

Hemant Mardia and Stephen Mole retire and, having been appointed by the Board on 18 October 2007 and 13 June 2008 respectively, offer themselves for election at the annual general meeting

Directors indemnity

The company has in place directors' and officers' liability insurance on behalf of its directors and officers in accordance with the provisions of the Companies Act 1985 In addition, certain directors benefit from an indemnity from the company, to the extent not prohibited by law, in respect of losses incurred as a result of the discharge of their duties in the management or supervision of any company in the group The indemnity does not automatically terminate when the indemnified person ceases to be a director

Substantial shareholdings

The following shareholders have indicated a holding of 3% or more of the issued share capital of 74,323,093 10p ordinary shares as at 18 July 2008

	Number of 10p ordinary shares	% of issued share capital
Prudential plc	11,821,803	15 9
Aberforth Partners LLP	11,046,071	14 9
North Atlantic Value LLP	9,275,000	12 5
Legal & General Investment Management Limited	7,058,145	9 5
SVG Capital plc and SVG Investment Management Limited	6,684,126	9 0
Capital Group Companies Inc	3,749,176	5 0
Axa Rosenberg Investment Mgt Ltd	2,875,996	3 9
HSBC Holdings plc	2,660,773	3 5
Strategic Equity Capital	2,284,387	3 1
	57,455,477	77 3

Employees

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

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

Corporate & social responsibility

(i) Health and safety

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

(ii) Employee development

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

(iii) Employee communications

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

(iv) The environment

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

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

Political and charitable contributions

No contributions were made for political purposes The group donated £6,000 (2007 £6,000) to various charities

Supplier payment policy

It is the group's policy to abide by the terms of payment agreed with suppliers in respect of the goods and services properly invoiced to the group At 31 May 2008 trade payables of £8 0m represented 64 days' purchases, calculated in accordance with the requirements of the Companies Act

Disclosure of information to the auditors

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

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors will be proposed at the annual general meeting

Remuneration report

Pursuant to the Directors' Remuneration Report Regulations 2002 the Board proposes the remuneration report which is set out on pages 19 to 25, for approval (resolution 2 in the notice of annual general meeting) No entitlement of a director to remuneration is conditional on the resolution being passed but the result of the vote will be taken into account in considering the development and operation of the company's remuneration policy

Authority to allot shares

The Companies Act 1985 requires that the authority of the directors to allot relevant securities shall be subject to the approval of shareholders in general meeting or to an authority set out in the company's Articles of Association Accordingly, an ordinary resolution (resolution 6 set out in the notice of annual general meeting) will be proposed at the annual general meeting to renew the authority granted at the annual general meeting held on 21 September 2007 and thereby authorise the directors to allot unissued ordinary shares of the company up to a total nominal value of £2,477,436 (representing one third of the nominal value of the company's issued share capital)

The Companies Act 1985 also requires that any equity shares issued wholly for cash must be offered to existing shareholders in proportion to their existing holdings This requirement was disapplied to a limited extent by a resolution passed at the annual general meeting held on 21 September 2007 and a special resolution (resolution 8 set out in the notice of annual general meeting) will be proposed at the annual general meeting to renew the directors' authority to allot equity shares for cash other than on a pro rata basis This will be limited to equity shares having a nominal value of up to £371,165 (representing 5% of the issued share capital of the company) This authority will terminate no later than fifteen months after the passing of the special resolution

By order of the Board
M Moynihan
Company Secretary
28 July 2008

M Moynihan

The Combined Code on Corporate Governance

The Board supports the highest standards of corporate governance For the year ended 31 May 2008 the directors confirm that the company has been in compliance with the provisions of section 1 of the Combined Code on Corporate Governance

The company has four non-executive directors excluding the chairman, two of whom, Graham Meek and Reginald Gott, meet all of the specific criteria for independence set out in the Combined Code The other two non-executive directors, Professor Stephen Burbank and Ian Hardington, do not meet all of the requirements for independence set out in the Code since they have been directors for more than nine years but they are considered to be independent and to provide, firstly, valuable advice to the company and, secondly, continuity

Internal control

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

(a) Control environment and monitoring systems

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

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

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

(b) Major information systems

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

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

(c) Main control procedures

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

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

(d) Identification and evaluation of business risks

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

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

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

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

Constitution of the Board

The Board comprises the Chairman, three executive and four independent, non-executive directors Short biographies of all of the directors are set out on page 9 The Board considers that its constitution brings both independence and an appropriate balance of experience in judging matters of strategy, performance, resources, investor relations, internal control and corporate governance Graham Meek is the senior non-executive director Each of the directors is proposed for re-election at the annual general meeting at least every three years Those non-executive directors who have served longer than nine years on the Board will be subject to annual re-election

Professor Burbank joined the company in 1994 and Ian Hardington joined in 1999 The Board has considered the independence of these two directors with particular care Professor Burbank contributes significantly through his legal expertise and considerable knowledge of both the company and the industry During the current period of transition for the executive members of the Board, he has provided continuity as well as contributing to the overall balance of the Board He continues to demonstrate strong independence in his contribution to the Board and in the manner in which he discharges his duties as a director Ian Hardington is an analyst with Trinity Capital Limited, an investment management firm located in the United States of America He has contributed significantly through his financial expertise and the objectivity he brings to Board discussions Accordingly the Board has decided, in the absence of any other relevant factors, that Professor Burbank and Ian Hardington are independent non-executive directors

A formal performance review of the Board, its committees and the directors was undertaken during the year This has been implemented in the year by way of a written questionnaire completed by all Board members, and the resulting report has been reviewed by the Board The performance of individual directors was reviewed by the Chairman The senior non-executive director led an evaluation of the performance of the Chairman Each director had the opportunity to review the outcome of the evaluation of the Board and its committees

Board committees

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

The nominations committee

The nominations committee is chaired by John Poulter, and the other members are the independent non-executive directors Graham Meek, Reginald Gott, Professor Stephen Burbank and Ian Hardington The nominations committee's duties are confined to the approval, support or otherwise of appointments, re-appointments and termination of employment or engagement of directors and the company secretary

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

The remuneration committee

The remuneration committee was chaired by Ian Hardington until 6 June 2008 and by Reginald Gott from that date The other members are the other independent non-executive directors Graham Meek, Professor Stephen Burbank and Ian Hardington The remuneration committee's responsibilities include ensuring that the remuneration and service contract terms of the executive directors and senior management are appropriate The committee approves the grant of all share options and bonus arrangements

The audit committee

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

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

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

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

Attendance at Board meetings and committee meetings during the year ended 31 May 2008 was as follows

	Board	Audit committee	Remuneration committee	Nominations committee
Meetings held	16	2	4	4
Directors' attendance				
Executives				
Charles Hindson	16	n/a	n/a	n/a
Hemant Mardia (appointed 18 October 2007)	10	n/a	n/a	n/a
Iain Gibson (resigned 21 September 2007)	6	n/a	n/a	n/a
Non-executives				
John Poulter (Chairman)	15	n/a	n/a	4
Graham Meek	12	2	3	3
Reginald Gott	16	1	4	4
Professor Stephen Burbank	13	2	4	4
Ian Hardington	13	2	4	4

Relations with investors

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

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

Going concern

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

Composition of the remuneration committee

During the period 1 June 2007 to 31 May 2008 the remuneration committee consisted of the following non-executive directors

Ian Hardington (chairman)
Graham Meek
Reginald Gott
Professor Stephen Burbank

Reginald Gott was appointed chairman of the remuneration committee on 6 June 2008

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

Compliance

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

Policy on remuneration of executive directors and senior executives

(a) Total level of remuneration

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

(b) The main components

The company's policy is to structure remuneration packages to align the interests of employees with those of shareholders
The main components of remuneration are
(i) Salary
Salary for each executive is determined by the remuneration committee taking into account the performance and responsibilities of the individual Electronic and electrical engineering is an international industry within which there is a clear market in executive talent The overriding factor in determining executive remuneration is market forces
Salaries are normally reviewed on 1 July each year
(ii) Charles Hindson bonus
Charles Hindson was granted 200,000 share options with an exercise price 198p on joining the company on 14 December 2004
Under the terms of his service contract, subject to certain conditions, if Charles Hindson remained employed by the group until 14 December 2006 he had the right to relinquish his 200,000 share options in exchange for either 85,000 shares or a £200,000 cash payment Charles Hindson elected to receive the £200,000 cash, which is shown as a bonus for the year ended 31 May 2007 in the remuneration table
(iii) Iain Gibson retention bonus
Iain Gibson was awarded a retention bonus of £150,000 for the year ended 31 May 2007

(iv) Executive directors bonuses

The executive directors were participants in an annual bonus scheme during the year under which a maximum of 50% of salary was payable in the case of Charles Hindson, subject to group and personal performance targets, and a maximum of 30% of salary was payable in the case of Hemant Mardia, subject to revenue and profit targets for the Point to Point division and personal targets, the achievements of which have been assessed by the remuneration committee

Under the scheme, the executive directors were awarded annual bonuses for the year ended 31 May 2008

Charles Hindson was awarded an annual bonus of £128,000 (2007 £88,000), being 50% (2007 35%) of salary

Hemant Mardia was awarded an annual bonus of £52,000, being 30% of salary

Iain Gibson was awarded an annual bonus of £47,000, being 25% of salary for the prior year ended 31 May 2007

The remuneration committee has also determined that executive directors should be eligible, in the absence of a share based incentive scheme, to participate in individual, non-recurring bonus arrangements based on the achievement of specific, transaction related and other goals The maximum payable under this arrangement is 100% of salary in the case of Charles Hindson Charles Hindson's goals under his bonus scheme included achieving the payment of a special dividend to shareholders during the year, achieving a solution for the risks related to the defined benefit pension scheme liability, transaction related and other goals

Charles Hindson was awarded a non-recurring bonus of £180,000 being 70% of his salary at 1 July 2007

In order to accommodate the Board's strategic objectives, the performance period of one element of 30% of Charles Hindson's non-recurring bonus goals has been extended into the year ending 31 May 2009

Hemant Mardia was a participant in the non-recurring bonus arrangement under which a maximum of 30% of his salary was payable and was assessed at 31 May 2008 The performance criteria included the development of two new product lines, which would add to the growth and value of the Point to Point division

Hemant Mardia was awarded a non-recurring bonus of £37,000, being 30% of his salary at 1 July 2006

(v) Share options and bonus scheme

No share options were granted during the two years ended 31 May 2008 and following the approval given at the Extraordinary General Meeting of the company on 29 September 2006, all outstanding share options became exercisable on 16 October 2006 on completion of the sale of the Wireless Infrastructure business All share options not exercised lapsed on 16 October 2007

The Board is conscious of the desirability of aligning employee company participation with those of shareholders and wishes to introduce a new scheme at the earliest available opportunity to replace the non-recurring bonus scheme To this end the Board proposes two new share option schemes for approval at the annual general meeting The proposed share option schemes are described in the Chairman's letter which accompanies the notice of meeting However, in view of the changing profile of the company the Board has considered that such an introduction during the year was not appropriate and accordingly decided to retain the bonus scheme for general managers and senior managers, with the aim of motivating and retaining such managers

The remuneration committee has agreed an approach for management incentives for the year ending 31 May 2009 of an annual bonus for performance in the year, based on profit and cash targets, and a non-recurring bonus in place of a share-based incentive The level of up to 30% of annual salary for general managers and up to 15% of salary for senior managers has been agreed for each of these bonuses The annual bonus will be assessed against the achievement of divisional profit and cash targets in the year ended 31 May 2009 In line with a share-based scheme, the non-recurring bonus has the two principal objectives of retention and rewarding incremental value growth, and the achievement of objectives is expected to be assessed as at 31 May 2009

Special bonus arrangements have been put in place for management in Defence Electronics with the aim of retaining key staff while options for the sale of the business are being explored These bonuses are a maximum of 50% of salary for general managers and 25% for senior managers payable only upon completion of a transaction that is approved by the Board

(c) Company policy on contracts of service

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

Iain Gibson, executive director, had a service contract, the notice period for termination by either party was six months On his resignation Iain Gibson was paid £99,000 for salary in lieu of notice and holiday pay and an ex gratia payment of £25,000 as compensation for loss of office without an admission of liability on behalf of the company

(d) Company pensions policy

The company's policy was to offer UK executives membership of the Filtronic plc Retirement Benefits Scheme UK executive directors who participated in the scheme did so on the same basis as all other UK employees of the company

The scheme was a funded, Inland Revenue approved, career average revalued earnings, occupational pension scheme Its main features were

(i) a normal pension age of 65,
(ii) pension at normal pension age of 1/60th of career average revalued pensionable salary for each year of service,
(iii) death in service benefit of four times pensionable salary,
(iv) pensions payable in the event of ill health,
(v) spouse's pension on death,
(vi) long term disability insurance

Pensionable salary is defined as the member's basic annual salary excluding all bonuses and benefits

All scheme benefits were subject to Inland Revenue limits

The scheme was closed to further accrual of pension benefits on 29 February 2008

Iain Gibson pension – Under the terms of his service contract, Iain Gibson was entitled to an enhanced pension arrangement In addition to being a member of the scheme, he was entitled to additional company pension contributions at a rate of 14 25% of pensionable salary to be paid into his personal pension plan

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

(e) Company policy on external appointments

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

Non-executive directors service contracts and remuneration

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

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

The information on pages 22 to 24 has been audited

Directors' remuneration

	Salary or fees	Bonuses	Benefits	Total remuneration excluding pension contributions	
	2008	**2008**	**2008**	**2008**	2007
	£000	**£000**	**£000**	**£000**	£000
Executives					
Charles Hindson	**256**	**308**	**7**	**571**	526
Hemant Mardia (appointed 18 October 2007)	**110**	**89**	**11**	**210**	–
Iain Gibson (resigned 21 September 2007)	**182**	**–**	**3**	**185**	406
Prof David Rhodes (retired 29 September 2006)	–	–	–	–	123
Dr Christopher Mobbs (resigned 20 November 2006)	–	–	–	–	125
Non-executives					
John Poulter (appointed 31 July 2006)	**125**	–	–	**125**	105
Graham Meek	**35**	–	–	**35**	31
Reginald Gott (appointed 13 July 2006)	**30**	–	–	**30**	27
Prof Stephen Burbank	**30**	–	–	**30**	30
Ian Hardington	**30**	–	–	**30**	30
Rhys Williams (retired 29 September 2006)	–	–	–	–	83
Richard Blake (retired 2 March 2007)	–	–	–	–	22
Total 2008	**798**	**397**	**21**	**1,216**	1,508
Total 2007	980	485	43	1,508	

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

Directors' pension benefits

Defined benefits scheme

	Accrued pension at date of leaving scheme £000	Increase in accrued pension excluding inflation during the period £000	Increase in accrued pension including inflation during the period £000	Transfer value at date of leaving scheme £000	Transfer value at 1 June 2007 £000	Increase in transfer value less directors' contributions during the period £000	Transfer value of increase in accrued pension excluding inflation less directors' contributions during the period £000
Charles Hindson	6	–	–	83	47	35	3
Iain Gibson	9	2	2	149	70	71	30

Charles Hindson left the scheme on 30 June 2007 and Iain Gibson left the scheme on 29 February 2008 Iain Gibson having resigned on 21 September 2007 was permitted to continue contributions to the scheme for a further six months following his resignation

Defined contribution schemes

Company's pension contributions

	2008 £000	2007 £000
Charles Hindson	19	–
Hemant Mardia (appointed 18 October 2007)	9	–
Iain Gibson (resigned 21 September 2007)	22	30
	50	30

Charles Hindson joined the Filtronic plc Stakeholder Pension Plan on 1 July 2007 Hemant Mardia was already a member of the Filtronic plc Stakeholder Pension Plan on his appointment as a director

In addition to his membership of the defined benefits scheme, Iain Gibson accrued additional pension contributions of £22,000 (2007 £30,000) which were paid into his personal pension plan

Directors' shareholdings

	2008	2007
Charles Hindson	–	–
Hemant Mardia	**12,897**	–
John Poulter	–	–
Graham Meek	–	75,000
Reginald Gott	–	–
Prof Stephen Burbank	**900**	900
Ian Hardington	–	–
	13,797	75,900

All of the above shareholdings are held beneficially

Graham Meek sold 50,000 shares on 21 January 2008 at an average price of 170p and 25,000 shares on 31 March 2008 at an average price of 172p

Hemant Mardia held 33,236 shares on his appointment on 18 October 2007 Hemant Mardia sold 20,339 shares on 25 January 2008 at an average price of 168p

Iain Gibson did not hold any shares from 1 June 2007 to his resignation on 21 September 2007

Stephen Mole has not held any shares since his appointment on 13 June 2008

Directors' interests in share options

Executive Share Option Scheme	Exercise period	Option price	2007	Cancelled during the year	2008
Iain Gibson	1/10/2006 – 16/10/2007	200p	150,000	150,000	–
Total all directors			150,000	150,000	–

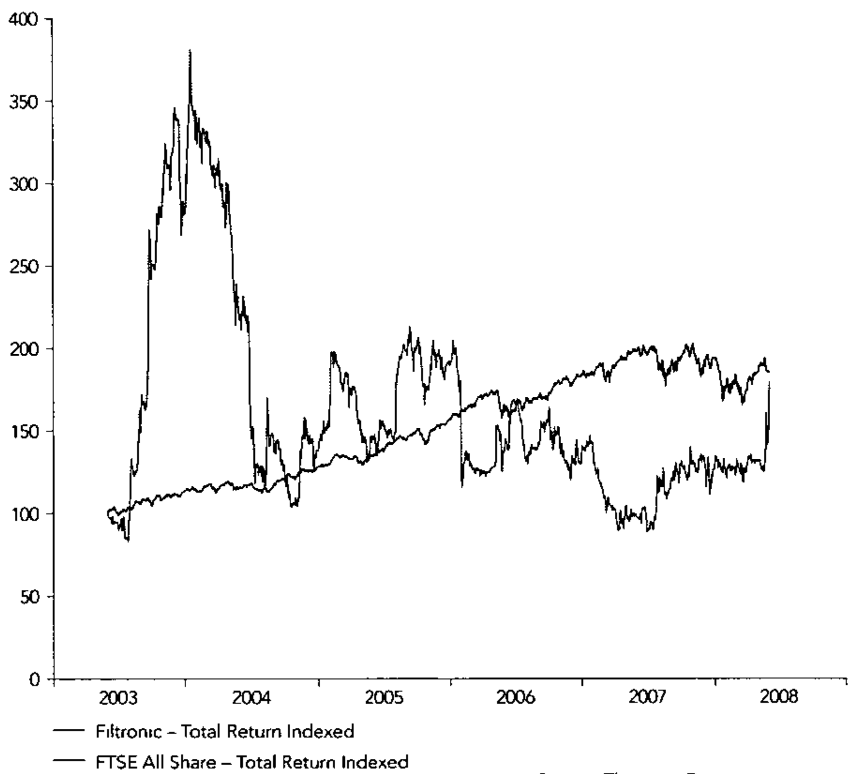
The closing middle market share price on 31 May 2008 was 75p, and on 31 May 2007 it was 129p The range of closing middle market share prices during the year ended 31 May 2008 was 59p – 187p

There were no changes to the directors' interests between 31 May 2008 and 28 July 2008 The company's register of directors' interests which is open to inspection at the registered office contains full details of directors' shareholdings

Performance graph

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

Total Shareholder Return
1 June 2003 to 31 May 2008 Weekly Indexed



Source Thomson Datastream

Approved by the Board on 28 July 2008 and signed on its behalf by

M Moynihan
Company Secretary

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

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

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

The group and parent company financial statements are required by law and IFRS to present fairly the financial position of the group and the parent company and the performance for that period, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

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

a) select suitable accounting policies and then apply them consistently,

b) make judgments and estimates that are reasonable and prudent,

c) state whether they have been prepared in accordance with IFRS, and

d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

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

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

Independent auditors' report to the members of Filtronic plc

We have audited the group and parent company financial statements (the "financial statements") of Filtronic plc for the year ended 31 May 2008 which comprise the group and parent company income statements, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statements of recognised income and expense, and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities on page 26

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements The information given in the directors' report includes that specific information presented in the business review that is cross referenced from the business review section of the directors' report

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 May 2008 and of the group's and the parent company's loss for the year then ended,
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation, and
- the information given in the directors' report is consistent with the financial statements

KPMG Audit Plc.

KPMG Audit Plc
Chartered Accountants
Leeds
Registered Auditor

28 July 2008

Consolidated Income Statement

for the year ended 31 May 2008

		Group	
		2008	2007
Continuing operations	note	£000	£000
Revenue	7	**54,651**	38,434
Operating profit/(loss) before exceptional items		**3,860**	(1,853)
Exceptional items	8	**(26,029)**	7,748
Operating (loss)/profit	6	**(22,169)**	5,895
Loss on sale of property		**(115)**	(415)
Loss on sale of investments	23	**–**	(6,518)
Finance income	24	**9,110**	5,221
Finance costs	25	**(1,688)**	(3,839)
(Loss)/profit before taxation		**(14,862)**	344
Taxation	26	**–**	1,491
(Loss)/profit for the period from continuing operations		**(14,862)**	1,835
Profit for the period from discontinued operations	3	**247**	43,160
(Loss)/profit for the period		**(14,615)**	44,995
Basic and diluted (loss)/earnings per share			
Continuing operations	31	**(20 00)p**	2 46p
Discontinued operations	31	**0 33p**	57 90p
Basic and diluted (loss)/earnings per share	31	**(19 67)p**	60 36p

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

Consolidated Statement of Recognised Income and Expense

for the year ended 31 May 2008

	Group	
	2008	2007
	£000	£000
(Loss)/profit for the period	(14,615)	44,995
Actuarial gain on defined benefit pension scheme	**4,964**	562
Transfer to income from translation reserve related to business disposal	**(453)**	61
Currency translation movement arising on consolidation	**(6)**	47
	4,505	670
Total recognised income and expense for the period	(10,110)	45,665

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

Consolidated Balance Sheet

at 31 May 2008

	note	Group 2008 £000	2007 £000
Non-current assets			
Property, plant and equipment	34	**4,045**	26,089
Current assets			
Inventories	36	**6,245**	10,625
Trade and other receivables	37	**12,999**	16,268
Cash and cash equivalents		**31,451**	118,267
		50,695	145,160
Total assets		**54,740**	171,249
Current liabilities			
Trade and other payables	38	**12,673**	23,944
Provision	39	**2,152**	–
		14,825	23,944
Non-current liabilities			
Defined benefit pension	42	**1,002**	6,954
Deferred income	43	–	2,140
		1,002	9,094
Total liabilities		**15,827**	33,038
Net assets		**38,913**	138,211
Equity			
Share capital	45	**7,432**	7,432
Share premium	46	–	139,253
Capital redemption reserve	46	–	58
Translation reserve	46	**201**	660
Retained earnings/(accumulated losses)	48	**31,280**	(9,192)
Total equity		**38,913**	138,211

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

Approved by the Board on 28 July 2008 and signed on its behalf by

Charles Hindson
Chief Executive

	note	Group 2008 £000	2007 £000
Cash flows from operating activities			
(Loss)/profit for the period		**(14,615)**	44,995
Gain on sale of discontinued operations		**(3,596)**	(80,139)
Taxation		–	(860)
Finance costs		**1,688**	4,078
Finance income		**(9,110)**	(5,221)
Loss on sale of investments		–	6,518
Loss on sale of property		**115**	415
Operating loss	55	**(25,518)**	(30,214)
Defined benefit pension charge/(credit)		**27,010**	(5,649)
Defined benefit pension contributions paid		**(27,701)**	(7,695)
Share-based payment		–	567
Goodwill impairment		–	2,653
Property, plant and equipment impairment		**6,300**	17,511
Depreciation		**2,040**	8,252
Loss on sale of plant and equipment		**87**	7,316
Licence fee released to income		**(1,751)**	(2,335)
Movement in inventories		**1**	(3,201)
Movement in trade and other receivables		**2,079**	381
Movement in trade and other payables		**(323)**	1,719
Movement in provision		**1,704**	–
Tax received		–	88
Net cash used in operating activities	55	**(16,072)**	(10,607)

Consolidated Cash Flow Statement

for the year ended 31 May 2008

	note	Group 2008 £000	Group 2007 £000
Net cash used in operating activities	55	**(16,072)**	(10,607)
Cash flows from investing activities			
Proceeds from sale of property		**6,044**	2,750
Proceeds from sale of plant and equipment		**50**	334
Interest received		**6,724**	2,850
Acquisition of plant and equipment		**(2,309)**	(16,605)
Proceeds from sale of discontinued operations		**7,413**	105,252
Proceeds from sale of investments		–	53,391
Net cash from investing activities	55	**17,922**	147,972
Cash flows from financing activities			
Bank revolving credit repaid		–	(18,000)
Bank loan renewal fee paid		–	(508)
Interest paid		–	(575)
Shares issued		–	87
Shares bought back		–	(1,137)
Dividends paid		**(89,188)**	(1,348)
Net cash used in financing activities	55	**(89,188)**	(21,481)
(Decrease)/increase in cash and cash equivalents		**(87,338)**	115,884
Currency exchange loss on sale of discontinued operations		–	(2,784)
Currency exchange movement		**522**	(126)
Opening cash and cash equivalents		**118,267**	5,293
Closing cash and cash equivalents		**31,451**	118,267

Company Income Statement

for the year ended 31 May 2008

	note	Company 2008 £000	2007 £000
Operating loss before exceptional items		**(3,635)**	(5,314)
Exceptional items	8	**(26,029)**	7,906
Operating (loss)/profit	6	**(29,664)**	2,592
Loss on sale of property		**(115)**	(643)
Loss on sale of investments	23	–	(6,518)
Gain on sale of investments in subsidiaries		**1,039**	4,409
Impairment of investments in subsidiaries	33	**(103,000)**	(16,021)
Decrease/(increase) in provision for doubtful group receivables	37	**100,900**	(85,900)
Other income		**138**	-
Dividends from subsidiaries		–	53,176
Finance income	24	**9,102**	5,381
Finance costs	25	**(1,688)**	(3,729)
Loss before taxation		**(23,288)**	(47,253)
Taxation	26	–	1,491
Loss for the period		**(23,288)**	(45,762)

Company Statement of Recognised Income and Expense

for the year ended 31 May 2008

	Company 2008 £000	2007 £000
Loss for the period	**(23,288)**	(45,762)
Actuarial gain on defined benefit pension scheme	**4,964**	562
Total recognised income and expense for the period	**(18,324)**	(45,200)

Company Balance Sheet

at 31 May 2008

	note	Company 2008 £000	2007 £000
Non-current assets			
Investments in subsidiaries	33	**2,250**	5,250
Property, plant and equipment	34	**47**	6,036
		2,297	11,286
Current assets			
Trade and other receivables	37	**6,594**	32,868
Cash and cash equivalents		**31,302**	117,472
		37,896	150,340
Total assets		**40,193**	161,626
Current liabilities			
Trade and other payables	38	**1,890**	9,859
Non-current liabilities			
Defined benefit pension	42	**1,002**	6,954
Total liabilities		**2,892**	16,813
Net assets		**37,301**	144,813
Equity			
Share capital	45	**7,432**	7,432
Share premium	46	**–**	139,253
Capital redemption reserve	46	–	58
Retained earnings/(accumulated losses)	48	**29,869**	(1,930)
Total equity		**37,301**	144,813

Approved by the Board on 28 July 2008 and signed on its behalf by

Charles Hindson
Chief Executive

Company Cash Flow Statement

for the year ended 31 May 2008

	Company 2008 £000	Company 2007 £000
Cash flows from operating activities		
Loss for the period	**(23,288)**	(45,762)
Taxation	**-**	(1,491)
Finance costs	**1,688**	3,729
Finance income	**(9,102)**	(5,381)
Dividends from subsidiaries	**–**	(53,176)
Other income	**(138)**	-
(Decrease)/increase in provision for doubtful group receivables	**(100,900)**	85,900
Impairment of investments in subsidiaries	**103,000**	16,021
Gain on sale of investment in subsidiary	**(1,039)**	(4,409)
Loss on sale of investments	**–**	6,518
Loss on sale of property	**115**	643
Operating (loss)/profit	**(29,664)**	2,592
Share-based payment	**–**	178
Defined benefit pension operating charge/(credit)	**26,336**	(7,744)
Additional defined benefit pension contributions paid	**(27,027)**	(5,600)
Depreciation	**101**	333
Loss on sale of plant and equipment	**22**	114
Movement in trade and other receivables	**15,134**	5,196
Movement in trade and other payables	**(731)**	(1,161)
Net cash used in operating activities	**(15,829)**	(6,092)

Company Cash Flow Statement

for the year ended 31 May 2008

	Company 2008 £000	Company 2007 £000
Net cash used in operating activities	**(15,829)**	(6,092)
Cash flows from investing activities		
Proceeds from sale of property	**5,774**	2,038
Proceeds from sale of plant and equipment	–	66
Interest received	**6,712**	2,839
Acquisitions of plant and equipment	**(23)**	(76)
Proceeds from sale of investments in subsidiaries	**5,979**	86,440
Proceeds from sale of investments	–	53,391
Net cash from investing activities	**18,442**	144,698
Cash flows from financing activities		
Bank revolving credit repaid	–	(18,000)
Bank loan renewal fee paid	–	(508)
Shares issued	–	87
Shares bought back	–	(1,137)
Interest paid	–	(575)
Dividends paid	**(89,188)**	(1,348)
Net cash used in financing activities	**(89,188)**	(21,481)
(Decrease)/increase in cash and cash equivalents	**(86,575)**	117,125
Currency exchange loss on sale of investment in subsidiary	–	(2,784)
Currency exchange movement	**405**	171
Opening cash and cash equivalents	**117,472**	2,960
Closing cash and cash equivalents	**31,302**	117,472

1 Accounting policies

Reporting entity

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

Basis of accounting

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

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

The accounting policies have been applied consistently throughout the group

Basis of consolidation

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

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies Subsidiaries are consolidated from the date on which control is transferred to the group, and are not consolidated from the date that control ceases Intra group transactions and balances are eliminated on consolidation

Foreign currency translation

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

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

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

Forward foreign exchange contracts are recognised in the balance sheet at their market value at the balance sheet date, and the resulting gain or loss is recognised in the income statement

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

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

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

1 Accounting policies (continued)

Segment reporting

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

Revenue

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

Research and development

All research costs are expensed as incurred

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

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

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

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

Operating leases

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

Share-based payments

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

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

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

Exceptional items

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

1 Accounting policies (continued)

Goodwill

Goodwill represents the excess of the cost of acquisitions over the fair value of the net identifiable assets of the subsidiary acquired at the date of acquisition Goodwill is stated at cost less any accumulated impairment losses

Goodwill, which is allocated to cash generating units, is tested for impairment annually and when there is an indication of impairment If impaired, the goodwill carrying value is written down to its recoverable amount

Investments in subsidiaries

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and less any accumulated impairment losses

Depreciation is provided on a straight line basis over the estimated useful lives of the assets as follows

Land	Not depreciated
Buildings	50 years
Plant and equipment	3 to 10 years

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

Inventories

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

Trade and other receivables

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

Cash and cash equivalents

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

1 Accounting policies (continued)

Defined contribution pension schemes

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

Defined benefit pension scheme

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

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

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

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

Deferred taxation

Deferred tax is provided using the balance sheet liability method Provision is made for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts for taxation purposes

Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit No provision is made for differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

Warranty provision

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

1 Accounting policies (continued)

Share capital

Ordinary shares issued are classified as share capital in equity

Dividends

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

Non-current assets and disposal groups held for sale

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

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

Discontinued operations

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

During the year ended 31 May 2008 the Defence Electronics business in United States of America and the Compound Semiconductors business were sold Consequently the result of both these businesses have been reclassified as discontinued operations for the current and comparative period

New IFRS and amendments to IFRS

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

IFRS 2 (Amendment) Shared Based Payment – Vesting Conditions and Cancellations (effective for periods commencing on or after 1 January 2009)

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

The application of these standards is not anticipated to have a material effect on the group's financial statements except for additional disclosure

IFRS 8 is a standard that will increase the amount of disclosure and this will be considered when preparing the financial statements for the year ending 31 May 2010

2 Accounting estimates and judgements

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

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

Goodwill

The carrying amount of goodwill is tested at least annually for impairment The recoverable amount of the cash generating unit has been determined based on value in use calculations using cash flow forecasts The cash flow forecasts require the use of estimates and judgements about the future performance of the cash generating unit

Property, plant and equipment

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

Inventory

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

Group receivables

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

Deferred tax asset

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

Defined benefit pension liability

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

Warranty provision

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

3 Profit for period from discontinued operations

Discontinued operations	note	2008 £000	2007 £000
Revenue	7	**29,775**	96,521
Operating profit/(loss) before exceptional items		**3,126**	(5,767)
Exceptional items	8	**(6,475)**	(30,342)
Operating loss	6	**(3,349)**	(36,109)
Finance costs	25	**-**	(239)
Loss before taxation		**(3,349)**	(36,348)
Taxation	26	**-**	(631)
Loss after taxation		**(3,349)**	(36,979)
Gain on sale of discontinued operations	27	**3,596**	80,139
Profit for the period from discontinued operations		**247**	43,160

4 Business segment analysis

The group comprises the following business segments

Continuing operations

Point to Point

Point to Point designs and manufactures transceiver modules and filters for backhaul microwave linking of base stations used in wireless telecommunication networks

Defence Electronics

Defence Electronics designs and manufactures RF components and subsystems for military applications and digital signal processing products

Central Services

Central Services comprise a central research and development function, along with group management, finance, payroll, legal and property functions The central research and development function ceased in November 2006, and the property function ceased in May 2008

Discontinued operations

Wireless Infrastructure

Wireless Infrastructure designed and manufactured RF transmit/receive filters and power amplifiers for base stations used in wireless telecommunication networks The business was sold on 16 October 2006

Defence Electronics

The Defence Electronics business in the United States of America was sold on 12 October 2007

Compound Semiconductors

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

4 Business segment analysis (continued)

	Group 2008 £000	Group 2007 £000
Revenue		
Point to Point	**40,133**	22,364
Defence Electronics	**14,518**	16,070
Continuing operations	**54,651**	38,434
Operating (loss)/profit		
Point to Point	**6,157**	2,234
Defence Electronics	**1,338**	1,125
Central Services	**(3,328)**	(5,208)
Unallocated pension (charge)/credit	**(26,336)**	7,744
Continuing operations	**(22,169)**	5,895
Loss on sale of property	**(115)**	(415)
Loss on sale of investments	**–**	(6,518)
Finance income	**9,110**	5,221
Finance costs	**(1,688)**	(3,839)
(Loss)/profit before taxation	**(14,862)**	344
Taxation	**–**	1,491
(Loss)/profit for the period from continuing operations	**(14,862)**	1,835

4 Business segment analysis (continued)

	Group	
	2008	2007
	£000	£000
Revenue		
Wireless Infrastructure	–	58,039
Defence Electronics	**2,462**	8,159
Compound Semiconductors	**27,313**	30,323
Discontinued operations	**29,775**	96,521
Operating loss		
Wireless Infrastructure	–	(2,554)
Defence Electronics	**(1,016)**	(4,556)
Compound Semiconductors	**(2,333)**	(28,999)
Discontinued operations	**(3,349)**	(36,109)
Finance costs	–	(239)
Loss before taxation	**(3,349)**	(36,348)
Taxation	–	(631)
Loss after taxation	**(3,349)**	(36,979)
Gain on sale of discontinued operations	**3,596**	80,139
Profit for the period from discontinued operations	**247**	43,160

The operating loss is stated after crediting the release of deferred income as follows

	2008	2007
	£000	£000
Compound Semiconductors licence fee	**1,751**	2,335

4 Business segment analysis (continued)

	Group 2008 £000	Group 2007 £000
Depreciation		
Point to Point	**571**	368
Defence Electronics	**458**	654
Central Services	**101**	566
Continuing operations	**1,130**	1,588
Wireless Infrastructure	**–**	1,895
Defence Electronics	**140**	399
Compound Semiconductors	**770**	4,370
Discontinued operations	**910**	6,664
Capital expenditure		
Point to Point	**1,215**	640
Defence Electronics	**716**	252
Central Services	**23**	76
Continuing operations	**1,954**	968
Wireless Infrastructure	**–**	2,182
Defence Electronics	**13**	77
Compound Semiconductors	**342**	13,378
Discontinued operations	**355**	15,637

4 Business segment analysis (continued)

	Group 2008 £000	2007 £000
Assets		
Point to Point	**15,150**	9,996
Defence Electronics	**7,429**	9,073
Central Services	**138**	6,686
Continuing operations	**22,717**	25,755
Defence Electronics	–	3,718
Compound Semiconductors	–	23,509
Discontinued operations	–	27,227
Total segment assets	**22,717**	52,982
Business sale consideration receivable	**572**	–
Cash and cash equivalents	**31,451**	118,267
Total assets	**54,740**	171,249
Liabilities		
Point to Point	**9,466**	3,707
Defence Electronics	**3,905**	6,080
Central Services	**948**	2,940
Continuing operations	**14,319**	12,727
Defence Electronics	–	659
Compound Semiconductors	–	5,598
Discontinued operations	–	6,257
Total segment liabilities	**14,319**	18,984
Business sale costs	**506**	1,350
Product liability costs	–	5,750
Defined benefit pension	**1,002**	6,954
Total liabilities	**15,827**	33,038

5 Geographical origin segment analysis

	Group 2008 £000	Group 2007 £000
Revenue		
United Kingdom	**53,701**	37,815
Australia	**950**	619
Continuing operations	**54,651**	38,434
Operating (loss)/profit		
United Kingdom	**(22,400)**	5,721
Australia	**231**	174
Continuing operations	**(22,169)**	5,895
Loss on sale of property	**(115)**	(415)
Loss on sale of investments	**–**	(6,518)
Finance income	**9,110**	5,221
Finance costs	**(1,688)**	(3,839)
(Loss)/profit before taxation	**(14,862)**	344
Taxation	**–**	1,491
(Loss)/profit for the period from continuing operations	**(14,862)**	1,835

5 Geographical origin segment analysis (continued)

	Group 2008 £000	Group 2007 £000
Revenue		
United Kingdom	**27,313**	54,493
Finland	–	8,654
Hungary	–	7,427
United States of America	**2,462**	22,975
China	–	22,720
Inter segment	–	(19,748)
Discontinued operations	**29,775**	96,521
Operating (loss)/profit		
United Kingdom	**(2,333)**	(33,330)
Finland	–	(1,201)
Hungary	–	2,206
United States of America	**(1,016)**	(3,818)
China	–	34
Discontinued operations	**(3,349)**	(36,109)
Finance costs	–	(239)
Loss before taxation	**(3,349)**	(36,348)
Taxation	–	(631)
Loss after taxation	**(3,349)**	(36,979)
Gain on sale of discontinued operations	**3,596**	80,139
Profit for the period from discontinued operations	**247**	43,160

5 Geographical origin segment analysis (continued)

	Group 2008 £000	2007 £000
Depreciation		
United Kingdom	**1,116**	1,584
Australia	**14**	4
Continuing operations	**1,130**	1,588
United Kingdom	**770**	5,080
Finland	**–**	293
Hungary	**–**	50
United States of America	**140**	659
China	**–**	582
Discontinued operations	**910**	6,664
Capital expenditure		
United Kingdom	**1,928**	935
Australia	**26**	33
Continuing operations	**1,954**	968
United Kingdom	**342**	13,860
Finland	**–**	98
Hungary	**–**	346
United States of America	**13**	157
China	**–**	1,176
Discontinued operations	**355**	15,637

5 Geographical origin segment analysis (continued)

	Group 2008 £000	Group 2007 £000
Assets		
United Kingdom	**54,083**	143,180
Australia	**657**	529
Continuing operations	**54,740**	143,709
United Kingdom	**–**	23,509
United States of America	–	4,031
Discontinued operations	–	27,540
Total assets	**54,740**	171,249
Liabilities		
United Kingdom	**15,750**	26,631
Australia	**77**	150
Continuing operations	**15,827**	26,781
United Kingdom	**–**	5,598
United States of America	–	659
Discontinued operations	–	6,257
Total liabilities	**15,827**	33,038

6 Operating (loss)/profit

Continuing operations	note	Group 2008 £000	Group 2007 £000
Revenue	7	**54,651**	38,434
Raw materials and consumables		**28,793**	18,294
Wages and salaries		**10,949**	10,712
Social security costs		**1,020**	940
Pension costs/(credit)	40	**26,995**	(6,710)
Share-based payments	51	**–**	178
Staff costs		**38,964**	5,120
Depreciation		**1,130**	1,588
(Profit)/loss on sale of plant and equipment		**(6)**	114
Other operating charges		**7,939**	7,423
Operating costs		**76,820**	32,539
Operating (loss)/profit		**(22,169)**	5,895

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

6 Operating (loss)/profit (continued)

Discontinued operations	note	Group 2008 £000	Group 2007 £000
Revenue	7	**29,775**	96,521
Raw materials and consumables		**8,912**	46,440
Wages and salaries		**8,497**	26,042
Social security costs		**737**	2,378
Pension costs	40	**453**	1,859
Share-based payments	51	**-**	389
Staff costs		**9,687**	30,668
Depreciation		**910**	6,664
Loss on sale of plant and equipment		**93**	7,202
Plant and equipment impairment	14	**6,300**	17,511
Goodwill impairment	16	**-**	2,653
Other operating charges		**7,222**	21,492
Operating costs		**33,124**	132,630
Operating loss		**(3,349)**	(36,109)

The operating (loss)/profit is stated after the exceptional items in note 8

6 Operating (loss)/profit (continued)

	note	Company 2008 £000	Company 2007 £000
Wages and salaries		**1,635**	2,296
Social security costs		**190**	274
Pension costs	40	**108**	445
Share-based payments	51	**-**	178
Staff costs		**1,933**	3,193
Depreciation		**101**	333
Loss on sale of plant and equipment		**22**	114
Other operating charges		**1,272**	2,003
Research and development costs recharged to other group companies		**-**	(491)
Defined benefit pension operating charge/(credit)	42	**26,336**	(7,744)
Operating costs net of credits		**29,664**	(2,592)
Operating (loss)/profit		**(29,664)**	2,592

The operating (loss)/profit is stated after the exceptional items in note 8

7 Revenue analysis by destination

	Group	
	2008 £000	2007 £000
United Kingdom	**6,757**	6,653
Europe	**43,535**	26,967
Americas	**165**	76
Asia Pacific	**4,194**	4,738
Continuing operations	**54,651**	38,434
United Kingdom	**6,398**	8,306
Europe	**783**	40,079
Americas	**21,025**	36,229
Asia Pacific	**1,569**	11,907
Discontinued operations	**29,775**	96,521

8 Exceptional items

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

		Group		Company	
	note	2008 £000	2007 £000	2008 £000	2007 £000
Redundancy costs	9	–	389	–	231
Share-based payments	51	–	178	–	178
Enhanced pension transfer value offer costs	10	**311**	–	**311**	–
Pension settlement charge	11	**24,868**	–	**24,868**	–
Pension past service cost	12	**850**	–	**850**	–
Pension past service credit	13	–	(8,315)	–	(8,315)
Continuing operations		**26,029**	(7,748)	**26,029**	(7,906)
Compound Semiconductors assets impairment	14	**6,300**	20,111	–	–
Loss on disposal of plant and equipment	15	–	7,057	–	–
Goodwill impairment	16	–	2,653	–	–
Redundancy costs	17	**175**	132	–	–
Share-based payments	51	–	389	–	–
Discontinued operations		**6,475**	30,342	–	–

9 Redundancy costs

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Redundancy costs				
Defence Electronics	–	158	–	–
Central Services	–	231	–	231
	–	389	–	231

10 Enhanced pension transfer value offer costs

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Enhanced pension transfer value offer costs				
Central Services	311	–	311	–

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

11 Pension settlement charge

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Enhanced transfer values	3,206	–	3,206	–
Fully funding past service liabilities with annuities	21,662	–	21,662	–
	24,868	–	24,868	–

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

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

12 Pension past service cost

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Pension past service cost	850	–	850	–

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

13 Pension past service credit

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Pension past service credit	–	(8,315)	–	(8,315)

In August 2006 the defined benefits pension scheme was changed from a final salary basis to a career average revalued earnings basis This resulted in a past service credit due to a reduction in past service pension liabilities The company paid £5,600,000 of additional contributions to the pension scheme in connection with the change in the benefits basis

14 Compound Semiconductors assets impairment

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Property, plant and equipment impairment	6,300	17,511	–	–
Inventory impairment	–	2,600	–	–
	6,300	20,111	–	–

Following an impairment review at 31 May 2007, the plant and equipment and inventory at the Compound Semiconductors facility was impaired The impairment resulted from the reduction in the scale of the business, due to the decision of the principal customer to in-source its switch production from September 2007

Following a further impairment review at 30 November 2007 the property at the Compound Semiconductors facility was impaired

15 Loss on disposal of plant and equipment

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Loss on disposal of plant and equipment	–	7,057	–	–

A loss on disposal of plant and equipment at the UK Compound Semiconductors facility was incurred as a result of the curtailment of the expansion plan at the facility

16 Goodwill impairment

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Goodwill impairment	–	2,653	–	–

Following an impairment review the goodwill related to Sage Laboratories, Inc was impaired Sage Laboratories, Inc was located in the United States of America and formed part of the Defence Electronics division

17 Redundancy costs

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Redundancy costs				
Compound Semiconductors	**175**	132	**–**	–

18 Operating items

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Operating (loss)/profit is stated after charging/(crediting)				
Continuing operations				
Research and development costs	**4,199**	4,118	**–**	706
Operating lease rentals	**359**	342	**41**	50
Discontinued operations				
Research and development costs	**2,565**	11,523	**–**	–
Operating lease rentals	**228**	938	**–**	–
Licence fee released	**(1,751)**	(2,335)	**–**	–

19 Auditors' remuneration

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

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Amounts included in operating costs				
Company auditors				
Audit of the group and company financial statements	**47**	78	**47**	78
Company auditors and their associates				
Audit of subsidiaries financial statements pursuant to legislation	**67**	73	**–**	–
Other services pursuant to such legislation	**21**	16	**21**	16
Other assurance services	**15**	–	**15**	–
Taxation services	**24**	26	**13**	10
	174	193	**96**	104
Amounts included in business sale costs				
Other services pursuant to such legislation				
– Wireless Infrastructure business sale	**–**	1,004	**–**	1,004
	174	1,197	**96**	1,108

20 Employees

The average number of people employed by the group comprised

	Group 2008 Number	Group 2007 Number
Business segment		
Point to Point	**217**	189
Defence Electronics	**161**	182
Central Services	**18**	24
Continuing operations	**396**	395
Wireless Infrastructure	–	873
Defence Electronics	**26**	90
Compound Semiconductors	**188**	353
Discontinued operations	**214**	1,316
Geographical segment		
United Kingdom	**390**	389
Australia	**6**	6
Continuing operations	**396**	395
United Kingdom	**188**	446
Finland	–	118
Hungary	–	106
United States of America	**26**	192
China	–	454
Discontinued operations	**214**	1,316

	Company 2008 Number	Company 2007 Number
Average number of people employed by the company	**18**	24

21 Compensation of directors and key management

Details of the remuneration, pension entitlements and share options of the individual directors are set out in the remuneration report on pages 19 to 25 The compensation of the directors was

	2008 £000	2007 £000
Salary or fees	**798**	980
Bonuses	**397**	485
Benefits	**21**	43
Total remuneration excluding pension contributions and share-based payments	**1,216**	1,508
Pension contributions	**68**	390
Share-based payments	**–**	250
	1,284	2,148

In addition to the directors of the company, the key management of the group also included Geoffrey Fletcher, who was Managing Director of the Wireless Infrastructure business until its sale was completed on 16 October 2006 The compensation of Geoffrey Fletcher was

	2008 £000	2007 £000
Salary	–	87
Bonus	–	168
Benefits	–	5
Total remuneration excluding pension contributions and share-based payments	–	260
Pension contributions	–	8
Share-based payments	–	203
	–	471

On 16 March 2006 Geoffrey Fletcher was granted 250,000 share options with an exercise price of 171p and exercise period 1 October 2007 to 16 March 2016 Under the terms of his service contract, subject to certain performance conditions, if he remained employed by the group until 1 October 2007 or the sale of the Wireless Infrastructure business from that date he would have the right to relinquish his share options in exchange for either 85,000 shares or a £200,000 cash payment Geoffrey Fletcher elected to take a cash payment of £168,000 equivalent to the 85,000 shares he was entitled to This payment is shown as a bonus

The directors and key management are related parties

22 Related party transaction

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

23 Loss on sale of investments

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Proceeds from sale of Powerwave shares	–	53,391	–	53,391
Value of Powerwave shares consideration at completion of the sale of the Wireless Infrastructure business	–	(59,909)	–	(59,909)
	–	(6,518)	–	(6,518)

On 16 October 2006 the company received 17,700,000 shares in Powerwave Technologies, Inc common stock, as part of the consideration for the sale of the Wireless Infrastructure business All the shares were sold in the six months ended 31 May 2007

24 Finance income

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Interest income	**6,724**	2,850	**6,712**	2,839
Expected return on pension scheme assets	**1,985**	2,371	**1,985**	2,371
Currency exchange gains	**401**	–	**405**	171
	9,110	5,221	**9,102**	5,381

25 Finance costs

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Interest expense	–	575	–	575
Bank loan renewal fee	–	508	–	508
Interest on pension scheme liabilities	**1,688**	2,646	**1,688**	2,646
Currency exchange losses	–	110	–	–
Continuing operations	**1,688**	3,839	**1,688**	3,729
Currency exchange losses	–	239	–	–
Discontinued operations	–	239	–	–

26 Taxation

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Current taxation				
United Kingdom	–	(1,491)	–	(1,491)
Continuing operations	–	(1,491)	–	(1,491)
Current taxation				
Overseas	–	631	–	–
Discontinued operations	–	631	–	–
Taxation	–	(860)	–	(1,491)

The United Kingdom tax rate was reduced from 30% to 28% from 1 April 2008

26 Taxation (continued)

The reconciliation of the effective tax rate is as follows

	Group				Company			
		2008 £000		2007 £000		2008 £000		2007 £000
Loss before taxation								
Continuing operations		(14,862)		344		(23,288)		(47,253)
Discontinued operations		(3,349)		(36,348)		–		–
Loss before taxation		(18,211)		(36,004)		(23,288)		(47,253)
Loss before taxation multiplied by standard rate of corporation tax in the UK	(30%)	(5,463)	(30%)	(10,801)	(30%)	(6,986)	(30%)	(14,176)
Disallowable items	0%	29	(0%)	(3)	0%	14	0%	39
Disallowable share-based payments	–	–	0%	9	–	–	–	–
Allowable share-based payments not recognised	–	–	0%	161	–	–	0%	53
Depreciation in advance of capital allowances	14%	2,479	15%	5,312	0%	72	0%	248
Other temporary differences	(1%)	(112)	2%	860	(0%)	(41)	0%	135
Defined benefit pension	(2%)	(296)	(10%)	(3,921)	(1%)	(296)	(7%)	(3,921)
Pension contributions carried forward	24%	4,328	3%	1,097	19%	4,328	2%	1,097
Pension contributions brought forward utilised	(2%)	(366)	–	–	(2%)	(366)	–	–
Tax losses carried forward	5%	894	19%	6,811	3%	590	3%	1,269
Tax losses brought forward utilised	(8%)	(1,493)	(1%)	(395)	–	–	–	–
Start-up years profit exemption and rate reduction in China	–	–	(1%)	(279)	–	–	–	–
Overseas tax rate differences	–	–	(0%)	(176)	–	–	–	–
Non-taxable loss/(gain) on sale of investments	–	–	5%	1,956	(1%)	(312)	1%	633
Impairment of investments	–	–	–	–	132%	30,900	5%	2,250
Movement in provision for group receivables	–	–	–	–	(130%)	(30,270)	60%	28,326
Dividends from subsidiaries	–	–	–	–	–	–	(34%)	(15,953)
Group relief	–	–	–	–	10%	2,367	–	–
Prior year credit	–	–	(4%)	(1,491)	–	–	(3%)	(1,491)
Taxation	–	–	(2%)	(860)	–	–	(3%)	(1,491)

27 Gain on sale of discontinued operations

	note	Group 2008 £000	Group 2007 £000
Gain/(loss) on sale of			
Wireless Infrastructure business	28	**2,805**	80,139
Defence Electronics business	29	**(667)**	–
Compound Semiconductors business	30	**1,458**	–
		3,596	80,139

28 Sale of the Wireless Infrastructure business

On 16 October 2006 the Wireless infrastructure business was sold for $185,000,000 cash and 17,700,000 shares in Powerwave Technologies, Inc common stock The cash consideration was covered by forward foreign exchange contracts when the sale was agreed in September 2006 This fixed the cash consideration at £96,925,000 Following completion of the sale of the Wireless Infrastructure business a product liability claim was made by one of its customers After investigation and negotiations, the claim was settled for £5,750,000 Additional cash consideration of £2,675,000 was received in the year ended 31 May 2008, which had not been recognised in the year ended 31 May 2007 An adjustment was made for sale costs overprovided of £130,000 The sale is analysed as follows

	2008 £000	2007 £000
Consideration and costs		
Cash consideration	**2,675**	99,709
Currency exchange loss on cash consideration	-	(2,784)
Cash consideration after currency exchange loss	**2,675**	96,925
Powerwave shares consideration	–	59,909
Sale costs	**130**	(6,720)
Product liability costs	-	(5,750)
Currency translation adjustment	-	(61)
	2,805	144,303
Assets and liabilities sold		
Property, plant and equipment	–	23,082
Deferred tax asset	-	2,269
Inventories	-	26,342
Trade and other receivables	-	39,506
Cash and cash equivalents	-	406
Trade and other payables	–	(26,306)
Income tax payable	-	(460)
Deferred tax liability	-	(675)
Net assets sold	-	64,164
Gain on sale of the Wireless Infrastructure business	**2,805**	80,139
	2,805	144,303

29 Sale of the Defence Electronics business

The Defence Electronics business of Sage Laboratories, Inc in the United States of America was sold on 12 October 2007 The initial consideration was $3,556,000 and a further $1,000,000 of deferred consideration is due in January 2009 Also there may be a further $500,000 of contingent consideration due in January 2009, depending on the revenue performance of the business, which has not yet been recognised The sale is analysed as follows

	Group	
	2008	2007
	£000	£000
Consideration and costs		
Initial consideration	**1,712**	–
Deferred consideration	**481**	–
Sale costs	**(692)**	–
Currency translation adjustment	**453**	–
	1,954	–
Assets and liabilities sold		
Property, plant and equipment	**1,130**	–
Inventories	**1,240**	–
Trade and other receivables	**803**	–
Trade and other payables	**(552)**	–
Net assets sold	**2,621**	–
Loss on sale of Defence Electronics business	**(667)**	–
	1,954	–

30 Sale of the Compound Semiconductors business

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

	Group 2008 £000	2007 £000
Consideration and costs		
Gross consideration	12,500	–
Adjustment for working capital	(1,832)	–
Net consideration	10,668	–
Sale costs	(395)	–
	10,273	–
Assets and liabilities sold		
Property, plant and equipment	8,533	–
Inventories	3,083	–
Trade and other receivables	926	–
Cash and cash equivalents	3	–
Trade and other payables	(3,341)	–
Deferred income	(389)	–
Net assets sold	8,815	–
Gain on sale of Compound Semiconductors business	1,458	–
	10,273	–

31 Basic and diluted (loss)/earnings per share

	Group	
	2008	2007
	£000	£000
(Loss)/profit for the period		
Continuing operations	**(14,862)**	1,835
Discontinued operations	**247**	43,160
(Loss)/profit for the period	**(14,615)**	44,995
	000	000
Basic and diluted weighted average number of shares	**74,323**	74,543
Basic and diluted (loss)/earnings per share		
Continuing operations	**(20 00)p**	2 46p
Discontinued operations	**0 33p**	57 90p
Basic and diluted (loss)/earnings per share	**(19 67)p**	60 36p

32 Goodwill

	Group
	Goodwill £000
Cost	
At 1 June 2006	2,723
Currency translation movement	(147)
At 31 May 2007	2,576
Disposal of Defence Electronics business	**(2,452)**
Currency translation movement	**(124)**
At 31 May 2008	**–**
Impairment	
At 1 June 2006	–
Impairment in the year	2,653
Currency translation movement	(77)
At 31 May 2007	2,576
Disposal of Defence Electronics business	**(2,452)**
Currency translation movement	**(124)**
At 31 May 2008	**–**
Carrying amount at 1 June 2006	2,723
Carrying amount at 31 May 2007	–
Carrying amount at 31 May 2008	**–**

The goodwill related to Sage Laboratories, Inc , which was located in the United States of America and formed part of the Defence Electronics division

Following an impairment review during the year ended 31 May 2007 the goodwill related to Sage Laboratories, Inc was impaired The operation incurred operating losses and based on projected operating results its recoverable amount was less than the carrying amount of the operation, so the goodwill was impaired

33 Investments in subsidiaries

	Company Investments in subsidiaries £000
Cost	
At 1 June 2006	127,201
Additions	8,521
Disposals	(120,737)
Group transfers	10,500
At 31 May 2007	25,485
Additions	**112,040**
Disposals	**(112,040)**
At 31 May 2008	**25,485**
Impairment	
At 1 June 2006	4,214
Impairment in the year	16,021
At 31 May 2007	20,235
Impairment in the year	**103,000**
Disposals	**(100,000)**
At 31 May 2008	**23,235**
Carrying amount at 1 June 2006	122,987
Carrying amount at 31 May 2007	5,250
Carrying amount at 31 May 2008	**2,250**

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

Impairment in the year ended 31 May 2007 of £7,500,000 related to Filtronic Holdings UK Limited The investment in this subsidiary was written down to its recoverable amount following an impairment review of the value of its investments in the overseas subsidiaries A further £8,521,000 of impairment in the year ended 31 May 2007 related to Filtronic Comtek (UK) Limited as a result of a waiver of the receivable it owed to the company

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

The company's subsidiaries are related parties

A complete list of the company's subsidiaries, all of which are wholly owned, is given in note 58

34 Property, plant and equipment

	Group		
	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
At 1 June 2006	39,711	126,198	165,909
Additions	15	16,590	16,605
Disposals	(3,522)	(19,933)	(23,455)
Disposals through sale of the Wireless Infrastructure business	(13,353)	(58,386)	(71,739)
Currency translation movement	(143)	(266)	(409)
At 31 May 2007	22,708	64,203	86,911
Additions	–	**2,309**	**2,309**
Disposals	**(8,836)**	**(3,003)**	**(11,839)**
Disposals through sale of the Defence Electronics business	–	**(3,415)**	**(3,415)**
Disposals through sale of the Compound Semiconductors business	**(12,372)**	**(47,741)**	**(60,113)**
Currency translation movement	–	**(124)**	**(124)**
At 31 May 2008	**1,500**	**12,229**	**13,729**
Depreciation and impairment			
At 1 June 2006	7,659	89,002	96,661
Depreciation	890	7,362	8,252
Impairment	–	17,511	17,511
Disposals	(357)	(12,283)	(12,640)
Disposals through sale of the Wireless Infrastructure business	(3,700)	(44,957)	(48,657)
Currency translation movement	(51)	(254)	(305)
At 31 May 2007	4,441	56,381	60,822
Depreciation	**277**	**1,763**	**2,040**
Impairment	**6,300**	–	**6,300**
Disposals	**(2,677)**	**(2,866)**	**(5,543)**
Disposals through sale of the Defence Electronics business	–	**(2,285)**	**(2,285)**
Disposals through sale of the Compound Semiconductors business	**(8,031)**	**(43,549)**	**(51,580)**
Currency translation movement	–	**(70)**	**(70)**
At 31 May 2008	**310**	**9,374**	**9,684**
Carrying amount at 1 June 2006	32,052	37,196	69,248
Carrying amount at 31 May 2007	18,267	7,822	26,089
Carrying amount at 31 May 2008	**1,190**	**2,855**	**4,045**

34 Property, plant and equipment (continued)

Following the decision of the principal customer to in-source its switch production from September 2007, it was expected that the Compound Semiconductors business would be reduced in scale An impairment review of the Compound Semiconductors property, plant and equipment was performed at 31 May 2007 The impairment review was based on value in use calculations A discount rate of 12% was applied to the projected cash flows for the next ten years No cash flows were assumed after ten years The projected cash flows for the first three years were based on a three year business plan The projection for the last seven years assumed a sales growth of 2% per annum The result of the impairment review was that the plant and equipment was impaired by £17,511,000 in the year ended 31 May 2007

A further impairment review of the Compound Semiconductors business was performed at 30 November 2007 The result of the impairment review was that the property was impaired by £6,300,000

	Company		
	Land and buildings £000	**Plant and equipment £000**	**Total £000**
Cost			
At 1 June 2006	10,928	932	11,860
Additions	5	71	76
Disposals	(2,684)	(932)	(3,616)
At 31 May 2007	8,249	71	8,320
Additions	–	**23**	**23**
Disposals	**(8,249)**	**(28)**	**(8,277)**
At 31 May 2008	**–**	**66**	**66**
Depreciation			
At 1 June 2006	2,014	692	2,706
Depreciation	269	64	333
Disposals	(3)	(752)	(755)
At 31 May 2007	2,280	4	2,284
Depreciation	**80**	**21**	**101**
Disposals	**(2,360)**	**(6)**	**(2,366)**
At 31 May 2008	**–**	**19**	**19**
Carrying amount at 1 June 2006	8,914	240	9,154
Carrying amount at 31 May 2007	5,969	67	6,036
Carrying amount at 31 May 2008	–	**47**	**47**

35 Deferred tax asset

	Tax losses available for relief against future taxable profits			
	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Opening balance	–	2,249	–	–
Sale of the Wireless Infrastructure business	–	(2,269)	–	–
Currency translation movement	–	20	–	–
Closing balance	–	–	–	–

Deferred tax assets which have not been recognised

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
United Kingdom				
Depreciation in advance of capital allowances	**3,522**	17,384	**533**	–
Defined benefit pension liability	**280**	2,086	**280**	2,086
Pension contributions carried forward	**4,722**	1,097	**4,722**	1,097
Tax losses carried forward	**9,464**	14,671	**9,464**	7,452
	17,988	35,238	**14,999**	10,635

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

The United Kingdom tax rate was reduced from 30% to 28% from 1 April 2008 The United Kingdom deferred tax assets that have not been recognised have been calculated at 31 May 2008 using a tax rate of 28% and at 31 May 2007 using a tax rate of 30%

Applying a tax rate of 28% to the United Kingdom deferred tax assets that have not been recognised at 31 May 2007 would reduce them from £35,238,000 to £32,889,000 for the group and would reduce them from £10,635,000 to £9,926,000 for the company

36 Inventories

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Raw materials	**3,497**	5,135	**–**	–
Work in progress	**2,450**	4,114	**–**	–
Finished goods	**298**	1,376	**–**	–
	6,245	10,625	**–**	–
Inventories are stated net of provision	**1,773**	6,152	**–**	–

37 Trade and other receivables

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Trade receivables	**11,682**	14,052	**–**	–
Group receivables	**–**	–	**6,503**	32,804
Business sale consideration receivable	**572**	–	**–**	–
Other receivables and prepayments	**745**	2,084	**91**	64
Forward foreign exchange contracts	**–**	132	**–**	–
	12,999	16,268	**6,594**	32,868
Trade receivables are stated net of provision	**508**	–	**–**	–
Group receivables are stated net of provision	**–**	–	**–**	100,900

The provision at 31 May 2007 of £100,900,000 was against the receivable due from Filtronic Compound Semiconductors Limited This receivable was repaid prior to the sale of Filtronic Compound Semiconductors Limited on 29 February 2008 Consequently the provision was released to income during the year

38 Trade and other payables

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Trade payables	**7,994**	7,849	**–**	–
Group payables	**–**	–	**942**	–
Business sale costs	**506**	1,350	**–**	1,350
Product liability costs	**–**	5,750	**–**	5,750
Other payables and accruals	**4,173**	8,995	**948**	2,759
	12,673	23,944	**1,890**	9,859

39 Provision

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Warranty provision				
Opening balance	–	–	–	–
Transfer from accruals	448	–	–	–
Charge for the year	1,704	–	–	–
Closing balance	2,152	–	–	–

40 Pension costs/(credit)

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Defined contribution schemes	258	34	63	17
Defined benefit scheme	26,737	(6,744)	45	428
Continuing operations	26,995	(6,710)	108	445
Defined contribution schemes	180	764	–	–
Defined benefit scheme	273	1,095	–	–
Discontinued operations	453	1,859	–	–

41 Defined contribution pension schemes

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

The pension cost for defined contribution pension schemes was

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
United Kingdom	232	17	63	17
Australia	26	17	–	–
Continuing operations	258	34	63	17
United Kingdom	132	17	–	–
Finland	–	477	–	–
Hungary	–	34	–	–
United States of America	48	236	–	–
Discontinued operations	180	764	–	–

42 Defined benefit pension scheme

A defined benefit pension scheme was operated for United Kingdom employees Until August 2006 the scheme provided retirement benefits based on final pensionable salary From August 2006 to February 2008 the scheme provided benefits on a career average revalued earnings basis The change in basis resulted in a past service credit of £8,315,000 in operating costs for the year ended 31 May 2007 The company paid £5,600,000 of additional contributions to the pension scheme in connection with the change in the benefits basis

The assets of the scheme were held in a separate trust fund which was managed by independent professional investment managers Contributions to the scheme were determined by a qualified actuary on the basis of annual actuarial valuations using the projected unit measure Employer's regular contributions were 10 5% of pensionable salary and employees' contributions were 6 0% of pensionable salaries

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

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

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

At 31 May 2008 there were residual assets of £993,000 and residual liabilities of £1,995,000 remaining in the defined benefit scheme These will be transferred to the assurance company providing the annuities, during the process of closing the scheme The company will have to pay an additional contribution to the scheme to fund this transfer The amount of this additional contribution is not expected to be more than the residual net liability of £1,002,000 at 31 May 2008

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

	2008	2007
Rate of inflation	–	3 1%
Rate of salary increase	–	3 1%
Rate of increase of pensions in payment	–	2 9%
Revaluation of deferred pensions	–	3 1%
Liability discount rate	**6 6%**	5 5%
Expected return on scheme assets	**8 0%**	7 5%

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

	2008	2007
Male	**21 9**	21 9
Female	**24 8**	24 8

42 Defined benefit pension scheme (continued)

The amount charged/(credited) to operating costs was

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Current service cost	**1,292**	2,666	**1,292**	2,666
Past service credit	**–**	(8,315)	**–**	(8,315)
Past service cost	**850**	–	**850**	–
Settlement charge	**24,868**	–	**24,868**	–
Less group employers' contributions	**–**	–	**(674)**	(2,095)
	27,010	(5,649)	**26,336**	(7,744)

The amounts credited and charged to finance income and costs

	Group and Company 2008 £000	Group and Company 2007 £000
Expected return on pension scheme assets	**1,985**	2,371
Interest on pension scheme liabilities	**(1,688)**	(2,646)
	297	(275)

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

	Group and Company 2008 £000	Group and Company 2007 £000
Actual return less expected return on pension scheme assets	**(3,711)**	3,118
Actuarial gain/(loss) on pension scheme liabilities	**8,675**	(2,556)
	4,964	562

The defined benefit pension liability was

	Group and Company 2008 £000	Group and Company 2007 £000
Present value of defined benefit pension scheme liabilities	**1,995**	51,472
Fair value of defined benefit pension scheme assets	**(993)**	(44,518)
Defined benefit pension liability	**1,002**	6,954

42 Defined benefit pension scheme (continued)

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

	2008 £000	2007 £000
Opening balance	**51,472**	50,588
Current service cost	**1,292**	2,666
Past service credit	–	(8,315)
Past service cost	**850**	–
Settlement charge	**63**	–
Interest cost	**1,688**	2,646
Actuarial (gain)/loss	**(8,675)**	2,556
Employees' contributions	**385**	1,024
Transfers from other schemes	–	1,426
Benefits paid	**(963)**	(1,119)
Liabilities extinguished on settlements	**(44,117)**	–
Closing balance	**1,995**	51,472

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

	2008 £000	2007 £000
Opening balance	**44,518**	30,003
Expected return on assets	**1,985**	2,371
Actual return less expected return on assets	**(3,711)**	3,118
Employer's contributions	**27,701**	7,695
Employees' contributions	**385**	1,024
Transfers from other schemes	–	1,426
Benefits paid	**(963)**	(1,119)
Assets distributed on settlements	**(68,922)**	–
Closing balance	**993**	44,518

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

	Expected return		Fair value	
	2008	2007	2008 £000	2007 £000
Equities	**8 0%**	8 1%	**993**	35,614
Bonds	–	5 3%	–	7,568
Cash	–	5 3%	–	1,336
	8 0%	7 5%	**993**	44,518

42 Defined benefit pension scheme (continued)

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

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Present value of defined benefit pension scheme liabilities	**1,995**	51,472	50,588	39,379	29,683
Fair value of defined benefit pension scheme assets	**(993)**	(44,518)	(30,003)	(23,230)	(18,302)
Defined benefit pension liability	**1,002**	6,954	20,585	16,149	11,381
Experience adjustments on					
Pension scheme liabilities	**8,675**	(2,556)	(5,098)	(7,994)	532
Percentage of liabilities	–	(5%)	(10%)	(20%)	2%
Pension scheme assets	**(3,711)**	3,118	2,249	1,210	933
Percentage of assets	–	7%	7%	5%	5%

43 Deferred income

	Group £000
Deferred licence fee	
At 1 June 2006	4,475
Released to income during the year	(2,335)
At 31 May 2007	2,140
Released to income during the year	**(1,751)**
Sale of the Compound Semiconductors business	**(389)**
At 31 May 2008	**–**

44 Deferred tax liability

	Group	
	2008 £000	2007 £000
Opening balance	**–**	688
Sale of the Wireless Infrastructure business	–	(675)
Currency translation movement	**–**	(13)
Closing balance	**–**	–

45 Share capital

	Group and Company			
	Ordinary shares of 10p each			
	Authorised		Issued and fully paid	
	Number	£000	Number	£000
At 1 June 2006	100,000,000	10,000	74,841,853	7,484
Shares issued for share options exercised	–	–	58,205	6
Shares bought back	–	–	(576,965)	(58)
At 31 May 2007	100,000,000	10,000	74,323,093	7,432
At 31 May 2008	**100,000,000**	**10,000**	**74,323,093**	**7,432**

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

There were no breaches of any requirements with regard to any relevant conditions imposed by either the UKLA or the company's articles of association during the two years ended 31 May 2008

46 Reserves

	Group and Company		Group	
	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Other reserve £000
At 1 June 2006	139,172	–	698	6,237
Transfer to accumulated losses	–	–	–	(6,383)
Transfer to income related to business disposal	–	–	61	–
Currency translation movement arising on consolidation	–	–	(99)	146
Shares issued	81	–	–	–
Shares bought back	–	58	–	–
At 31 May 2007	139,253	58	660	–
Transfer to accumulated losses	**(139,253)**	**(58)**	–	–
Transfer to income related to business disposal	–	–	**(453)**	–
Currency translation movement arising on consolidation	–	–	**(6)**	–
At 31 May 2008	–	–	**201**	–

The other reserve was an undistributable surplus reserve and additional capital of the Chinese subsidiary that was sold as part of the sale of the Wireless Infrastructure business on 16 October 2006 Following the sale the other reserve was transferred to accumulated losses

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

47 Dividends

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

	Per share	Group and Company 2008 £000	2007 £000
Final dividend year ended 31 May 2006	1 80p	–	1,348
Special interim dividend year ended 31 May 2008	120 00p	**89,188**	–
		89,188	1,348

48 Retained earnings/(accumulated losses)

	Group £000	Company £000
At 1 June 2006	(59,214)	45,577
Profit/(loss) for the period	44,995	(45,762)
Actuarial gain on defined benefit pension scheme	562	562
Share-based payments	567	178
Transfer from other reserve	6,383	–
Dividends	(1,348)	(1,348)
Shares bought back	(1,137)	(1,137)
At 31 May 2007	(9,192)	(1,930)
Loss for the period	**(14,615)**	**(23,288)**
Actuarial gain on defined benefit pension scheme	**4,964**	**4,964**
Transfer from share premium	**139,253**	**139,253**
Transfer from capital redemption reserve	**58**	**58**
Dividends	**(89,188)**	**(89,188)**
At 31 May 2008	**31,280**	**29,869**

49 Reconciliation of movements in total equity

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Opening total equity	**138,211**	94,377	**144,813**	192,233
Total recognised income and expense for the period	**(10,110)**	45,665	**(18,324)**	(45,200)
Share-based payments	–	567	–	178
Dividends	**(89,188)**	(1,348)	**(89,188)**	(1,348)
Shares issued	–	87	–	87
Shares bought back	–	(1,137)	–	(1,137)
Closing total equity	**38,913**	138,211	**37,301**	144,813

50 Share options

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding at the beginning of the period	**472p**	**4,089,809**	429p	5,981,741
Cancelled during the period	**472p**	**(4,089,809)**	343p	(1,833,727)
Exercised during the period		**–**	149p	(58,205)
Outstanding at the end of the period		**–**	472p	4,089,809
Exercisable at the end of the period		**–**	472p	4,089,809

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

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

51 Share-based payments

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Share options expense				
Central Services	–	178	–	178
Continuing operations	–	178	–	178
Wireless Infrastructure	–	234	–	–
Compound Semiconductors	–	155	–	–
Discontinued operations	–	389	–	–
Share-based payments	–	567	–	178

The share options expense was for share options granted to employees since 7 November 2002 The share options expense was the fair value of the share options at the date of grant spread over the expected vesting period of the share options The fair value of the share options at the date of grant was measured using the Black-Scholes model

All outstanding share options vested on the completion of the sale of the Wireless Infrastructure business on 16 October 2006 Consequently all the remaining share-based payment cost was charged in the year ended 31 May 2007

52 Operating lease commitments

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

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Less than one year	**298**	574	**48**	19
Between one and five years	**698**	1,220	**10**	25
More than five years	**107**	584	**–**	–
	1,103	2,378	**58**	44

Operating leases are for land and buildings, equipment and motor vehicles and the lease terms are for periods of four to ten years

53 Capital expenditure commitments

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Capital expenditure contracted for at the balance sheet date but not provided in the financial statements	**269**	151	**–**	–

54 Subsequent event

On 13 June 2008 the company announced that the Board had decided to investigate the possibility of the sale of the Defence Electronics business

At 28 July 2008 detailed discussions with a preferred bidder were well advanced

55 Note to the consolidated cash flow statement

	note	Group 2008 £000	Group 2007 £000
Operating loss			
Continuing operations		**(22,169)**	5,895
Discontinued operations		**(3,349)**	(36,109)
		(25,518)	(30,214)
Net cash used in operating activities			
Continuing operations		**(22,354)**	(7,144)
Discontinued operations		**6,282**	(3,463)
		(16,072)	(10,607)
Net cash from investing activities			
Continuing operations		**10,843**	58,097
Discontinued operations		**(334)**	(15,377)
Sale of discontinued operations	56	**7,413**	105,252
		17,922	147,972
Net cash used in financing activities			
Continuing operations		**(89,188)**	(21,481)

56 Net cash from sale of discontinued operations

	Group 2008 £000	Group 2007 £000
Consideration received	**14,964**	110,622
Sale costs paid	**(1,801)**	(5,370)
Product liability costs paid	**(5,750)**	–
	7,413	105,252

57 Financial instruments

Fair value

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

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

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

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

Liquidity risk

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

57 Financial instruments (continued)

Credit risk

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

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Cash and cash equivalents	**31,451**	118,267	**31,302**	117,472
Trade and other receivables	**12,999**	16,268	**6,594**	32,868
	44,450	134,535	**37,896**	150,340

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

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Barclays Bank PLC	**31,328**	117,595	**31,302**	117,472
Other banks in Australia and United States of America	**123**	672	–	–
	31,451	118,267	**31,302**	117,472

During the year ended 31 May 2008 significant deposits were made with Royal Bank of Scotland In the future significant deposits will be made with Barclays and may be made with the other four major United Kingdom clearing banks The credit risk related to cash and cash equivalents is considered to be low due to the banks being large with high credit ratings

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

The company has no trade receivables

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

	Group	
	2008	2007
	£000	£000
Customer one	**4,128**	2,988
Customer two	**3,078**	846
Customer three	**-**	2,157
Other customers	**4,476**	8,061
	11,682	14,052

57 Financial instruments (continued)

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

	Group 2008 £000	Group 2007 £000
Not past due	**9,790**	10,436
Past due less than three months	**1,184**	2,292
Past due three to six months	**98**	358
Past due greater than six months	**610**	966
	11,682	14,052

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

	Group 2008 £000	Group 2007 £000
Past due less than three months	**198**	–
Past due three to six months	**91**	–
Past due greater than six months	**219**	–
	508	–

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

	Group 2008 £000	Group 2007 £000
Opening balance	–	–
Charge for the year	**508**	–
Closing balance	**508**	–

Interest rate risk

Cash is held on short term bank deposits which earn interest at variable money market deposit rates At 31 May 2008 £31,300,000 was held on short term bank deposit with an interest rate of 4 8% Sterling interest rates are relatively stable and therefore interest rate risk is considered to be low

The interest rate sensitivity of the expected annual interest income assuming a balance on deposit of £31,000,000 is as follows

Interest rate	**Expected annual interest income £000**
4 5%	1,395
5 0%	1,550
5 5%	1,705

57 Financial instruments (continued)

Foreign currency risk

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

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

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

Forward foreign exchange contracts are also used to reduce the foreign currency risk on large transactions, for example the disposal of the Wireless Infrastructure business

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

At 31 May 2007 there were outstanding forward foreign exchange contracts to sell $10,700,000 for £5,542,000, which matured in the period 1 June 2007 to 28 September 2007 The market value of these outstanding forward foreign exchange contracts at 31 May 2007 was an asset of £132,000 which was recognised in the group balance sheet

Nearly all cash is held in sterling

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

	Group					
		2008			2007	
	EUR £000	**SEK £000**	**USD £000**	EUR £000	SEK £000	USD £000
Cash and cash equivalents	**-**	**-**	**6**	-	-	981
Trade receivables	**4,283**	**901**	**14**	3,014	597	4,373
Trade payables	**(1,959)**	**-**	**(362)**	(964)	-	(575)
Forward foreign exchange contracts	**-**	**-**	**-**	-	-	(5,542)
Net exposure	**2,324**	**901**	**(342)**	2,050	597	(763)

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

If the euro had been one per cent stronger/weaker against sterling throughout the years ended 31 May 2008 then the group operating profit before exceptional items from continuing operations would have been £169,000 higher/lower

The company has no significant exposure to foreign currency risk

Capital management

The group's and company's capital is the total equity which comprises ordinary share capital and retained earnings The group and company have no debt or undrawn debt facilities The group and company have sufficient cash to cover working capital requirements and capital expenditure plans

58 Subsidiaries

The subsidiaries at 31 May 2008 were as follows

Name of subsidiary	Country of incorporation or registration	Description of equity held	Proportion held	Activity
Owned by Filtronic plc				
Filtronic Broadband Limited	England & Wales	1p ordinary shares	100%	Design and manufacture of microwave products for the point to point market
Filtronic Defence Limited	England & Wales	£1 ordinary shares	100%	Design and manufacture of microwave products for the defence market
Filtronic Properties Limited	England & Wales	£1 ordinary shares	100%	Property company
Filtronic QUEST Trustees Limited	England & Wales	£1 ordinary shares	100%	QUEST trustee company
Filtronic Executive Share Option Trustees Limited	England & Wales	£1 ordinary shares	100%	Dormant company
Filtronic Comtek (UK) Limited	England & Wales	12 2787p ordinary shares	100%	Dormant company
Filtronic Microtek Limited	England & Wales	£1 ordinary shares	100%	Dormant company
Filtronic Cable Communications Limited	England & Wales	1p ordinary shares	100%	Dormant company
Filtronic Holdings UK Limited	England & Wales	£1 ordinary shares	100%	Holding company
Owned by Filtronic Holdings UK Limited				
Filtronic Pty Limited	Australia	A$1 ordinary shares	100%	Design of digital signal processing and microwave products for the defence market
Filtronic Signal Solutions, Inc	USA	$1 common stock	100%	Holding company
Owned by Filtronic Signal Solutions, Inc				
Filtronic Disposition Corp	USA	$0 10 common stock	100%	Dormant company

Annual general meeting

The annual general meeting of Filtronic plc will be held at Marriott Hollins Hall Hotel, Hollins Hill, Baildon, Shipley, BD17 7QW on Friday 19 September 2008 at 11 00 am The notice of meeting, together with details of business to be conducted at the meeting and a form of proxy, is being circulated to shareholders with this report

Financial calendar

Provisional dates for the announcement of results

Interim results to 30 November 2008	26 January 2009
Final results to 31 May 2009	27 July 2009

Website

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

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

Shareholder enquiries and change of address

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

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Tel 0870 162 3100

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

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